IMPORTANT: You must read the following before continuing. The following applies to the prospectus (the "document") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the document. In accessing the document, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access. The document has been prepared solely in connection with the proposed offering to certain institutional and professional investors of the securities described herein.

THE FOLLOWING DOCUMENT MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS DOCUMENT MAY ONLY BE DISTRIBUTED IN "OFFSHORE TRANSACTIONS" AS DEFINED IN, AND AS PERMITTED BY, REGULATION S UNDER THE US SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITHIN THE UNITED STATES TO QIBs (AS DEFINED BELOW) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "QIB"), OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

Confirmation of your representation: In order to be eligible to view this document or make an investment decision with respect to the securities, you must be (1) a person that is outside the United States or (2) a QIB that is acquiring the securities for its own account or for the account of another QIB. By accepting the e-mail and accessing this document, you shall be deemed to have represented to us that you are outside the United States or that you are a QIB and that you consent to delivery of such document by electronic transmission. You are reminded that this document has been delivered to you on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this document to any other person. The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of JSC "COMSTAR – United TeleSystems" in such jurisdiction. Under no circumstances shall this document constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this document who intend to subscribe for or purchase the securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the document.

This document has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the underwriters, as named in this document, nor any person who controls an underwriter nor any director, officer, employee nor agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version available to you on request from Deutsche Bank AG, Goldman Sachs International or Renaissance Securities (Cyprus) Limited.

146,500,000 Ordinary Shares

Offering of Ordinary Shares and Global Depositary Receipts

We are JSC "COMSTAR – United TeleSystems", or Comstar UTS, a leading provider of integrated communications services in Moscow and the Moscow region. We are offering 139,000,000 newly issued ordinary shares of Comstar UTS with a nominal value of one ruble per share, in the form of global depositary receipts, or GDRs, with one GDR representing one share. ECU GEST HOLDING S.A., the Selling Shareholder or Ecu Gest, is offering 7,500,000 ordinary shares. The GDRs are being offered in the United States to qualified institutional buyers, or QIBs, as defined in, and in reliance on, Rule 144A under the US Securities Act of 1933, or the Securities Act, and outside the United States and the Russian Federation to certain persons in offshore transactions in reliance on Regulation S under the Securities Act, or Regulation S. The shares are being offered in the Russian Federation and outside the United States to certain persons in offshore transactions in reliance on Regulation S.

Our existing ordinary shares have been listed on the Moscow Stock Exchange, but are not actively traded. Prices for shares traded on the Moscow Stock Exchange may not reflect the underlying value of the GDRs. Prior to the offering described herein, there has been no market for the GDRs.

This document comprises a prospectus relating to Comstar UTS prepared in accordance with the Prospectus Rules of the UK Listing Authority made under section 73A of the Financial Services and Markets Act 2000, or the FSMA. Application has been made (1) to the UK Financial Services Authority, or the UK Listing Authority, in its capacity as competent authority under the FSMA for a listing of 146,279,300 GDRs, consisting of up to 139,000,000 GDRs to be issued on or about February 10, 2006, or the Closing Date, and up to 7,279,300 additional GDRs to be issued from time to time against the deposit of shares (to the extent permitted by law) with Deutsche Bank Trust Company Americas, as depositary, or the Depositary, to be admitted to the official list of the UK Listing Authority, or the Official List and (2) to the London Stock Exchange plc, or the London Stock Exchange, for such GDRs to be admitted to trading on the London Stock Exchange's regulated market for listed securities. Conditional trading in the GDRs on the London Stock Exchange is expected to commence on a when and if issued basis on or about February 7, 2006. Admission to the Official List and to trading on the regulated market are expected to take place on or about February 13, 2006. **All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if admission does not take place and will be at the sole risk of the parties concerned.** Application has also been made to have the Rule 144A GDRs designated eligible for The PORTAL Market, or PORTAL.

Trading in the GDRs on the London Stock Exchange will be subject to cancellation until a report on the results of the issuance of the shares, or the placement report, is registered by the Russian Federal Service for the Financial Markets, or the FSFM, in respect of the newly issued shares of Comstar UTS we are offering in the form of GDRs. If the placement report is not registered within 60 days after the Closing Date (or such later date to which we and the Selling Shareholder agree with the Underwriters), the gross proceeds (without interest) of the offering of GDRs will be refunded to the holders of the GDRs at or about the time of such cancellation, regardless of the then-prevailing market price of the GDRs, subject to applicable withholding taxes. However, the return of funds may be delayed due to Russian currency control, banking or securities regulations or practices and may be prevented if there is a change in such regulations or practices. The shares being offered by the Selling Shareholder will not be cancelled, and the proceeds of the offering of the shares by the Selling Shareholder will not be refunded, in case the placement report is not registered. See "Registration of Placement Report."

See "Risk Factors" beginning on page 6 to read about factors you should consider before buying the shares and GDRs. The GDRs are of a specialist nature and should only be bought and traded by investors who are particularly knowledgeable in investment matters.

The shares and the GDRs have not been and will not be registered under the Securities Act and may not be offered or sold within the United States, except, in the case of GDRs, to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act, or Rule 144A, or, in the case of shares and GDRs, outside the United States to certain persons in offshore transactions in reliance on Regulation S. Prospective purchasers are hereby notified that sellers of the GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a discussion of certain restrictions on transfers of the shares and the GDRs, see "Description of the Global Depositary Receipts" and "Subscription and Sale."

Offer price: $7.25 per share and per GDR

The shares and the GDRs are offered by the underwriters, or the Underwriters, as named in "Subscription and Sale" when, as and if delivered to and accepted by the Underwriters and subject to their right to reject orders in whole or in part. The GDRs will be issued in global form and will be evidenced by a Master Rule 144A GDR registered in the name of Cede & Co., as nominee for The Depository Trust Company, or DTC, and a Master Regulation S GDR registered in the name of BT Globenet Nominees Limited, as nominee for Deutsche Bank AG, London Branch, as common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System, or Euroclear, and Clearstream Banking, société anonyme, or Clearstream. It is expected that delivery of the GDRs will be made against payment therefor in US dollars in same day funds through the facilities of DTC, Euroclear and Clearstream on or about February 10, 2006. See "Settlement and Delivery."

Joint Global Coordinators

Deutsche UFG **Goldman Sachs International** **Renaissance Capital**

Co-Lead Managers

Dresdner Kleinwort Wasserstein **ING Bank**

Prospectus dated February 7, 2006

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

Each prospective investor, by accepting delivery of this prospectus, agrees to the following. This prospectus is being furnished by Comstar UTS solely for the purpose of enabling a prospective investor to consider the purchase of the shares and GDRs. Any reproduction or distribution of this prospectus, in whole or in part, any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the shares and GDRs is prohibited, except to the extent that such information is otherwise publicly available.

None of the Underwriters makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this prospectus. This prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of Comstar UTS, the Selling Shareholder or the Underwriters that any recipient of this prospectus should subscribe for or purchase the shares and GDRs. Each potential subscriber or purchaser of shares and GDRs should determine for itself the relevance of the information contained in this prospectus and its subscription or purchase of shares or GDRs should be based upon such investigation as it deems necessary.

This prospectus, including the financial information included herein, is in compliance with the Prospectus Rules made by the UK Listing Authority for the purpose of giving information with regard to Comstar UTS, the shares and GDRs.

Comstar UTS accepts responsibility for the information contained in this prospectus, and having taken all reasonable care to ensure that such is the case, the information contained in this prospectus is, to the best of Comstar UTS' knowledge, in accordance with the facts and contains no omissions likely to affect its import.

In making an investment decision regarding the shares and GDRs, you must rely on your own examination of Comstar UTS and the terms of the offering, including the merits and risks involved. You should rely only on the information contained in this prospectus. None of Comstar UTS, the Selling Shareholder or the Underwriters has authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this prospectus is accurate as of its date. Comstar UTS' business, financial condition, results of operations, prospects and the information set forth in this prospectus may have changed since that date.

You should not consider any information in this prospectus to be investment, legal or tax advice. You should consult your own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding purchasing the shares and GDRs. Comstar UTS is not, and the Underwriters are not, making any representation to any offeree or purchaser of the shares and GDRs regarding the legality of an investment in the shares and GDRs by such offeree or purchaser under appropriate investment or similar laws.

Deutsche Bank AG, Goldman Sachs International and Renaissance Securities (Cyprus) Limited are acting exclusively for Comstar UTS and no one else in connection with the offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the offering.

Comstar UTS may withdraw the offering at any time, and Comstar UTS, the Selling Shareholder and the Underwriters reserve the right to reject any offer to purchase the shares and GDRs, in whole or in part, and to sell to any prospective investor less than the full amount of the shares and GDRs sought by such investor. The Underwriters and certain related entities may acquire a portion of the shares and GDRs for their own accounts.

The distribution of this prospectus and the offer and sale of the shares and GDRs may be restricted by law in certain jurisdictions. You must inform yourself about, and observe any such restrictions. See "Description of the Global Depositary Receipts" and "Subscription and Sale" elsewhere in this prospectus. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the shares and GDRs or possess or distribute this prospectus and must obtain any consent, approval or permission required for your purchase, offer or sale of the shares and GDRs under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. None of Comstar UTS, the Selling Shareholder or the Underwriters is making an offer to sell the shares and GDRs or a solicitation of an offer to buy any of the shares and GDRs to any person in any jurisdiction except where such an offer or solicitation is permitted.

THE SHARES AND GDRS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE US SECURITIES AND EXCHANGE COMMISSION, OR THE SEC, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER US REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE SHARES AND GDRS OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

NOTICE TO UK AND EEA INVESTORS

This prospectus and the offering are only addressed to and directed at persons in member states of the European Economic Area ("EEA"), who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC) ("Qualified Investors"). In addition, in the United Kingdom, this prospectus is only being distributed to and is only directed at (1) Qualified Investors who are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or high net worth entities falling within Article 49(2)(a)-(d) of the Order or (1) persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). The shares and the GDRs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, (1) in the United Kingdom, relevant persons and (2) in any member state of the EEA other than the United Kingdom, Qualified Investors. This prospectus and its contents should not be acted upon or relied upon (1) in the United Kingdom, by persons who are not relevant persons or (2) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors.

This prospectus has been prepared on the basis that all offers of shares and GDRs other than the offers contemplated in the prospectus in the United Kingdom, once it has been approved under the Prospectus Directive (2003/71/EC), will be made pursuant to an exemption under the Prospectus Directive (2003/71/EC), as implemented in the member states of the EEA, from the requirement to produce a prospectus for offers of shares and GDRs. Accordingly any person making or intending to make any offer within the EEA of shares or GDRs should only do so in circumstances in which no obligation arises for Comstar UTS or any of the Underwriters to produce a prospectus for such offer. None of Comstar UTS, the Selling Shareholder or the Underwriters has authorized or do authorize the making of any offer of shares or GDRs through any financial intermediary, other than offers made by the Underwriters which constitute the final placement of shares and GDRs contemplated in this prospectus.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO RUSSIAN INVESTORS

The GDRs have not been registered under the law of the Russian Federation "On the Securities Market" dated April 22, 1996, as amended, and are not being offered, sold or delivered directly in the Russian Federation or to any Russian residents.

STABILIZATION

IN CONNECTION WITH THE OFFERING, DEUTSCHE BANK AG (OR ANY AGENT OR OTHER PERSON ACTING FOR DEUTSCHE BANK AG), AS STABILIZING MANAGER, MAY OVER-ALLOT OR EFFECT TRANSACTIONS INTENDED TO ENABLE IT TO SATISFY ANY OVER-ALLOCATIONS OR WHICH STABILIZE, MAINTAIN, SUPPORT OR OTHERWISE AFFECT THE MARKET PRICE OF THE GDRS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY COMMENCE ON OR AFTER THE ANNOUNCEMENT OF THE OFFER PRICE AND WILL END NO LATER THAN 30 DAYS THEREAFTER. SUCH TRANSACTIONS MAY BE EFFECTED ON THE LONDON STOCK EXCHANGE AND ANY OTHER SECURITIES MARKET, OVER THE COUNTER MARKET, STOCK EXCHANGE OR OTHERWISE. THERE IS NO ASSURANCE THAT SUCH TRANSACTIONS WILL BE UNDERTAKEN AND, SAVE AS REQUIRED BY LAW, DEUTSCHE BANK AG DOES NOT INTEND TO DISCLOSE THE EXTENT OF ALLOTMENTS AND/OR STABILIZATION TRANSACTIONS UNDER THE OFFERING.

PRESENTATION OF FINANCIAL INFORMATION

The group was formed in the fourth quarter of 2005 through the restructuring by Sistema Joint Stock Financial Corporation (“Sistema”) of its fixed line communications businesses under Comstar UTS. In November 2005, Comstar UTS acquired Sistema’s stakes in PJSC Moscow City Telephone Network (“MGTS”), JSC “MTU-INFORM Company” (“MTU-Inform”), JSC “TELMOS” (“Telmos”) and JSC “MTU-Intel” (“MTU-Intel”) and MGTS’ stakes in MTU-Inform, Telmos and MTU-Intel. These acquisitions were paid for with newly issued shares of Comstar UTS. In December 2005, JSC “Sistema Multimedia” (“Sistema Multimedia”), a Sistema subsidiary engaged in the pay TV and content production business, was merged into MTU-Intel. As a result, Comstar UTS’ stake in MTU-Intel decreased to 51.82%, with Sistema owning the remaining stake. See “Business— The Restructuring.”

The group’s financial statements as of and for the three years ended December 31, 2002, 2003 and 2004 and as of and for the nine months ended September 30, 2004 and 2005, referred to herein as the “combined financial statements,” have been prepared in accordance with US generally accepted accounting principles, or US GAAP, and include the accounts of the following companies controlled by Sistema and their subsidiaries: Comstar UTS, MGTS, MTU-Inform, Telmos, MTU-Intel and Sistema Multimedia. All significant intercompany transactions, balances and unrealized gains and losses have been eliminated.

Sistema acquired control over Comstar UTS in December 2003, and the operating revenues and operating expenses of Comstar UTS have been included in the group’s financial statements from January 1, 2003, with pre-acquisition earnings during the year 2003 included in minority interest in the combined statements of operations. As a result, the financial information for the group as of and for the year ended December 31, 2002 is not directly comparable to the information presented as of and for the years ended December 31, 2003 and 2004 and the nine months ended September 30, 2004 and 2005, as Comstar UTS was not under common control with the other companies within the group until December 2003.

PRESENTATION OF OPERATIONAL INFORMATION

We operate in both the alternative and traditional fixed line communications segments, where we provide regulated and unregulated services. The operational information presented herein with respect to our alternative fixed line business relates to and is an aggregation of Comstar UTS, MTU-Inform, Telmos and MTU-Intel and the operational information presented herein with respect to our traditional fixed line business relates to MGTS, without in each case considering the minority interests therein not owned by us.

CURRENCIES AND EXCHANGE RATES

In this prospectus, references to "US dollars," "USD" or "$" are to the currency of the United States, references to "rubles" or "RUR" are to the currency of the Russian Federation and references to "euro," "EUR" or "€" are to the currency of the member states of the European Union participating in the European Monetary Union.

The following tables show, for the periods indicated, certain information regarding the exchange rate between the ruble and the US dollar, based on the official exchange rate quoted by the Central Bank of Russia. These rates may differ from the actual rates used in the preparation of our combined financial statements and other financial information appearing in this prospectus.

	Rubles per US dollar			
Years ended December 31,	**High**	**Low**	**Average[(1)]**	**Period end**
2001	30.30	28.16	29.22	30.14
2002	31.86	30.14	31.39	31.78
2003	31.89	29.25	30.61	29.45
2004	29.45	27.75	28.73	27.75
2005	29.00	27.46	28.31	28.78

(1) The average of the exchange rates on the last business day of each full month during the relevant period.

	Rubles per US dollar	
Months	**High**	**Low**
August 2005	28.60	28.31
September 2005	28.57	28.20
October 2005	28.67	28.42
November 2005	28.88	28.50
December 2005	29.00	28.64
January 2006	28.48	27.97

The exchange rate between the ruble and the US dollar on February 7, 2006 was 28.24 rubles per $1.00. For the convenience of the reader, unless otherwise indicated, we have provided US dollar translations of ruble amounts herein using an exchange rate of 28.78 rubles per $1.00, which was the official exchange rate quoted by the Central Bank of Russia on December 31, 2005.

No representation is made that the ruble or US dollar amounts in this prospectus could have been converted into US dollars or rubles, as the case may be, at any particular rate or at all. The ruble is generally not convertible outside Russia. A market exists within Russia for the conversion of rubles into other currencies, but the limited availability of other currencies may tend to distort their values relative to the ruble.

LIMITATION ON ENFORCEMENT OF CIVIL LIABILITIES

Our presence outside the United States and the United Kingdom may limit your legal recourse against us. We are incorporated under the laws of the Russian Federation. All of our directors and executive officers named in this prospectus reside outside the United States and the United Kingdom, principally in the Russian Federation. All or a substantial portion of our assets and the assets of our directors and executive officers are located outside the United States and the United Kingdom, principally in the Russian Federation. As a result, you may not be able to effect service of process within the United States or the United Kingdom upon us or our directors and executive officers or to enforce US or UK court judgments obtained against us or our directors and executive officers in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of US securities laws. In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon US or UK securities laws.

Judgments rendered by a court in any jurisdiction outside the Russian Federation are likely to be recognized by courts in the Russian Federation if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country in which the judgment is rendered, and a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgments.

There is no treaty between the United States and the Russian Federation or the United Kingdom and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. These limitations may deprive you of effective legal recourse for claims related to your investment in the GDRs. Under the terms of the Deposit Agreements (as defined in the "Description of the Global Depositary Receipts"), owners of GDRs agree that any dispute, controversy or cause of action against us and/or the Depositary arising out of the GDRs, the Deposit Agreements or any transaction contemplated therein, the shares or other deposited securities will be referred to and resolved by arbitration in accordance with the rules of the London Court of International Arbitration in proceedings in London, England, as more fully described in the Deposit Agreements. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards, but it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including limited experience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favor of foreign investors, Russian courts' inability to enforce such orders and corruption. The possible need to re-litigate in the Russian Federation a judgment obtained in a foreign court on the merits may also significantly delay the enforcement of such judgment. Under Russian law, certain amounts may be payable by the claimant upon the initiation of any action or proceeding in any Russian court. These amounts in many instances depend on the amount of the relevant claim.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus are not historical facts and are "forward-looking" within the meaning of Section 27A of the Securities Act and Section 21E of the US Securities Exchange Act of 1934, or the Exchange Act. Forward-looking statements appear in various locations, including, without limitation, under the headings "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Industry" and "Business." We may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. In addition, this prospectus includes forward-looking information that has been extracted from third-party sources. Forward-looking statements include statements concerning our plans, expectations, projections, objectives, targets, goals, strategies, future events, future operating revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, our competitive strengths and weaknesses, our business strategy and the trends we anticipate in the industries and the political and legal environment in which we operate and other information that is not historical information.

Words such as "believe," "anticipate," "estimate," "target," "potential," "expect," "intend," "predict," "project," "could," "should," "may," "will," "plan," "aim," "seek" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

The forward-looking statements contained in this prospectus are largely based on our expectations, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors, some of which are discussed below. Although we believe such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, management's assumptions about future events may prove to be inaccurate. We caution all readers that the forward-looking statements contained in this prospectus are not guarantees of future performance, and we cannot assure any reader that such statements will be realized or the forward-looking events and circumstances will occur.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, many of which are beyond our control and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under "Risk Factors," as well as those included elsewhere in this prospectus. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- changes in political, social, legal or economic conditions in Russia and the Commonwealth of Independent States, or the CIS;
- changes in the policies of the government of the Russian Federation, including the President and his administration, the Prime Minister, the government ministers and their offices and the Prosecutor General and his office;
- our ability to obtain necessary regulatory approvals and licenses for our business;
- our ability to service our existing indebtedness;
- our ability to fund our future operations and capital needs through borrowing or otherwise;
- our ability to successfully implement any of our business strategies;
- our ability to realize anticipated cost savings and operational benefits from the reorganization and integration of our businesses;
- our expectations about growth in demand for our products and services;
- technological change;
- competition in the marketplace;
- changes in communications regulations;
- changes in accounting standards or practices;
- inflation, interest rates and exchange rates; and
- our success in identifying other risks to our business and managing the risks of the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

AVAILABLE INFORMATION

For so long as any Rule 144A GDRs (as defined in "Description of the Global Depositary Receipts") or the shares represented thereby, are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to Section 13 or Section 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted Rule 144A GDRs or to any prospective purchaser of such restricted Rule 144A GDRs designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act.

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Comstar UTS is an open joint stock company under the laws of the Russian Federation. Comstar UTS was formed on June 14, 1989 as a joint venture. It was converted to a closed joint stock company on May 11, 1999, and converted to an open joint stock company on August 17, 2005. Unless the context otherwise requires, references in the prospectus to "Comstar UTS" refer to Comstar UTS and its predecessor entities. We are registered in the Unified State Register of Legal Entities under principal state registration number 1027700003946. Our registered office is located at 27, Smolenskaya-Sennaya Square, Building 2, Moscow 119121, Russian Federation. Our telephone number is +7 (495) 956-0000. Our Internet address is www.comstar-uts.ru. Information posted on this website and those of our affiliates and subsidiaries does not constitute a part of this prospectus.

Unless the context otherwise requires, references in the prospectus to "we," "our," "us" and the "group" refer collectively to Comstar UTS and its subsidiaries. References in this prospectus to "Moscow" are to the City of Moscow. References to the "Moscow region" are to the Russian administrative region immediately surrounding the City of Moscow. Certain technical terms related to our business and used in this prospectus are defined in "Glossary of Selected Terms." Unless the context otherwise requires, references to "shares" refer to the ordinary shares of Comstar UTS.

Certain amounts that appear in this prospectus have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

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PROSPECTUS SUMMARY

Following the implementation of the relevant provisions of the Prospectus Directive (Directive 2003/71/EC) in each member state of the European Economic Area no civil liability will attach to those persons who are responsible for this summary in any such member state solely on the basis of this summary, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this prospectus. Where a claim relating to the information contained in this prospectus is brought before a court in a member state of the European Economic Area, the claimant may, under the national legislation of that member state, be required to bear the costs of translating this prospectus before legal proceedings are initiated.

The following summary information does not purport to be complete and should be read as an introduction to the more detailed information appearing elsewhere in this prospectus, including our combined financial statements and the accompanying notes beginning on page F-1. Any decision by a prospective investor to invest in the shares or GDRs should be based on consideration of the prospectus as a whole, including the information discussed in "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors," and not solely on this summarized information.

Overview

We are a leading provider of integrated communications services in Moscow and the Moscow region based on revenues and subscribers. We also offer communications services in other select regions in Russia and the CIS. We offer voice, data and Internet, pay TV and various value-added services to corporate, operator and residential subscribers using our alternative and PSTN networks. We operate in both the alternative and traditional fixed line communications segments, where we provide regulated and unregulated services. As of September 30, 2005, we had over four million subscribers. For the year ended December 31, 2004 and the nine months ended September 30, 2005, we had combined operating revenues of $695.1 million and $636.8 million, respectively.

We organize our operations into two primary segments as follows:

- ***Alternative Fixed Line Business:*** We provide alternative fixed line communications services in Moscow and the Moscow region and in other select regions in Russia and the CIS through Comstar UTS and our subsidiaries MTU-Intel and Golden Line using brand names that include Comstar and Stream. As of September 30, 2005, we had approximately 600,000 active lines in service. The infrastructure of our alternative fixed line business includes approximately 577 km of copper cable and approximately 6,250 km of fiber optic cable. Our alternative fixed line communications services include voice, data and Internet and pay TV services for corporate and residential subscribers. In addition, we provide interconnection to other communications operators and numbering capacity to their subscribers. None of these services is regulated by the Russian government and, consequently, we are permitted to establish our own tariff structures in the market. For the nine months ended September 30, 2005, operating revenues for our alternative fixed line business were $246.3 million and accounted for 38.7% of our combined operating revenues.

- ***Traditional Fixed Line Business:*** We provide traditional fixed line communications services in Moscow through our subsidiary MGTS, which is the incumbent PSTN operator in Moscow. As of September 30, 2005, MGTS had approximately 4.25 million active lines in service, of which 83% were for residential subscribers. MGTS' PSTN infrastructure includes approximately 94,000 km of copper cable and over 5,300 km of fiber optic cable. MGTS provides both regulated and unregulated services, such as local telephony services at tariffs regulated by the Russian government, DLD/ILD voice transmission through licensed operators, wholesale Internet and interconnection services. MGTS also operates a PDTN enabling it to offer wholesale broadband services based on ADSL technology to companies within our group. For the nine months ended September 30, 2005, operating revenues for our traditional fixed line business were $390.5 million and accounted for 61.3% of our combined operating revenues. During the same period, regulated and unregulated services constituted 59.2% and 40.8%, respectively, of the operating revenues of our traditional fixed line business, excluding intersegment sales.

Competitive Strengths

Our main competitive strengths are the following:

- Leading market position in the attractive Moscow market.
- Broad range of services offered, including “triple play” services in Moscow and the Moscow region.
- Largest network in Moscow with the leading position in providing “last mile” connectivity to subscribers.
- Strong brand awareness and marketing expertise.
- Experienced management team and value enhancing controlling shareholder.

Business Strategy

We intend to organize and coordinate our fixed line business based on the services offered by and strengths of each company in the group with the goal of achieving growth in operating revenues, operating income and cash flow. We also plan to extend our position as the leading fixed line communications operator in Moscow and the Moscow region, and to expand our operations in Russia and other CIS countries. To accomplish these goals, we intend to implement the following strategies:

- Continue to focus on each of our core business competencies and brands by providing competitively structured products and tariffs that appeal to our various subscriber segments.
- Develop and grow our “triple play” service offering.
- Further expand the range of our services, including value-added services to meet evolving customer demand.
- Maintain a leading position in quality of services, technological innovation and brand recognition.
- Realize the benefits of our integrated group, including improvements in efficiency.
- Selectively expand into other regions in Russia and other CIS countries through organic growth and through acquisitions.

Risk Factors

An investment in the shares and GDRs is subject to risks relating to our business and industry, economic, political, social and legal risks associated with the Russian Federation and risks arising from the nature of the shares and GDRs and the markets upon which they are expected to be traded, including, among others, risks associated with the following matters:

- The highly competitive nature of the Russian fixed line communications industry;
- The integration of existing or newly acquired businesses;
- The implementation of our acquisition strategy to expand our operations geographically;
- The development and/or introduction of new products and services;
- The implementation of the new Communications Law;
- The costs associated with modernizing MGTS’ outdated infrastructure;
- System failures or breach of our security measures with respect to our networks;
- The acquisition and maintenance of our licenses;
- Foreign currency exchange rate fluctuations and Russian currency control laws;
- Our controlling shareholder’s ability to take actions that conflict with the interests of other holders of our shares and GDRs;
- Potential economic, political or social instability in Russia;
- Weaknesses in the Russian legal system;
- The ability of holders of GDRs to exercise the rights attached to the underlying shares;
- The offering may not result in a liquid or active market for the shares or GDRs and their price may be highly volatile; and
- The ability to deposit shares into the GDR program in order to receive GDRs.

Summary Combined Financial Information

The table below shows certain combined financial information for the group as of and for the years ended December 31, 2002, 2003 and 2004 and as of and for the nine months ended September 30, 2004 and 2005. The financial information for the years ended December 31, 2002, 2003 and 2004 has been derived from our audited combined financial statements included elsewhere in this prospectus, except as provided in the footnotes below. The unaudited financial information for the nine months ended September 30, 2004 and 2005 includes all normal and recurring adjustments, which are, in our opinion, necessary for a fair presentation of our financial position at such dates and results of operations for such periods. The results of operations for the nine months ended September 30, 2005 are not necessarily indicative of the results for the full year. The selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our combined financial statements included elsewhere in this prospectus.

Our combined financial statements have been prepared in accordance with US GAAP. Although our results are presented in US dollars, you should not construe those translations as a representation that those amounts could be converted from one currency to another at any particular rate or at all. The ruble generally is not convertible outside Russia. A market exists within Russia for the conversion of rubles into other currencies, but the limited availability of other currencies may tend to inflate their values relative to the ruble.

	Years ended December 31,			Nine months ended September 30,	
	2002[(1)]	2003	2004	2004	2005
			(in thousands)	(unaudited)	
Combined statement of operations data					
Operating revenues	$ 438,755	$ 589,218	$ 695,133	$ 510,578	$ 636,823
Operating expenses, exclusive of depreciation and amortization	(248,824)	(353,448)	(445,276)	(327,890)	(367,164)
Depreciation and amortization	(53,417)	(73,097)	(76,138)	(54,607)	(68,861)
Operating income	136,514	162,673	173,719	128,081	200,798
Interest income	1,894	4,718	7,941	6,478	5,449
Interest expense	(31,496)	(18,545)	(18,695)	(14,421)	(12,168)
Foreign currency transactions gain	330	3,594	4,368	821	1,043
Loss from disposal of an affiliate	—	—	(6,610)	(6,610)	—
Income before income tax and minority interests	107,242	152,440	160,723	114,349	195,122
Income tax expense	(22,429)	(38,848)	(41,076)	(34,683)	(50,304)
Income from affiliates	2,427	1,259	542	552	96
Minority interests	(33,082)	(39,526)	(44,400)	(29,220)	(61,102)
Income from continuing operations	55,158	75,325	75,789	50,998	83,812
Gain/(loss) from discontinued operations, net of income tax charges[(2)]	6,985	(16,914)	4,182	4,182	—
Gain/(loss) from disposal of discontinued operations, net of income tax charges[(3)]	1,507	—	(3,831)	(3,831)	—
Net income	$ 63,650	$ 58,411	$ 76,140	$ 51,349	$ 83,812

	Years ended December 31,			Nine months ended September 30,	
	2002[1]	2003	2004	2004	2005
				(unaudited)	
			(in thousands)		
Combined statement of cash flow data					
Net cash provided by operations	$ 151,911	$ 207,449	$ 225,806	$ 158,599	$ 223,759
Net cash used in investing activities	(87,134)	(144,536)	(187,872)	(152,275)	(212,138)
of which capital expenditures[4]	(89,365)	(100,306)	(168,847)	(112,911)	(142,689)
Net cash used in financing activities	(46,658)	(55,652)	(19,482)	(16,847)	(2,210)
Combined balance sheet data (end of period)[5]					
Cash and cash equivalents	$ 39,589	$ 46,952	$ 67,436	$ 36,760	$ 76,083
Short-term investments	5,719	66,450	105,313	125,172	121,730
Total assets	1,002,965	1,185,600	1,418,448	1,299,877	1,561,016
Total debt (long-term and short-term)[6]	179,539	169,914	216,797	199,125	218,253
of which capital lease obligations	10,955	8,927	26,699	24,157	21,310
Total liabilities	439,072	502,836	586,383	542,222	616,515
Total shareholders' equity	215,516	294,094	381,441	345,027	463,013
Non-US GAAP measure					
OIBDA[7]	$ 189,931	$ 235,770	$ 249,857	$ 182,688	$ 269,659

(1) The financial information in respect of 2002 is not directly comparable to the other periods presented in the table because Comstar UTS was not under common control with the other companies within the group until 2003. See "Presentation of Financial Information."

(2) Gain/(loss) from discontinued operations is shown net of the income tax charges of $1.7 million, $3.2 million, $1.4 million, $1.4 million and $nil for the years ended December 31, 2002, 2003 and 2004 and the nine months ended September 30, 2004 and 2005, respectively.

(3) Gain/(loss) from disposal of discontinued operations is shown net of the income tax charges of $0.5 million, $nil, $0.8 million, $0.8 million and $nil for the years ended December 31, 2002, 2003 and 2004 and the nine months ended September 30, 2004 and 2005, respectively.

(4) Represents the aggregate of cash outlays for purchases of property, plant and equipment and of intangible assets.

(5) Our combined balance sheet as of September 30, 2004 is not included in this prospectus.

(6) Includes short-term and long-term debt, including current portion, and capital lease obligations, including current portion.

(7) OIBDA represents operating income before depreciation and amortization. OIBDA is not a measure of financial performance under US GAAP. You should not consider it an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of OIBDA may be different from the calculation used by other companies and therefore comparability may be limited. We believe that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of subsidiaries and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under US GAAP, these expenses primarily represent non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods.

Reconciliation of OIBDA to operating income is as follows for the periods indicated:

	Years ended December 31,			Nine months ended September 30,	
	2002	2003	2004	2004	2005
			(in thousands)		
Operating income	$136,514	$162,673	$173,719	$128,081	$200,798
Add: Depreciation and amortization	53,417	73,097	76,138	54,607	68,861
OIBDA	$189,931	$235,770	$249,857	$182,688	$269,659

Securities Offered

We are offering 139,000,000 newly issued shares of Comstar UTS in the form of GDRs, with one GDR representing one share. The Selling Shareholder is offering 7,500,000 shares. The GDRs are being offered in the United States to QIBs in reliance on Rule 144A and outside the United States and the Russian Federation to certain persons in offshore transactions in reliance on Regulation S. The shares are being offered in the Russian Federation and outside the United States to certain persons in offshore transactions in reliance on Regulation S.

Registration of Placement Report

Trading in the GDRs on the London Stock Exchange will be subject to cancellation until the placement report is registered by the FSFM in respect of the newly issued shares of Comstar UTS we are offering in the form of GDRs. If the placement report is not registered within 60 days after the Closing Date (or such later date to which we and the Selling Shareholder agree with the Underwriters), the gross proceeds (without interest) of the offering of GDRs will be refunded to the holders of the GDRs at or about the time of such cancellation, regardless of the then-prevailing market price of the GDRs, subject to applicable withholding taxes. However, the return of funds may be delayed due to Russian currency control, banking or securities regulations or practices and may be prevented if there is a change in such regulations or practices.

Until the registration of the placement report, all GDRs will be issued on a provisional basis and holders of GDRs will not be entitled to instruct the Depositary to exercise any voting rights on their behalf, and neither the Depositary nor Deutsche Bank Ltd., as the Custodian, will exercise any voting rights as a shareholder. Holders of GDRs may not withdraw shares or other property on deposit with the Depositary in respect of the GDRs sold in the offering prior to the registration of the placement report. Such limitation on withdrawal and voting of the shares will not prohibit trading in the GDRs. Also, following the Closing Date, no additional shares will be accepted for deposit and no additional GDRs in respect of such shares will be issued until the placement report is registered.

The shares being offered by the Selling Shareholder will not be cancelled, and the proceeds of the offering of the shares by the Selling Shareholder will not be refunded, in case the placement report is not registered.

See "Registration of Placement Report" and "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—Holders of GDRs will not be able to withdraw the shares underlying the GDRs prior to the registration of a placement report for the newly issued shares, and the failure to register this placement report could result in the newly issued shares underlying the GDRs being cancelled, reliance by GDR holders on us and the Underwriters to return the offering proceeds and a small public float based solely on the shares sold by the Selling Shareholder."

Use of Proceeds

The net proceeds that we will receive from the offering, after deducting underwriting commissions, fees and expenses incurred in connection with the offering, will be approximately $976 million. We intend to use all or a significant portion of the proceeds from the offering to finance our regional expansion, including through the build-out of new infrastructure and acquisitions in Russia and the CIS. In addition, we may use a portion of the proceeds from the offering to acquire shares of MGTS not currently held by the group in order to reduce minority interests. In connection with any such acquisitions of minority interests, we may seek bridge loans from banks, including the Underwriters, which we may repay with the proceeds of this offering. We may also use a portion of the net proceeds from the offering to finance our businesses, in particular, the capital expenditures planned in 2006 and 2007, including the development of network infrastructure in Russia and the CIS and the acceleration of the NGN and ADSL build-outs in Moscow and the Moscow region. We will not receive any of the proceeds from the sale of the shares offered by the Selling Shareholder.

RISK FACTORS

An investment in the shares and GDRs involves a high degree of risk. You should carefully consider the following information about these risks, together with the information contained in this prospectus, before you decide to buy the shares and GDRs. If any of the following risks actually occurs, our business, financial condition, results of operations or prospects could be materially adversely affected. In that case, the value of the shares and GDRs could also decline and you could lose all or part of your investment.

We have described the risks and uncertainties that our management believes are material, but these risks and uncertainties may not be the only ones we face. Additional risks and uncertainties, including those we currently are not aware of or deem immaterial, may also result in decreased operating revenues, increased operating expenses or other events that could result in a decline in the value of the shares and GDRs.

Risks Relating to Our Business

Our operating revenues and net income could decline if growth in the Russian communications market slows.

Our primary business is the provision of fixed line communications services in Moscow and the Moscow region. Substantially all of our operating revenues are derived from subscribers based in these areas, and our future operating revenues and profitability will depend in large part on the growth of Moscow and the Moscow region and the Russian communications markets, including increased demand for fixed line communications services and a continued increase in communications spending by subscribers. Although the communications industry in Russia is relatively underdeveloped compared to other European countries and has grown significantly in recent years, we cannot assure you that it will experience significant growth in the future.

For example, while the provision of broadband Internet services is expected to be a significant driver of growth in the Russian communications industry in the future, the market for such services is currently constrained by PC penetration in households which, according to Pyramid Research, was approximately 49.5% in Moscow as of September 30, 2005. In addition, regional operators may make it difficult for us to gain access to their networks by refusing to offer us commercially attractive terms. Our inability to expand our broadband or other businesses both inside and outside of Moscow could have a material adverse effect on our business, financial condition, results of operations and prospects.

We face increasing competition in the alternative fixed line communications market that may adversely affect our ability to increase our subscriber base and could result in reduced operating margins and a loss of market share, as well as different pricing, service or marketing policies.

The markets for alternative fixed line communications services in Moscow, the Moscow region, St. Petersburg and other commercial centers in Russia are rapidly evolving and becoming increasingly competitive. Competition is generally based on price, product functionality, range of service offerings and customer service. Currently, our principal competitor is Golden Telecom. However, the consolidation of smaller alternative fixed line operators and/or their acquisition by larger operators may further increase competition. Increased competition, including from the potential introduction of new alternative fixed line operators in the markets where we operate, may adversely affect our ability to increase the number of subscribers and could result in reduced operating margins and a loss of market share, as well as different pricing, service or marketing policies. For example, Corbina Telecom recently announced plans to expand its fiber optic network by approximately 5,000 km, which would give it the ability to provide broadband and pay TV services to each residential building in Moscow. In addition, home network operators represent our main competition, and they had a share of approximately 63.8% of the broadband Internet market in Moscow as of September 30, 2005, according to Pyramid Research.

Furthermore, increased competition among alternative fixed line operators and/or slower than expected demand for existing or new service offerings may cause us to reduce our tariffs for certain services, offer promotional discounts and seek to attract new categories of subscribers, including mass-market subscribers. This, in turn, may lead to a decrease in our ARPU, and may materially adversely affect our business, financial condition, results of operations and prospects.

Our competitive position and future prospects depend on our senior managers and other key personnel.

Our ability to maintain our competitive position and to implement our business strategy is dependent to a large degree on the services of our senior management team and other key personnel. Moreover, competition in Russia, and in the other countries where we operate, for personnel with relevant expertise is intense due to the small number of qualified individuals and, as a result, we attempt to structure our compensation packages in a manner consistent with the evolving standards of the Russian labor market. We are not insured against the detrimental effects to our business resulting from the loss or dismissal of our key personnel. The loss or decline in the services of members of our senior management team or an inability to attract, retain and motivate qualified key personnel could have a material adverse effect on our business, financial condition and results of operations.

Competition from mobile and alternative fixed line communications operators may limit growth in our traditional fixed line segment and have a material adverse effect on our business, financial condition, results of operations and prospects.

The mobile communications market in Russia is the fastest growing segment of the Russian communications market. According to Pyramid Research, the number of mobile subscribers in Russia totaled over 75 million at the end of 2004, over twice the number of fixed line subscribers. Competition between mobile and fixed line operators in Russia has increased in parallel with the increase in mobile penetration levels in Russia, and we expect that this competition will further intensify in the future. This may result in slower growth or even a decrease in fixed line communication penetration in Russia as subscribers may migrate from fixed to mobile networks. Consequently, our business, financial condition, results of operations and prospects may be materially adversely affected.

MGTS may also face competition from operators using VoIP technology in the future, and from service providers using least-cost routing technology enabling fixed-to-mobile calls from a corporate private branch exchange to bypass MGTS' PSTN network by being transferred directly to mobile networks. As a result, MGTS may continue to experience a decline in access revenue and a reduction in traffic.

Continuing rapid changes in technologies could increase competition and/or require us to make substantial investments.

Many of the products and services we offer are technology intensive and utilize technological components that are constantly and rapidly evolving. The development of new technologies may render our services obsolete and uncompetitive, and we may have to make substantial additional investments to develop, roll out and/or obtain licenses for new technologies to remain competitive. New technologies in which we choose to invest may not be introduced in a timely manner and may not prove commercially viable. Our failure to implement successfully new technologies as required may have a material adverse effect on our business, results of operations and financial condition.

Rapid growth and expansion may cause us difficulty in obtaining adequate managerial and operational resources, restricting our ability to expand successfully our operations.

We have experienced substantial growth and development in a relatively short period of time, and we believe that our businesses will continue to grow for the foreseeable future. The operating complexity of our business, as well as the responsibilities of management, have increased as a result of this growth, placing significant strain on our managerial and operational resources. Our future operating results depend, in significant part, upon the continued contributions of our management and technical personnel.

We will need to continue to improve our operational and financial systems and managerial controls and procedures to keep pace with our growth. We will also have to maintain close coordination among our logistical, technical, accounting, finance, marketing and sales personnel. Management of growth will require, among other things:

- the ability to integrate new acquisitions into our operations;
- continued development of financial and management controls and IT systems and their implementation in newly acquired businesses;
- increased marketing activities;

- hiring and training of new personnel; and
- the ability to adapt to changes in the markets in which we operate, including increased competition and demand for our services.

Our inability to successfully manage our growth could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to integrate successfully our existing or newly acquired businesses. If we fail to integrate successfully our businesses, our rate of expansion could slow and our financial condition, results of operations and prospects could be materially adversely affected.

We are in the process of integrating our businesses. The integration of our businesses, as well as of any businesses we may acquire in the future, requires significant time and effort from our senior management, who are also responsible for managing our existing operations. The integration of new businesses may be difficult for a variety of reasons, including differing culture, management styles and systems and infrastructure and poor records or internal controls. In addition, integrating new acquisitions may require significant initial cash investments. Furthermore, even if we are successful in integrating our existing and new businesses, expected synergies and cost savings may not materialize, resulting in lower than expected profit margins. We cannot assure you that we will be successful in realizing any of the anticipated benefits of the companies that we are now in the process of integrating or that we may acquire in the future. If we do not realize these benefits, our financial condition, results of operations and prospects could be materially adversely affected.

For example, our alternative and traditional fixed line communications segments continue in some cases to offer the same or substantially similar services and products to the same subscriber segments and directly compete with each other on the market. We are currently seeking to eliminate these redundant offerings while attempting to create synergies and cross selling opportunities wherever possible; however, if we are unable to integrate successfully and streamline the service and product offerings of various companies within the group, our financial condition, results of operations and prospects could be materially adversely affected.

Our business strategy contemplates further geographical expansion of our business, and our future growth and prospects depend on the execution of this strategy.

We are following an expansion strategy pursuant to which we will need to identify suitable targets that will fit into our operations and acquire them on acceptable terms. Our competitors are following similar growth strategies. Our failure to identify suitable opportunities for expansion and/or acquire them on acceptable terms or at all, may limit our growth and have a material adverse effect on our business and prospects.

In addition, we currently have operations in Ukraine and our strategy contemplates the acquisition of additional operations in the countries of the CIS. As with Russia, these countries are emerging markets subject to greater political, economic, social and legal risks than more developed markets. In many respects, the risks inherent in transacting business in these countries are similar to those in Russia, especially those risks set out below in "—Risks Relating to the Russian Federation."

Moreover, these countries represent new operating environments for us, which are located, in many instances, a great distance from our Russian operations and across multiple international borders. We thus expect to have less control over their activities. In addition, we may face more uncertainties with respect to the operational and financial needs of these businesses. These factors may hurt the profitability of our current and future operations in these countries.

Failure to develop successfully and introduce new products and services may have a material adverse effect on our business, financial condition, results of operations and prospects.

The market for our products and services is characterized by rapid technological advances, changes in customer requirements and evolving industry standards. Thus, in order to remain competitive and increase our operating revenues, we must successfully introduce new products and services, or develop enhancements to and new features for our existing services, in a timely manner. Otherwise, our product and service offerings may become obsolete, less marketable and less competitive and our business will suffer.

For example, we recently launched StreamTV, a DTV service offered to residential subscribers using ADSL technology. StreamTV is still in the early stages of development with approximately 6,500 subscribers as of December 31, 2005, and we may not be able to transform it into a commercially successful product capable of competing with other pay TV services that have been in existence for a longer period of time or use superior satellite technology. In addition, we are currently introducing additional Wi-Fi Hot Spots in an effort to retain existing residential subscribers and attract new subscribers. These Hot Spots have been established in public places throughout Moscow and allow users to access the Internet from a notebook PC, smart phone or other similar device without the need for wires or a modem. Our ability to offer these services required us to invest in new infrastructure and technologies, and we expect that these strategic initiatives will continue to require substantial expenditures and commitment of human resources for the next several years. As a result, our ability to offer additional new products and services in the future may be limited. In addition, any new products and services we introduce may not be commercially successful. Our failure to develop successfully and introduce new commercially viable products and services may have a material adverse effect on our business, financial condition, results of operations and prospects.

Our controlling shareholder has the ability to take actions that may conflict with the interests of other holders of our shares and GDRs, we expect to continue to conduct related party transactions with companies within the Sistema group and we rely on Sistema's active participation in the development of our group.

We are controlled by Sistema, which will directly and indirectly own 64.9% of our outstanding shares following the offering (including the shares subject to a share repurchase transaction). If not otherwise required by law, resolutions at a shareholders' meeting will be adopted by a simple majority in a meeting at which shareholders holding more than half of the issued share capital are present or represented. Accordingly, Sistema will have the power to control the outcome of most matters to be decided by vote at a shareholders' meeting and, as long as it holds, directly or indirectly, the majority of our shares, will control appointment of the majority of directors and removal of directors. Sistema will also be able to control or significantly influence the outcome of any vote on, among other things, any proposed amendment to our charter, reorganization proposal, proposed substantial sale of assets or other major corporate transactions. Thus, Sistema can take actions that may conflict with the interests of other holders of our shares and GDRs.

Sistema also has interests in other companies, some of which conduct significant amounts of business with us and some of which may compete with us in the future, including in the telecommunications industry. Thus, the interests of Sistema and companies within the Sistema group could conflict with those of the holders of shares and GDRs, and any such conflict could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of the shares and GDRs. Related party transactions with Sistema and other companies within the Sistema group may also potentially result in the conclusion of transactions on terms less favorable than could be obtained in arm's-length transactions. See "Related Party Transactions."

We also believe that the involvement of Sistema in our operations has been, and will continue to be, important in the implementation of our strategy and the development of our business. Our business could suffer if Sistema ceased to participate actively in our development.

In the event that deficiencies or ambiguities in privatization legislation are exploited to challenge our ownership in our privatized subsidiaries and we are unable to defeat these challenges, we risk losing our ownership interests in our subsidiaries or their assets, which could materially adversely affect our business, financial condition and results of operations.

Our businesses include a privatized company, MGTS, and our business strategy may involve the acquisition of additional privatized companies. To the extent that privatization legislation is vague, inconsistent or in conflict with other legislation, including conflicts between federal and local privatization legislation, many privatizations are vulnerable to challenge, including selective challenges. For instance, a series of presidential decrees issued in 1991 and 1992 that granted to the Moscow City government the right to adopt its own privatization procedures were subsequently held to be invalid by the Constitutional Court of the Russian Federation, which ruled, in part, that the presidential decrees addressed issues that were the subject of federal law. While this court ruling, in theory, did not require any implementing actions, the presidential decrees were not officially annulled by another presidential decree until 2000.

Sistema won a privatization tender for MGTS in April 1995 and was issued 25% of MGTS' share capital. As part of its tender obligations, Sistema committed to invest approximately $106 million in MGTS over a three-year period in exchange for the right to purchase an additional issue of MGTS' ordinary shares. In 1998, upon satisfying its tender obligations, Sistema exercised this right and increased its stake to 50% of MGTS' share capital. At the time Sistema took possession of this interest, there were press reports that certain minority shareholders of MGTS had filed complaints with the prosecutor's office and the Federal Commission on the Securities Market (currently the FSFM) objecting to the share issuance. In addition, certain members of the Russian parliament requested the Audit Chamber of the Russian Federation and other governmental agencies to investigate whether there was compliance with the relevant rules and regulations governing MGTS' privatization. Although no formal action or claim against MGTS or its shareholders was ever made by any governmental entity, we cannot assure you that the privatization of MGTS will not be challenged in the future. In the event that any of our privatized companies are subject to challenge as having been improperly privatized and we are unable to defeat this claim, we risk losing our ownership interest in the company or its assets, which could materially adversely affect our business, financial condition and results of operations.

In addition, under Russian law, transactions in shares may be invalidated on many grounds, including a sale of shares by a person without the right to dispose of such shares, breach of interested party and/or major transactions rules and failure to register the share transfer in the securities register. As a result, defects in earlier transactions in shares of our subsidiaries (where such shares were acquired from third parties) may cause our title to such shares to be subject to challenge.

In the event that our minority shareholders or minority shareholders of our subsidiaries were to challenge successfully past or future interested party transactions, or do not approve interested party transactions or other matters in the future, the invalidation of such transactions or failure to approve such matters could have a material adverse effect on our business, financial condition, results of operations or prospects or the value of the shares and GDRs.

We own less than 100% of the equity interests in some of our subsidiaries. In addition, certain of our wholly owned subsidiaries have had other shareholders in the past. We and our subsidiaries in the past have carried out, and continue to carry out, transactions with us and others which may be considered to be "interested party transactions" under Russian law, requiring approval by disinterested directors, disinterested independent directors or disinterested shareholders depending on the nature of the transaction and parties involved. See "Business—History of Our Businesses" and "Description of Share Capital and Certain Requirements of Russian Legislation—Interested Party Transactions." The provisions of Russian law defining which transactions must be approved as "interested party transactions" are subject to different interpretations. We cannot assure you that our and our subsidiaries' applications of these concepts will not be subject to challenge by former and current shareholders. Any such challenges, if successful, could result in the invalidation of transactions, which could have a material adverse effect on our business, financial condition, results of operations or prospects of the value of the shares and GDRs.

In addition, Russian law requires a three-quarters majority vote of the holders of voting stock present at a shareholders' meeting to approve certain transactions and other matters, including, for example, charter amendments, major transactions involving assets in excess of 50% of the assets of the company, repurchase by the company of shares and certain share issuances. In some cases, minority shareholders may not approve interested party transactions requiring their approval or other matters requiring approval of minority shareholders or supermajority approval. In the event that these minority shareholders were to challenge successfully past interested party transactions, or do not approve interested party transactions or other matters in the future, we could be limited in our operational flexibility and our business, financial condition, results of operations or prospects could be materially adversely affected.

We and Svyazinvest, a minority shareholder in our subsidiary MGTS, may have conflicting views with respect to strategic decisions relating to the development of MGTS.

Svyazinvest owns 28% of the ordinary shares of MGTS and, therefore, retains a 28% voting interest. This stake allows Svyazinvest to block certain decisions of MGTS requiring a supermajority vote of shareholders under Russian law, including amendments to MGTS' charter, the issuance of additional shares and the approval of certain material transactions. In particular, Svyazinvest's approval may be required in connection with any further restructuring of MGTS or its integration in the group.

Svyazinvest is a state-controlled holding company, and some of its activities are subject to the approval of the Russian government and its authorized agencies. These governmental bodies may have conflicting interests and lengthy approval processes. The Russian government is also considering selling its stake in Svyazinvest and it is feasible that we and/or Sistema may participate in the bidding process. We and Svyazinvest may have conflicting views with respect to the development of MGTS, and the dependence on Svyazinvest for corporate approvals could significantly delay, or make impossible, the adoption by MGTS of strategic decisions relating to the development of MGTS. There can be no assurance that Svyazinvest will cooperate with us or MGTS' management and/or will not seek to challenge MGTS' corporate actions.

If transactions of members of the group and their predecessors-in-interest were to be challenged on the basis of non-compliance with applicable legal requirements, the remedies in the event of any successful challenge could include the invalidation of such transactions or the imposition of other liabilities on such group members.

Members of the group, or their predecessors-in-interest at different times, took a variety of actions relating to share issuances, share disposals and acquisitions, mandatory buy-out offers, valuation of property, interested party transactions, major transactions, meetings of the group members' governing bodies, other corporate matters and anti-monopoly issues that, if successfully challenged on the basis of non-compliance with applicable legal requirements by competent state authorities, counterparties in such transactions or shareholders of the relevant group members or their predecessors-in-interest, could result in the invalidation of such transactions and our corporate decisions, restrictions on voting control or the imposition of other liabilities. Because applicable provisions of Russian law are subject to many different interpretations, we may not be able to defend successfully any challenge brought against such transactions, and the invalidation of any such transactions or imposition of any such liability may, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations. See also "Risks Relating to the Russian Federation—Legal Risks and Uncertainties—Weaknesses relating to the legal system and legislation create an uncertain environment for investment and business activity."

Limitations on foreign investment could have a material adverse effect on the value of the shares and GDRs and could hinder our access to additional capital.

Russian legislation governing foreign investment activities does not prohibit or restrict foreign investment in the communications industry. However, a lack of consensus exists over the manner and scope of government control over the communications industry. While draft legislation protecting the rights of foreign investors specifically in the communications industry has been considered at various times, the Law on Foreign Investment in the Russian Federation does not provide any specific protections in this regard. Because the communications industry is widely viewed as strategically important to Russia, governmental control over the communications industry may increase, and foreign investment in or control over the industry may be limited. Any such increase in governmental control or limitation on foreign investment could have a material adverse effect on the value of the shares and GDRs and could hinder our access to additional capital.

The implementation of the new Communications Law in Russia imposed an additional financial burden on us and may restrict our operations, which could materially adversely affect our financial condition and results of operations.

The Federal Law "On Communications," or the Communications Law, which came into force on January 1, 2004, provides for the establishment of a "universal services reserve fund" for the purpose of supporting communications companies operating in less developed regions of Russia. This reserve fund will be funded by a levy imposed on all communication services operators, including us and our Russian communications subsidiaries. According to a government decree enacted on April 21, 2005, such operators must make quarterly payments in the amount of 1.2% of the difference between their total revenues and revenues generated by interconnection and traffic transmission services. This additional levy, the amount of which may be changed by the Russian government at its own discretion, will increase our costs and could materially adversely affect our financial condition and results of operations.

Generally, the Communications Law substantially modified the previously existing regulatory framework governing communications. For example, the Communications Law contemplates the additional regulation of PSTN operators holding a substantial position (meaning PSTN operators which together with their affiliates have, in the Russian Federation generally or in a geographically defined specific numerical zone, 25% or more of installed capacity or capacity to carry out transmission of not less than 25% of traffic). In particular, upon the adoption by the Russian government of the relevant implementing rules, such operators, including MGTS, will be obliged to grant such equal access to all other operators. If the Russian government chooses to implement local loop unbundling or local loop shared access, which would allow other operators access to MGTS' "last mile," then competition in the local data and Internet services market may increase and one of our main competitive advantages may suffer.

Furthermore, connection and traffic transmission tariffs that such operators deemed to have a "substantial position" by the Federal Service for Supervision in the Area of Communications may charge other operators are currently subject to government regulations pursuant to the Communications Law. In the past, some of the alternative operators in our group have benefited from favorable connection and traffic transmission tariff arrangements with MGTS. Going forward, MGTS will be required to charge identical tariffs to all communications operators regardless of whether they are members of our group.

The Communications Law also opens the DLD/ILD market to competition and contemplates a new three-layer interconnection system effective from January 1, 2006, consisting of DLD/ILD, zone and local operators. Under this new structure, end-users will have the right to pre-select a long-distance operator and DLD/ILD operators will be required to have interconnection points in each of the 88 sub-federal units of the Russian Federation. Unless we receive a DLD/ILD license, we will need to enter into agency agreements with DLD/ILD operators in order to share in the revenues from DLD/ILD traffic generated by our subscribers. We cannot assure investors that the terms of these revenue sharing agreements will be on terms more favorable than, or even comparable to, our current arrangement with Rostelecom, Russia's largest DLD/ILD operator. Additionally, under the new regulatory regime, we may lose the opportunity to provide DLD/ILD services directly to our subscribers, as well as the opportunity to manage long-distance tariffs. Thus, the liberalization of the long-distance market may result in a decrease of long-distance tariffs, thereby putting pressure on our operating revenues.

New regulations implementing the provisions of the Communications Law have also changed the licensing framework by contemplating licensing based on the type of communication services rather than the licensing of certain communication technologies. This change implies, for example, that the IP technology may be used by an operator only to the extent permissible under the license granted to such operator. Thus, as long as we are not licensed to provide DLD/ILD communication services, we will be able to offer VoIP DLD/ILD services only as an agent for DLD/ILD operators.

As only a portion of the legislation implementing the new regulatory regime has been approved, it is currently difficult to assess the possible effects these and other changes to the communications laws and regulations may have on our business, financial condition and results of operations.

Failure to develop and protect our brands may materially adversely affect our business and results of operations.

Developing and maintaining awareness of certain of our brands, such as Stream and Tochka.RU, through which we offer a broad range of Internet services to corporate and residential subscribers, in a cost effective manner is critical to informing and educating the public about our current and future services and is an important element in attracting new subscribers. Furthermore, we believe that the importance of brand recognition will increase as our markets become more competitive. Successful promotion of our brands will depend largely on the effectiveness of our marketing efforts and on our ability to provide reliable and useful products and services at competitive prices. Brand promotion activities may not yield increased operating revenues, and even if they do, such operating revenues may not offset the operating expenses we incur in building our brands. Furthermore, our ability to attract new subscribers and retain existing subscribers depends, in part, on our ability to maintain what we believe to be our favorable brand image. Negative rumors regarding Sistema, our group or our services could adversely affect this brand image, which could lead to a loss of market share and revenues. Our failure to successfully and efficiently promote and maintain our brands may limit our ability to attract new subscribers and retain our existing subscribers and materially adversely affect our business and results of operations.

Furthermore Russia and the other countries of the CIS in which we operate generally offer less intellectual property protection than countries in Europe and North America. We cannot be certain that the steps we have taken to protect our portfolio of intellectual property rights will be sufficient or that third parties will not infringe, misappropriate or challenge our proprietary rights. If we are unable to protect our proprietary rights against infringement or misappropriation, our business, results of operations and prospects could be materially adversely affected.

Much of MGTS' infrastructure is outdated, and we may be required to make significant investments beyond those that are currently planned to modernize it.

A significant proportion of MGTS' infrastructure has not been modernized. For example, only approximately 28.5% of its active lines were digitalized as of September 30, 2005. As a result, those subscribers who connect to our network using our analog ATEs will not be able to receive our value-added services, such as voicemail and call forwarding. In addition, we will not be able to reduce substantially our number of employees and associated costs until the digitalization of our network is complete. Furthermore, MGTS' network switching equipment may become obsolete or unusable, in which case we may be required to make significant investments to modernize MGTS' infrastructure in order to meet its requirement to provide telephony services as a PSTN operator. The overburdening of MGTS' infrastructure may inconvenience federal number subscribers by causing incoming and outgoing calls to have lower completion rates. MGTS invested approximately $117.6 million in the nine months ended September 30, 2005 and plans to invest approximately $297 million in 2006 to upgrade its infrastructure. If MGTS is not able to upgrade its network in a timely manner or if it is required to make significant investments beyond those that are currently planned, our financial condition, results of operations and prospects could be materially adversely affected.

We depend on the reliability of our networks, and a system failure or breach of our security measures could result in a loss of subscribers and materially adversely affect our business and results of operations.

We are able to deliver services only to the extent that we can protect our network systems against damage from communications failures, computer viruses, power failures, natural disasters and unauthorized access. Any system failure, accident or security breach that causes interruptions in our operations could impair our ability to provide services to our subscribers and materially adversely affect our business and results of operations. In addition, to the extent that any disruption or security breach results in a loss of or damage to subscribers' data or applications, or inappropriate disclosure of confidential information, we may incur liability as a result, including costs to remedy the damage caused by these disruptions or security breaches. In order to minimize the potential for a system failure, we maintain back-up generators and spare batteries that begin operating automatically in the event of a blackout or disruption in the power lines. In addition, our network operates with reservation, or back up, channels to ensure that voice and data traffic continues to flow uninterrupted in the event that one or more channels fails to function properly. We have also established a fraud monitoring program to prevent unauthorized access onto our network.

We may be sued by third parties for infringement of proprietary rights.

The communications industry and related service businesses, such as broadband, are characterized by the existence of a large number of patents and trademarks. Litigation based on allegations of patent and/or trademark infringement or other violations of intellectual property rights is common. As the number of entrants into the Russian market increases and the overlap of product function expands, the possibility of an intellectual property infringement claim against us increases as well. In addition, we may be sued for copyright or trademark infringement for purchasing and distributing content through various fixed line communications.

Although no such claims or lawsuits have been filed against us as of the date of this prospectus, such claims or lawsuits may be filed against us in the future. Furthermore, such lawsuits, whether with or without merit, could be time-consuming, costly and a diversion of senior management and technical personnel. We may be forced to develop non-infringing technology or to enter into royalty or licensing agreements, which, if required, may not be available on commercially reasonable terms or at all. If an infringement claim against us were successful or we could not develop or license the required non-infringing technology, our business and results of operations could be materially adversely affected.

Suspension or termination of our communications licenses could have a material adverse effect on our business and results of operations.

Our communications licenses contain various requirements. These include participation in a federal communications network, adherence to technical standards, investment in network infrastructure and employment of Russian technical personnel. Our fixed line businesses are required to provide certain services to the federal government and PSTN subscribers at regulated tariffs. The amount and pricing of such services are subject to change and, if they were to change materially and adversely, our operating revenues would be adversely affected.

If we fail to comply with the requirements of applicable Russian legislation or we fail to meet any terms of our licenses, our licenses and other authorizations necessary for our communications operations may be suspended or terminated. A suspension or termination of our licenses or other necessary governmental authorizations could have a material adverse effect on our business and results of operations.

Failure to renew our licenses or receive renewed licenses with similar terms to our existing licenses could have a material adverse effect on our business and results of operations.

Our licenses expire in various years from 2006 to 2013 and may be renewed in Russia upon application to the Federal Service for Supervision in the Area of Communications. Government officials have broad discretion in deciding whether to renew a license, and may not renew our licenses after expiration. If our licenses are renewed, they may be renewed with additional obligations.

In addition, the license requirements in our current licenses may not comply with the requirements set forth in the new regulations effective from January 1, 2006. Although such non-compliance may not invalidate our licenses, the Federal Service for Supervision in the Area of Communications requires communications operators to apply for amendments of all their licenses granted prior to January 1, 2004. We were not able to have all our licenses issued prior to January 1, 2004 amended prior to January 1, 2006.

Failure to renew our licenses or receive renewed licenses with similar terms to our existing licenses could significantly limit our operations, which could have a material adverse effect on our business and results of operations.

Because of limitations on the rights of license holders and the need to have a license reissued in the event of a merger, our ability to integrate our networks may be restricted, thus preventing us from offering integrated network services.

The Communications Law and other communications regulations prohibit the transfer or assignment of licenses and require that communications services must be provided by the licensee only. Further, applicable regulations require that agreements for the provision of communications services must be concluded and performed only by the licensee. This requirement will be an important factor for any future acquisitions. As we are unable to buy licenses, we must instead purchase the company holding the license. We must also continue to operate through such company in our license area by entering into agency, lease, services and similar agreements.

Additionally, Russian law requires that, in the event of a merger, a license held by either of the merging entities must be reissued to the successor entity, rather than simply transferred. We may merge with our subsidiaries as part of our efforts to integrate our networks; however, a failure to receive a new license as part of a merger would result in the loss of our ability to operate in that license area. For example, we intend to merge MTU-Inform and Telmos (each of which holds certain licenses) with Comstar UTS in the course of 2006 and 2007. As a result, we face the risk of our licenses not being transferred, renewed, registered or extended in connection with these further restructuring steps. See "Business—The Restructuring."

MGTS is subject to extensive regulation of its tariffs, and these tariffs may not fully compensate us for the cost of providing required services.

As the PSTN operator in Moscow, MGTS is considered a monopoly under Russian anti-monopoly regulations. Consequently, the Federal Tariff Service regulates MGTS' tariffs for most services provided to its PSTN subscribers, including installation fees, monthly subscription fees (for subscribers to the unlimited tariff plan) and local call charges (for subscribers who do not use the unlimited tariff plan).

The tariffs currently set by the Federal Tariff Service are sufficient to compensate us for the costs of providing these and other services to residential and government subscribers. However, there is no guarantee that future tariffs will be set at a level that fully compensates us for the provision of these services or that tariffs will be increased in parallel with corresponding increases in our costs and/or inflation. Although we are permitted to petition the Federal Tariff Service for increases in tariffs based on such criteria as inflation, increased costs and the need for network investments, we cannot assure you that any requested increases will be granted or that the Federal Tariff Service will adequately take such factors into account in setting tariffs. If the tariffs applicable to MGTS do not compensate us for the cost of providing services, our business and results of operations could be materially adversely affected.

We do not carry the types of insurance coverage customary in more economically developed countries for a business of our size and nature, and a significant event could result in substantial property loss and inability to rebuild in a timely manner or at all.

The insurance industry is not yet well developed in Russia, and many forms of insurance protection common in more economically developed countries are not yet available in Russia on comparable terms, including coverage for business interruption. We maintain insurance against some, but not all, potential risks and losses affecting our operations. We cannot assure you that our insurance will be adequate to cover all of our losses or liabilities. We also can provide no assurance that insurance will continue to be available to us on commercially reasonable terms. At present, we have no coverage for business interruption or loss of key management personnel. In the event that a significant event were to affect one of our facilities or networks, we could experience substantial property loss and significant disruptions in the provision of our services, for which we would not be compensated. Additionally, depending on the severity of the property damage, we may not be able to rebuild damaged property in a timely manner or at all. We do not maintain separate funds or otherwise set aside reserves for these types of events. Any such loss or third-party claim for damages may have a material adverse effect on our business, results of operations and financial condition.

Risks Relating to Our Financial Condition

If we are unable to obtain adequate capital, we may have to limit our operations substantially, which could have a material adverse effect on our business, results of operations and prospects.

We will need to make significant capital expenditures in our business. We spent approximately $150.3 million during the nine months ended September 30, 2005 and expect to spend approximately $374.3 million in 2006 for the fulfillment of our capital spending plans, excluding spending for acquisitions. These future capital expenditure estimates are predictions and are subject to change. In addition, we may not be able to meet our planned capital spending needs in the event of the following potential developments:

- a lack of external financing sources;
- changes in the terms of existing financing arrangements;
- pursuit of new business opportunities or investment in existing businesses that require significant investment;
- slower than anticipated subscriber growth;
- slower than anticipated revenue growth;
- regulatory developments;
- changes in existing interconnection arrangements; or
- a deterioration in the Russian economy.

To meet our financing requirements, we may need to attract additional equity or debt financing. Russian companies are limited in their ability to issue shares in the form of GDRs or other depositary receipts due to Russian securities regulations, which generally provide that no more than 40% of a Russian company's shares may be circulated abroad through depositary receipt programs. Moreover, the FSFM has announced that the 40% limit will be reduced to 35%. We have received permission from the FSFM for up to 35% of our shares to be circulated abroad through depositary receipt programs. We expect that our GDR program will account for approximately 33% of our shares as a result of the offering, not including the approximately 2% of our shares being sold by the Selling Shareholder which may be deposited in the GDR program following the registration of the placement report. As a result, we are unlikely to be able to raise additional equity financing through GDRs. The Russian government or its agencies may also impose other restrictions on international securities offerings by Russian issuers. Any of the foregoing factors may limit the amount of capital available to meet our operating requirements. If we cannot obtain adequate funds to satisfy our capital requirements, we may need to limit our operations significantly, which could have a material adverse effect on our business, results of operations and prospects.

From time to time, we may merge certain subsidiaries for operational reasons. Under Russian law, such mergers would be considered a reorganization and the merged subsidiaries would be required to notify their creditors of this reorganization. Russian law also provides that, for a period of 30 days after notice, these creditors would have a right to accelerate the merged subsidiaries' indebtedness and demand reimbursement for applicable losses. In the event that we decide to undertake any such merger and all or part of certain of our subsidiaries' indebtedness is accelerated, we and such subsidiaries may not have the ability to raise the funds necessary for repayment and our business and financial condition could be materially adversely affected.

Servicing and refinancing of our indebtedness will require a significant amount of cash. Our ability to generate cash or obtain financing depends on many factors beyond our control.

We have a substantial amount of outstanding indebtedness, primarily consisting of the obligations we entered into in connection with bank loans and ruble-denominated bonds. As of September 30, 2005, our combined total debt, including capital lease obligations and the debt of our subsidiaries, was approximately $218.3 million.

Our ability to service, repay and refinance our indebtedness and to fund planned capital expenditures and future investments will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, we may default under the terms of our indebtedness, and the holders of our indebtedness would be able to accelerate the maturity of such indebtedness, which could cause defaults under, and potential acceleration of, our other indebtedness.

We may not be able to generate sufficient cash flow or access international capital markets or incur additional indebtedness to enable us to service or repay our indebtedness or to fund our other liquidity needs. We may be required to refinance a portion of our indebtedness on or before maturity, sell assets, reduce or delay capital expenditures or seek additional capital. We cannot assure you that any refinancing or additional financing would be available on commercially reasonable terms or at all, or whether our assets could be sold, or if sold, whether the proceeds therefrom would be sufficient to meet our debt service obligations. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance debt on commercially reasonable terms, could materially adversely affect our business, financial condition, results of operations and prospects. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

Certain of our loan agreements and the indentures of our controlling shareholder contain restrictive covenants.

Certain of our loan agreements contain covenants limiting our ability to incur and assume debt and requiring us to maintain a certain minimum EBITDA/interest expense ratio. Failure to comply with these covenants could cause a default and result in the debt becoming immediately due and payable, which would materially adversely affect our business, financial condition and results of operations.

In addition, Sistema, which will own directly and indirectly 64.9% of our outstanding shares following the offering (including the shares subject to a share repurchase transaction) and consolidates our results in its financial statements, is subject to various covenants in the indentures related to its outstanding notes. The covenants impose restrictions on Sistema and its restricted subsidiaries (including us) with respect to, among other things, incurrence of indebtedness, creation of liens and disposal of assets. In these indentures, Sistema undertakes that it will not, and will not permit its restricted subsidiaries (including us) to, incur indebtedness unless a certain debt/EBITDA (as defined therein) ratio is met. In addition to us, Sistema has other businesses that require capital and, therefore, the consolidated Sistema group's capacity to incur indebtedness otherwise available to us could be diverted to its other businesses. Sistema may also enter into other agreements in the future that may further restrict it and its restricted subsidiaries (including us) from engaging in these and other activities. We expect Sistema to exercise its control over us in order for Sistema, as a consolidated group, to meet its covenants, which could materially limit our ability to conduct our operations, including the implementation of our business strategy.

We may lose control over shares of subsidiaries that currently are or may in the future become pledged to secure our credit facilities and other financings.

In past financings, we have pledged a significant percentage of shares we hold in some of our subsidiaries, including MGTS. Any enforcement of such pledges could cause us to lose operational control over, and ultimately our shareholdings in, such subsidiaries.

Devaluation of the ruble against the US dollar could increase our costs and reduce our operating revenues.

A significant portion of our costs, expenditures and liabilities, including capital expenditures and borrowings, are either denominated in, or closely linked to, the US dollar, while substantially all of our operating revenues are denominated in rubles. As a result, the devaluation of the ruble against the US dollar can adversely affect us by increasing our costs in ruble terms. In order to hedge against this risk, we link the prices for certain of our products and services, which are payable in rubles, to the US dollar. The effectiveness of this hedge is limited, however, as we may not be able to increase prices in line with ruble devaluation against the US dollar due to competitive pressures or regulatory restrictions, leading to a loss of operating revenues in US dollar terms. Additionally, if the ruble declines against the US dollar and price increases cannot keep pace, we could have difficulty repaying or refinancing our US dollar-denominated indebtedness. The devaluation of the ruble also results in losses in the value of ruble-denominated assets, such as ruble deposits. In order to hedge against this risk, we invest a significant portion of our cash in US dollar-denominated deposits.

The decline in the value of the ruble against the US dollar also reduces the US dollar value of tax savings arising from the depreciation of our property, plant and equipment, since their basis for tax purposes is denominated in rubles at the time of the investment. Increased tax liability would increase total expenses.

Inflation could increase our costs and decrease our operating margins.

The Russian economy has been characterized by high rates of inflation. In 2005, the inflation rate of 10.9%, according to Rosstat, combined with the nominal appreciation of the ruble, also resulted in the appreciation of the ruble against the US dollar in real terms. As we tend to experience inflation-driven increases in certain of our costs, including salaries and rents, which are sensitive to rises in the general price level in Russia, our costs in US dollar terms will rise. In this situation, due to competitive pressures, we may not be able to raise the prices we charge for our products and services sufficiently to preserve operating margins. Accordingly, high rates of inflation in Russia could increase our costs and decrease our operating margins.

Limitations on the conversion of rubles to foreign currencies in Russia could increase our costs when making payments in foreign currencies to suppliers and creditors and could cause us to default on our obligations to them.

Many of our major capital expenditures are denominated and payable in various foreign currencies, including the US dollar and euro. Russian legislation currently permits the conversion of ruble revenues into foreign currency. However, the market in Russia for the conversion of rubles into foreign currencies is limited and may not continue to exist.

Additionally, any delay or other difficulty in converting rubles into a foreign currency to make a payment or delay in or restriction on the transfer of foreign currency could limit our ability to meet our payment and debt obligations, which could result in the loss of suppliers, acceleration of debt obligations and cross-defaults and, consequently, have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to the Russian Federation

Emerging markets such as the Russian Federation are subject to greater risks than more developed markets, including significant legal, economic and political risks.

Investors in emerging markets such as the Russian Federation should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies such as the economy of the Russian Federation are subject to rapid change and that the information set out herein may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisors before making an investment in the shares and GDRs.

Economic Risks

The Russian economy is less stable than those of most Western countries and could adversely affect our business and the value of the shares and GDRs.

Since the dissolution of the Soviet Union in the early 1990s, the Russian economy has experienced at various times:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high government budget deficit and government debt relative to gross domestic product;
- a weak banking system providing limited liquidity to domestic enterprises;
- high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of a black and gray market economy;
- pervasive capital flight;
- high levels of corruption and the penetration of organized crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the population.

Although Russia has benefited recently from the increase in global commodity prices, providing an increase in disposable income and an increase in consumer spending, the Russian economy has been subject to abrupt downturns in the past. In particular, on August 17, 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its ruble-denominated securities, the Central Bank of Russia stopped its support of the ruble and a temporary moratorium was imposed on certain foreign currency payments. These actions resulted in an immediate and severe devaluation of the ruble and a sharp increase in the rate of inflation; a substantial decline in the prices of Russian debt and equity securities; and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by a major banking crisis in the Russian banking sector after the events of August 17, 1998, as evidenced by the termination of the banking licenses of a number of major Russian banks. This further impaired the ability of the banking sector to act as a consistent source of liquidity to Russian companies and resulted in the losses of bank deposits in some cases.

Recently, the Russian economy has experienced positive trends, such as the increase in the gross domestic product, a relatively stable ruble, strong domestic demand, rising real wages and a reduced rate of inflation; however, these trends may not continue or may be abruptly reversed.

The Russian banking system remains underdeveloped, and another banking crisis could place severe liquidity constraints on our business.

Russia's banking and other financial systems are less developed or regulated in comparison with other countries, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent application. The August 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. Many Russian banks currently do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags far behind internationally accepted norms. Aided by inadequate supervision by the regulators, certain banks do not follow existing Central Bank of Russia regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. Furthermore, in Russia, bank deposits made by corporate entities generally are not insured.

Recently, there has been a rapid increase in lending by Russian banks, which many believe has been accompanied by a deterioration in the credit quality of the borrowers. In addition, a robust domestic corporate debt market is leading to Russian banks increasingly holding large amounts of Russian corporate ruble bonds in their portfolios, which is further deteriorating the risk profile of Russian bank assets. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. In addition, the Central Bank of Russia has from time to time revoked the licenses of certain Russian banks, which resulted in market rumors about additional bank closures and many depositors withdrawing their savings. If a banking crisis were to occur, Russian companies would be subject to severe liquidity constraints due to the limited supply of domestic savings and the withdrawal of foreign funding sources that would occur during such a crisis.

There is currently a limited number of sufficiently creditworthy Russian banks. We hold the bulk of our excess ruble and foreign currency cash in Russian banks, including subsidiaries of foreign banks, in part, because we are required to do so by Central Bank of Russia regulations and because the ruble is not transferable or convertible outside of Russia. There are few, if any, safe ruble-denominated instruments in which we may invest our excess ruble cash. Another banking crisis or the bankruptcy or insolvency of the banks from which we receive or with which we hold our funds could result in the loss of our deposits or affect our ability to complete banking transactions in Russia, which could have a material adverse effect on our business, financial condition and results of operations.

The infrastructure in Russia is inadequate, which could disrupt normal business activity.

The infrastructure in Russia largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Particularly affected are the rail and road networks, power generation and transmission systems, communication systems and building stock. In May 2005, a fire and explosion in one of the Moscow power substations built in 1963 caused a major power outage in a large section of Moscow and some surrounding regions. The blackout disrupted the ground electric transport, including the metro system, led to road traffic accidents and massive traffic congestion, disrupted electricity and water supply in office and residential buildings and affected mobile communications. The trading on exchanges and the operation of many banks, stores and markets were also halted.

The deterioration of the infrastructure in Russia harms the national economy, disrupts the transportation of goods and supplies, adds costs to doing business and can interrupt business operations. The Russian government is actively considering plans to reorganize the nation's rail, electricity and communications systems. Any such reorganization may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. These factors could have a material adverse effect on our business and results of operations.

Fluctuations in the global economy could materially adversely affect the Russian economy and the value of the shares and GDRs.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and Russian businesses could face severe liquidity constraints, further materially adversely affecting the Russian economy. Additionally, because Russia produces and exports large amounts of oil, the Russian economy is especially vulnerable to the price of oil on the world market and a decline in the price of oil could slow or disrupt the Russian economy or undermine the value of the ruble against foreign currencies. Recent military conflicts and international terrorist activity have also significantly impacted oil and gas prices, and pose additional risks to the Russian economy. Russia is also a major producer and exporter of metal products and its economy is vulnerable to fluctuations in world commodity prices and the imposition of tariffs and/or antidumping measures by the United States, the European Union or by other principal export markets.

Political and Social Risks

Political and governmental instability could materially adversely affect our business, financial condition, results of operations and prospects and the value of the shares and GDRs.

Since 1991, Russia has sought to transform itself from a one-party state with a centrally-planned economy to a democracy with a market economy. As a result of the sweeping nature of the reforms, and the failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatizations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups.

Current and future changes in the government, major policy shifts or lack of consensus between various branches of the government and powerful economic groups could disrupt or reverse economic and regulatory reforms. In addition, the Russian presidential elections scheduled for 2008 could bring more volatility to the market. Any disruption or reversal of reform policies could lead to political or governmental instability or the occurrence of conflicts among powerful economic groups, which could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of the shares and GDRs.

Conflict between central and regional authorities and other conflicts could create an uncertain operating environment, hindering our long-term planning ability.

The Russian Federation is a federation of 88 sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatization, land legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus hinders our long-term planning efforts and creates uncertainties in our operating environment, both of which may prevent us from effectively and efficiently implementing our business strategy.

Additionally, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, such as the continuing conflict in Chechnya, which has brought normal economic activity within Chechnya to a halt and disrupted the economies of neighboring regions. Various armed groups in Chechnya have regularly engaged in guerrilla attacks in that area. Violence and attacks relating to this conflict have spread to other parts of Russia, and several terrorist attacks have been carried out by Chechen terrorists in other parts of Russia, including in Moscow. The further intensification of violence, including terrorist attacks and suicide bombings, or its spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures are likely to cause disruptions to domestic commerce and exports from Russia. These factors could materially adversely affect our business and the value of the shares and GDRs.

Crime and corruption could disrupt our ability to conduct our business.

The political and economic changes in Russia in recent years have resulted in significant dislocations of authority. The local and international press have reported that significant organized criminal activity has arisen, particularly in large metropolitan centers. Property crime in large cities has increased substantially. In addition, the local press and international press have reported high levels of corruption, including the bribing of officials for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials engaged in selective investigations and prosecutions to further the commercial interests of government officials or certain individuals. Additionally, some members of the Russian media regularly publish disparaging articles in return for payment. The depredations of organized or other crime, demands of corrupt officials or claims that we have been involved in official corruption could result in negative publicity, could disrupt our ability to conduct our business effectively and could thus materially adversely affect our financial condition and results of operations and the value of the shares and GDRs.

Social instability could increase support for renewed centralized authority, nationalism or violence and thus materially adversely affect our business, financial condition, results of operations and prospects.

The failure of the government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labor and social unrest. Labor and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralized authority, increased nationalism, including restrictions on foreign involvement in the economy of Russia, and increased violence. An occurrence of any of the foregoing events could restrict our operations and lead to the loss of operating revenues, materially adversely affecting our business, financial condition, results of operations and prospects.

Legal Risks and Uncertainties

Weaknesses relating to the legal system and legislation create an uncertain environment for investment and business activity.

Russia is still developing the legal framework required to support a market economy. The following risk factors relating to the Russian legal system create uncertainties with respect to the legal and business decisions that we make, many of which uncertainties do not exist in countries with more developed market economies:

- inconsistencies between and among the Constitution, federal law, presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;
- conflicting local, regional and federal rules and regulations;
- the lack of judicial and administrative guidance on interpreting legislation;
- the relative inexperience of judges and courts in interpreting legislation;
- the lack of an independent judiciary;
- a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions such as suspension or termination of our licenses; and
- poorly developed bankruptcy procedures that are subject to abuse.

Furthermore, several fundamental laws have only recently become effective. The recent nature of much of Russian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Russian legal system in ways that may not always coincide with market developments place the enforceability and underlying constitutionality of laws in doubt and results in ambiguities, inconsistencies and anomalies. In addition, Russian legislation often contemplates implementing regulations which have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect our ability to enforce our rights under our licenses and under our contracts, or to defend ourselves against claims by others. We cannot assure you that regulators, judicial authorities or third parties will not challenge our compliance with applicable laws, decrees and regulations.

Failure to comply with existing laws and regulations or the findings of government inspections, or increased governmental regulation of our operations, could result in substantial additional compliance costs or various sanctions or court judgments which could materially adversely affect our business, financial condition, results of operations and prospects.

Our operations and properties are subject to regulation by various government entities and agencies in connection with obtaining and renewing various licenses, permits, approvals and authorizations, as well as with ongoing compliance with existing laws, regulations and standards. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licenses, permits, approvals and authorizations and in monitoring licensees' compliance with the terms thereof. Russian authorities have the right to, and frequently do, conduct periodic inspections of our operations and properties throughout the year. Any such future inspections may conclude that we or our subsidiaries have violated laws, decrees or regulations, and we may be unable to refute such conclusions or remedy the violations.

Our failure to comply with existing laws and regulations or the findings of government inspections may result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of our licenses, permits, approvals and authorizations or in requirements that we cease certain of our business activities, or in criminal and administrative penalties applicable to our officers. Moreover, an agreement made or transaction executed in violation of a law may be invalidated and unwound by a court decision. Any such decisions, requirements or sanctions, or any increase in governmental regulation of our operations, could increase our costs and materially adversely affect our business, financial condition, results of operations and prospects.

One or more of our subsidiaries could be forced into liquidation on the basis of formal non-compliance with certain requirements of Russian law, which could materially adversely affect our business, financial condition, results of operations and prospects.

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation, reorganization or during its operation. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used by Russian courts as a basis for liquidation of a legal entity. For example, in Russian corporate law, negative net assets calculated on the basis of Russian accounting standards as at the end of the second or any subsequent year of a company's operation, can serve as a basis for a court to order the liquidation of the company, upon a claim by governmental authorities. Many Russian companies have negative net assets due to very low historical asset values reflected on their Russian accounting standards balance sheets; however, their solvency, *i.e.*, their ability to pay debts as they come due, is not otherwise adversely affected by such negative net assets.

We currently do not have any subsidiaries with negative net assets. However, weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. If involuntary liquidation were to occur, then we may be forced to reorganize the operations we currently conduct through the affected subsidiaries. Any such liquidation could lead to additional costs, which could materially adversely affect our business, financial condition, results of operations and prospects.

The judiciary's lack of independence, overall inexperience, occasional abuse of discretion, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent us or you from obtaining effective redress in a court proceeding.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia remain largely untested. The court system in Russia is understaffed and underfunded. Judges and courts are generally inexperienced in the area of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all Russian legislation and court decisions are readily available to the public or organized in a manner that facilitates understanding. The Russian judicial system can be slow or unjustifiably swift. Enforcement of court orders can, in practice, be very difficult in Russia. Additionally, court claims are often used in furtherance of political and commercial aims or infighting. We may be subject to such claims and may not be able to receive a fair hearing. Additionally, court orders are not always enforced or followed by law enforcement agencies, and the government may attempt to invalidate court decisions by backdating or retroactively applying relevant legislative changes. Judicial decisions in Russia can be unpredictable and may not provide effective redress.

These uncertainties also extend to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalization. However, it is possible that due to the lack of experience in enforcing these provisions and due to political factors, these protections would not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of our entities, their assets or portions thereof, potentially without adequate compensation, would have a material adverse effect on our business, financial condition, results of operations and prospects.

The regulatory environment in Russia is uncertain and subject to political influence or manipulation, which could result in negative and arbitrary regulatory and other decisions against us on the basis of considerations other than legal considerations and may also result in preferential treatment for our competitors.

We operate in an uncertain regulatory environment. The legal framework with respect to the communications industry is not comprehensive and a number of laws, decrees and regulations apply. The Ministry of Information Technologies and Communications regulates the communications industry largely through the issuance of licenses, regulations and instructions. The regulatory officials and the tax authorities have a high degree of discretion. In this environment, political influence or manipulation could be used to affect regulatory, tax and other decisions against us on the basis of considerations other than legal considerations.

Selective or arbitrary government action could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of the shares and GDRs.

Governmental authorities in Russia have a high degree of discretion and, at times, act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that is inconsistent with legislation or influenced by political or commercial considerations. Selective or arbitrary governmental actions have reportedly included the denial or withdrawal of licenses, sudden and unexpected tax audits and claims, criminal prosecutions and civil actions. Federal and local government entities have also used ordinary defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations or to void transactions. Moreover, the government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Standard & Poor's, a provider of independent credit ratings, has expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups." In this environment, our competitors may receive preferential treatment from the government, potentially giving them a competitive advantage over us.

In addition, recently, the Russian tax authorities aggressively have brought tax evasion claims on the basis of certain Russian companies' use of tax-optimization schemes, and press reports have speculated that these enforcement actions have been selective and politically motivated. Selective or arbitrary government action, if directed at us, could have a material adverse effect on our business, financial condition, results of operations and prospects, and the value of the shares and GDRs.

Lack of developed corporate and securities laws and regulations in Russia could limit our ability to attract future investment.

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United States and Western Europe. Securities laws, including those relating to corporate governance, disclosure and reporting requirements, have only recently been adopted, whereas laws relating to anti-fraud safeguards, insider trading restrictions and fiduciary duties are rudimentary. In addition, the Russian securities market is regulated by several different authorities, which are often in competition with each other. These include:

- the FSFM;
- the Ministry of Finance;

- the Russian Federal Anti-Monopoly Service, or FAS;
- the Central Bank of the Russian Federation; and
- various professional self-regulatory organizations.

The regulations of these various authorities are not always coordinated and may be contradictory.

In addition, Russian corporate and securities rules and regulations can change rapidly, which may materially adversely affect our ability to conduct securities-related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to our group. As a result, we may be subject to fines and/or other enforcement measures despite our best efforts at compliance.

Because there is little minority shareholder protection in Russia, your ability to bring, or recover in, an action against us will be limited.

In general, minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for certain corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of actions. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. See "Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital" for a more detailed description of some of these protections. While these protections are similar to the types of protections available to minority shareholders in US corporations, in practice, corporate governance standards for many Russian companies have proven to be poor, and minority shareholders in Russian companies have suffered losses due to abusive share dilutions, asset transfers and transfer pricing practices. Shareholder meetings have been irregularly conducted, and shareholder resolutions have not always been respected by management. Shareholders of some companies also suffered as a result of fraudulent bankruptcies initiated by hostile creditors.

The supermajority shareholder approval requirement is met by a vote of 75% of all voting shares that are present at a shareholders' meeting. Thus, controlling shareholders owning slightly less than 75% of outstanding shares of a company may have a 75% or more voting power if certain minority shareholders are not present at the meeting. In situations where controlling shareholders effectively have 75% or more of the voting power at a shareholders' meeting, they are in a position to approve amendments to the charter of the company or significant transactions including asset transfers, which could be prejudicial to the interests of minority shareholders. It is possible that our controlling shareholder and our management in the future may not run us and our subsidiaries for the benefit of minority shareholders, and this could have a material adverse effect on the value of the shares and GDRs.

Disclosure and reporting requirements, as well as anti-fraud legislation, have only recently been enacted in Russia. Most Russian companies and managers are not accustomed to restrictions on their activities arising from these requirements. The concept of fiduciary duties of management or directors to their companies and shareholders is also relatively new and is not well developed. Violations of disclosure and reporting requirements or breaches of fiduciary duties to us and our subsidiaries or to our shareholders could have a material adverse effect on the value of the shares and GDRs.

While the Federal Law on Joint Stock Companies, or the Joint Stock Companies Law, provides that shareholders owning not less than 1% of the company's stock may bring an action for damages on behalf of the company, Russian courts to date do not have much experience with such lawsuits. Russian law does not contemplate class action litigation. Accordingly, your ability to pursue legal redress against us may be limited, reducing the protections available to you as a holder of the shares and GDRs.

Shareholder liability under Russian legislation could cause us to become liable for the obligations of our subsidiaries.

The Civil Code and the Joint Stock Companies Law, generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company and bear only the risk of loss of their investment. This may not be the case, however, when one person is capable of determining decisions made by another person or entity. The person or entity capable of determining such decisions is deemed an "effective parent." The person whose decisions are capable of being so determined is deemed an "effective subsidiary." Under the Joint Stock Companies Law, an effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the companies; and
- the effective parent gives obligatory directions to the effective subsidiary.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the action or inaction of an effective parent. This is the case no matter how the effective parent's ability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent which caused the effective subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses. Accordingly, we could be liable in some cases for the debts of our subsidiaries. This liability could have a material adverse effect on our business, results of operations and financial condition.

Shareholder rights provisions under Russian law could result in significant additional obligations on us.

Russian law provides that shareholders that vote against or abstain from voting on certain matters have the right to sell their shares to the company at market value in accordance with Russian law. The decisions that trigger this right to sell shares include:

- decisions with respect to a reorganization;
- the approval by shareholders of a "major transaction," which, in general terms, is a transaction involving property worth more than 50% of the gross book value of our assets calculated according to Russian accounting standards, regardless of whether the transaction is actually consummated; and
- the amendment of our charter in a manner that limits shareholder rights.

Our (or, as the case may be, our subsidiaries') obligation to purchase shares in these circumstances, which is limited to 10% of the company's net assets calculated in accordance with Russian accounting standards at the time the matter at issue is voted upon, could have a material adverse effect on our business, financial condition, results of operations and prospects.

The lack of a central and rigorously regulated share registration system in Russia may result in improper record ownership of our shares, including the shares underlying the GDRs.

Ownership of Russian joint stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no central registration system in Russia. Share registers are maintained by the companies themselves or, if a company has more than 50 shareholders or so elects, by licensed registrars located throughout Russia. Regulations have been issued regarding the licensing conditions for such registrars, as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalization and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence, official and unofficial governmental actions or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets. Further, the Depositary, under the terms of the Deposit Agreements, will not be liable for the unavailability of shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the shares. See "Description of

Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital—Registration and Transfer of Shares" and "Description of the Global Depositary Receipts—Russian Share Register" for a further discussion of the share registration system and registrars in the Russian Federation.

Characteristics of and changes in the Russian tax system could materially adversely affect our business, financial condition, results of operations and prospects and the value of the shares and GDRs.

Generally, taxes payable by Russian companies are substantial and numerous. These taxes include, among others:

- income taxes;
- value-added tax, or VAT;
- unified social tax; and
- property tax.

The tax environment in Russia historically has been complicated by the fact that various authorities have often issued contradictory tax legislation. This uncertainty potentially exposes us to significant fines and penalties and enforcement measures despite our best efforts at compliance, and could result in a greater than expected tax burden and the suspension or termination of our licenses.

Recently, there have been significant changes to the Russian taxation system. Global tax reforms commenced in 1999 with the introduction of Part One of the Tax Code of the Russian Federation, or the Tax Code, which sets general taxation guidelines. Since then, Russia has been in the process of replacing legislation regulating the application of major taxes such as corporate income tax, VAT and property tax with new chapters of the Tax Code.

In practice, the Russian tax authorities generally interpret the tax laws in ways that rarely favor taxpayers, who often have to resort to court proceedings to defend their position against the tax authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretations of the legislation and assessments. Differing interpretations of tax regulations exist both among and within government ministries and organizations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Generally, in an audit taxpayers are subject to inspection with respect to the three calendar years which immediately proceeded the year in which the audit is carried out. Previous audits do not completely exclude subsequent claims relating to the audited period because Russian tax law authorizes upper-level tax inspectorates to review the results of tax audits conducted by subordinate tax inspectorates. In addition, on July 14, 2005, the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three-year term set forth in the tax laws if a court determines that a taxpayer has obstructed or hindered a tax audit. Because none of the relevant terms are defined, tax authorities may have broad discretion to argue that a taxpayer has "obstructed" or "hindered" an audit and ultimately seek penalties beyond the three-year term. In some instances, new tax regulations have been given retroactive effect.

Moreover, financial results of Russian companies cannot be consolidated for tax purposes. Therefore, each of our Russian subsidiaries pays its own Russian taxes and may not offset its profit or loss against the loss or profit of any of our other subsidiaries. In addition, intercompany dividends are subject to a withholding tax of 9%, if being distributed to Russian companies, and 15%, if being distributed to foreign companies. If the receiving company itself pays a dividend, it may offset tax withheld against its own withholding liability of the onward dividend although not against any withholding made on a distribution to a foreign company. These tax requirements impose additional burdens and costs on our operations, including management resources.

The foregoing conditions create tax risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on our operations, including management resources. In addition to our substantial tax burden, these risks and uncertainties complicate our tax planning and related business decisions, potentially exposing us to significant fines and penalties and enforcement measures despite our best efforts at compliance. See also "—Risks Relating to the Russian Federation—Legal Risks and Uncertainties—Selective or arbitrary government action could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of the shares and GDRs."

Russian currency control regulations could hinder our ability to conduct our business.

The Central Bank of Russia has from time to time imposed various currency control regulations, and may take further actions in the future. Furthermore, the government and the Central Bank of Russia may impose additional requirements on cash inflows and outflows into and out of Russia or on the use of foreign currency in Russia, which could prevent us from carrying on necessary business transactions, or from successfully implementing our business strategy.

A new framework law on exchange controls took effect on June 18, 2004. This law empowers the government and the Central Bank of Russia to further regulate and restrict currency control matters, including operations involving foreign securities and foreign currency borrowings by Russian companies. The new law also abolished the need for companies to obtain transaction-specific licenses from the Central Bank of Russia, envisaging instead the implementation of generally applicable restrictions on currency operations. The new regulatory regime continues to be restrictive.

Risks Relating to the GDRs, the Shares and the Trading Market

Because the Depositary may be considered the beneficial holder of the shares underlying the GDRs, these shares may be arrested or seized in legal proceedings in Russia against the Depositary.

Because Russian law may not recognize GDR holders as beneficial owners of the underlying shares, it is possible that holders of GDRs could lose all their rights to those shares if the Depositary's assets in Russia are seized or arrested. In that case, holders of GDRs would lose all the money they invested.

Russian law may treat the Depositary as the beneficial owner of the shares underlying the GDRs. This is different from the way other jurisdictions treat GDRs. In the United States, although shares may be held in the Depositary's name or to its order, making it a "legal" owner of the shares, the GDR holders are the "beneficial," or real owners. In US courts, an action against the Depositary would not result in the beneficial owners losing their shares. Russian law may not make the same distinction between legal and beneficial ownership, and it may only recognize the rights of the Depositary in whose name the shares are held, not the rights of GDR holders, to the underlying shares. Thus, in proceedings brought against a depositary, whether or not related to shares underlying GDRs, Russian courts may treat those underlying shares as the assets of the depositary, open to seizure or arrest. In the past, a lawsuit was filed against a depositary bank other than Deutsche Bank Trust Company Americas seeking the seizure of various Russian companies' shares represented by GDRs issued by that depositary. In the event that this type of suit were to be successful in the future against the Depositary, and the shares underlying our GDRs were to be seized or arrested, the GDR holders involved would lose their rights to such underlying shares.

GDR holders will not be able to withdraw the shares underlying the GDRs prior to the registration of a placement report for the newly issued shares, and the failure to register this placement report could result in the newly issued shares underlying the GDRs being cancelled, reliance by GDR holders on us and the Underwriters to return the offering proceeds and a small public float based solely on the shares sold by the Selling Shareholder.

Under the terms of the Deposit Agreements, all GDRs shall be deemed to be issued on a provisional basis until the placement report is registered by the FSFM in respect of the newly issued shares of Comstar UTS. Until the placement report is registered, GDR holders will not be able to withdraw the shares underlying their GDRs or instruct the Depositary to exercise voting rights with respect to the shares that underlie their GDRs, as they would ordinarily be able to do. The form of the placement report requires us to disclose information about the recipients of the newly issued shares and the total number of shares actually placed. For purposes of such disclosure requirements, we will name the Depositary as the recipient of the newly issued shares. Russian law requires that we file the placement report within 30 days following the placement, and we intend to file the placement report as soon as practicable following the closing of the offering. The FSFM is statutorily required to make its decision within two weeks after we file the placement report but it may take longer or the registration of the placement report may not occur at all.

The FSFM may refuse to register the placement report if, among other things, we violated Russian law in the issuance process and a Russian court may also hold the placement invalid for such violations. In the event that the placement report is not registered by the FSFM within 60 days after the Closing Date (or such later date to which we and the Selling Shareholder agree with the Underwriters), we will issue a press release and notify the Depositary and the London Stock Exchange. Under Russian law, in the case of non-registration of the placement report we are required to return the full amount of ruble proceeds that were initially deposited into our ruble-denominated account on the Closing Date. Such ruble amount will be converted into US dollars for remittance to the holders of the GDRs. We have agreed in the Underwriting Agreement that we will pay such additional amounts (if any) as may be necessary to ensure that the US dollar funds received by the Depositary for remittance to the holders of GDRs will be equal to the gross US dollar proceeds received from the sale of GDRs, except for the underwriting commissions related to the GDRs, which the Underwriters have agreed to return. The Depositary will promptly distribute through DTC, Euroclear and Clearstream, as applicable, the funds it has received to the holders of the GDRs. The amount returned to the holders of the GDRs is expected to be equal to the gross proceeds (without interest) of the offering of GDRs, regardless of the then-prevailing market prices for the GDRs, subject to applicable withholding taxes. However, the return of funds may be delayed due to Russian currency control, banking and securities regulations or practices and may be prevented if there is a change in such regulations or practices. In addition, the holders of the GDRs will be taking credit risk on us and the Underwriters for the return of funds in the event that the placement report is not registered.

The shares being offered by the Selling Shareholder will not be cancelled, and the proceeds of the offering of the shares by the Selling Shareholder will not be refunded, in case the placement report is not registered, which will result in a small public float based solely on the shares sold by the Selling Shareholder.

Voting rights with respect to the shares represented by the GDRs are limited by the terms of the Deposit Agreements for the GDRs and relevant requirements of Russian law.

GDR holders will have no direct voting rights with respect to the shares represented by the GDRs. They will be able to exercise voting rights with respect to the shares represented by GDRs only in accordance with the provisions of the Deposit Agreements relating to the GDRs and relevant requirements of Russian law. Therefore, there are practical limitations upon the ability of GDR holders to exercise their voting rights due to the additional procedural steps involved in communicating with them. For example, the Joint Stock Companies Law and our charter require us to notify shareholders no less than 30 days prior to the date of any meeting and at least 50 days prior to the date of an extraordinary meeting to elect our Board of Directors. Our ordinary shareholders will receive notice directly from us and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

GDR holders by comparison, will not receive notice directly from us. Rather, in accordance with the Deposit Agreements, we will provide the notice to the Depositary. The Depositary has undertaken, in turn, if requested by us in writing in a timely manner and at our expense, and provided there are no US, English or Russian legal prohibitions (including, without limitation, the listing rules and prospectus rules of the UK Listing Authority and the admission and disclosure standards of the London Stock Exchange or the rules of any Russian stock exchange on which the shares are listed), to distribute to GDR holders notice of such meeting, copies of voting materials (if and as received by the Depositary from us) and a statement as to the manner in which instructions may be given by GDR holders. To exercise their voting rights, GDR holders must then instruct the Depositary how to vote the shares represented by the GDRs they hold. Because of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of the shares and we cannot assure GDR holders that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. GDRs for which the Depositary does not receive timely voting instructions will not be voted.

In addition, although Russian securities regulations expressly permit the Depositary to split the votes with respect to the shares underlying the GDRs in accordance with instructions from GDR holders, there is little court or regulatory guidance on the application of such regulations, and the Depositary may choose to refrain from voting at all unless it receives instructions from all GDR holders to vote the shares in the same manner. GDR holders may thus have significant difficulty in exercising voting rights with respect to the shares underlying the GDRs. There can be no assurance that holders and beneficial owners of GDRs will (1) receive notice of shareholder meetings to enable the timely return of voting instructions to the Depositary, (2) receive notice to enable the timely cancellation of GDRs in respect of shareholder actions or (3) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions. See "Description of the Global Depositary Receipts—Voting Rights" for a description of the voting rights of holders of GDRs and "Registration of Placement Report" for a description of limitations on voting rights in respect of newly issued shares underlying the GDRs prior to the registration of the placement report.

Holders of GDRs will not be able to instruct the Depositary to (1) vote the shares represented by their GDRs on a cumulative basis, (2) introduce proposals for the agenda of shareholders' meetings or request that a shareholders' meeting be called or (3) nominate candidates for our Board of Directors or our review commission. If GDR holders wish to take such actions, they must timely request that their GDRs be cancelled and take delivery of the shares and thus become the owner of the shares on our share register.

Because there has been no prior market for the GDRs or active trading in the shares, the offering may not result in an active or liquid market for the shares and GDRs, and their price may be highly volatile.

Before the offering, there has been no prior market for the GDRs or active trading in the shares. Prior to the listing of the shares on the Moscow Stock Exchange, there was limited trading in the shares, including trading by certain affiliates of the Underwriters. As the trading in the shares was limited, the prices at which those shares traded may not be representative of the trading prices of the shares or GDRs following the offering.

Although application has been made to the UK Listing Authority for a listing of the GDRs and to the London Stock Exchange for such GDRs to be admitted for trading, an active public market may not develop or be sustained after the offering. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If a liquid trading market for the shares and GDRs does not develop, the price of the shares and GDRs may become more volatile and it may be more difficult to complete a buy or sell order for such shares and GDRs.

The liquidity of a securities market is often a function of the volume of the underlying shares that are publicly held by unrelated parties. Although GDR holders are entitled to withdraw the shares underlying the GDRs from the Depositary (following the registration of the placement report with the FSFM), there is currently no active trading of our shares on the Moscow Stock Exchange where they are currently listed and there may only be a very limited public free float in the future. In addition, upon withdrawal, GDR holders will receive the shares being sold by the Selling Shareholder (if any are deposited in the GDR program after the registration of the placement report), which can be traded on the Moscow Stock Exchange, and, if no such shares remain in the GDR program, GDR holders will receive shares being sold by us in the form of GDRs in the offering, which cannot be traded on the Moscow Stock Exchange until at least three months after the date of the registration of the placement report. Also, the inability to convert the shares into GDRs due to the restrictions that no more than 35% of a Russian company's shares may be circulated abroad through depositary receipt programs, may have an adverse effect on the development of a liquid trading market for the shares and GDRs.

Furthermore, low trading volumes and/or the low amount of shares publicly held by unrelated parties may result in a delisting of the shares and/or the imposition of other liabilities, which would have a material adverse effect on the liquidity of the shares and GDRs.

The trading prices of the shares and GDRs may be subject to wide fluctuations in response to a number of factors. In addition, the Russian stock market has experienced extreme price and volume fluctuations. Moreover, the market price of the shares and GDRs may decline below the offering price, which will be determined by negotiation between us, the Selling Shareholder and representatives of the Underwriters.

You may be unable to repatriate distributions made on the shares.

We intend to pay any dividends on the shares in rubles. The Depositary will also receive dividends in respect of the shares underlying the GDRs in rubles. The ability to convert rubles into US dollars is subject to the availability of US dollars in Russia's currency markets. Although there is an existing, albeit limited, market within Russia for the conversion of rubles into US dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of rubles into foreign currencies outside of Russia and no viable market in which to hedge ruble and ruble-denominated investments.

You will experience immediate and substantial dilution.

The offer price of the shares and GDRs is substantially higher than the pro forma consolidated net tangible book value per share and per GDR. That is, holders of GDRs will contribute 67.82% of our total book equity capitalization, but will own only 33.26% of our total equity outstanding.

Future sales of shares or GDRs may affect the market price of the shares and GDRs.

Sales, or the possibility of sales, of substantial numbers of the shares or GDRs in the public markets, including the Russian stock market, following the offering could have an adverse effect on the market trading prices of the shares and GDRs. Our subsequent equity offerings may reduce the percentage ownership of our shareholders. Moreover, newly issued preferred shares may have rights, preferences or privileges senior to those of the shares.

GDR holders may not be able to benefit from double tax treaties.

In accordance with Russian legislation, dividends paid to a non-resident holder generally will be subject to Russian withholding at a rate of 15% for legal entities and organizations and at a rate of 30% for individuals. This tax may be reduced to 5% or 10% for legal entities and organizations and to 10% for individuals under the United States-Russia double tax treaty for US tax residents and to 10% under the United Kingdom-Russia double tax treaty for UK tax residents. However, the Russian tax rules applicable to GDR holders are characterized by significant uncertainties. In 2005, the Ministry of Finance expressed an opinion that GDR holders (rather than the Depositary) should be treated as the beneficial owners of the underlying shares for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that tax residencies of the GDR holders are duly confirmed. However, in the absence of any specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities and courts will ultimately treat the GDR holders in this regard. Thus, we may be obliged to withhold tax at standard rates when paying out dividends, and US and UK GDR holders may be unable to benefit from these treaties. See "Taxation—Certain Russian Tax Law Considerations" for further details.

Capital gains from the sale of shares or GDRs may be subject to Russian income tax.

Under Russian tax legislation, gains realized by non-resident legal entities or organizations from the disposition of Russian shares and securities, such as the shares, as well as financial instruments derived from such shares, such as the GDRs, may be subject to Russian profits tax or withholding income tax if immovable property located in Russia constitutes more than 50% of our assets. However, no procedural mechanism currently exists to withhold and remit this tax with respect to sales made to persons other than Russian companies and foreign companies with a registered permanent establishment in Russia. Gains arising from the disposition at foreign stock exchanges of the foregoing types of securities listed on these exchanges by foreign holders who are legal entities or organizations are not subject to taxation in Russia.

Gains arising from the disposition of the foregoing types of securities and derivatives outside of Russia by US or UK holders who are individuals not resident in Russia for tax purposes will not be considered Russian source income and will not be taxable in Russia. Gains arising from disposition of the foregoing types of securities and derivatives in Russia by US or UK holders who are individuals not resident in Russia for tax purposes may be subject to tax either at the source in Russia or based on an annual tax return, which they may be required to submit with the Russian tax authorities. See "Taxation—Certain Russian Tax Law Considerations."

We may be classified as a passive foreign investment company, which could result in adverse US federal income tax consequences to US investors.

We do not expect to be considered a "passive foreign investment company," or PFIC, for US federal income tax purposes for our taxable year ending December 31, 2006. However, this determination must be made each year, and there can be no assurance that we will not be a PFIC for such taxable year or any future taxable year. If we were treated as a PFIC, certain adverse US federal income tax consequences could apply to US investors. See "Taxation—Certain Material United States Federal Income Tax Considerations—Passive Foreign Investment Company."

Following the offering you may not be able to deposit shares in the GDR program in order to receive GDRs.

Russian securities regulations provide that no more than 40% of a Russian company's shares may be circulated abroad through depositary receipt programs, and the FSFM has announced that this limit will be reduced to 35%. We have received permission from the FSFM for up to 35% of our shares to be circulated abroad through depositary receipt programs. Upon the completion of the offering, we expect that the GDR program will account for approximately 33% of our shares, not including the approximately 2% of our shares being sold by the Selling Shareholder which may be deposited in the GDR program following the registration of the placement report. Thus following the offering, you may not be able to deposit shares in the GDR program in order to receive GDRs.

In addition, whenever the Depositary believes that the shares deposited with it against issuance of GDRs (together with any other Comstar UTS securities deposited with it against the issuance of depositary receipts and any other Comstar UTS securities held by itself and its affiliates for its or their proprietary accounts or as to which it or they exercise voting and investment power) represent such percentage as exceeds any threshold for making any filing, application, notification or registration or obtaining any approval, license or permit under any applicable law, directive or regulation, it may take such steps as are, in its opinion, necessary or desirable to remedy the consequences of such thresholds being exceeded and to comply with any such law, directive or regulation, including, without limitation, causing pro rata cancellation of GDRs and withdrawal of the shares from our GDR program to the extent necessary or desirable to so comply. The Depositary may also close its books to the issuance of GDRs against new deposits of shares under certain circumstances. See "Description of Global Depositary Receipts—Issuance of GDRs Upon Deposit of Shares." Following the Closing Date, no additional shares will be accepted for deposit and no additional GDRs in respect of such shares will be issued until the placement report is registered.

Other Risks

We have not independently verified information we have sourced from third parties.

We have sourced certain information contained in this prospectus from third parties, including private companies and Russian government agencies, and we have relied on the accuracy of this information without independent verification. The official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. In addition, the veracity of some official data released by the Russian government may be questionable. In 1998, the Director of the Russian State Committee on Statistics and a number of his subordinates were arrested and subsequently sentenced by a court in 2004 in connection with their misuse of economic data.

THE OFFERING

The Company	JSC "COMSTAR – United TeleSystems", an open joint stock company under the laws of the Russian Federation.
The Selling Shareholder	ECU GEST HOLDING S.A., a limited liability company under the laws of the Grand Duchy of Luxembourg and a 99% owned subsidiary of Sistema.
The Offering	We are offering 139,000,000 shares in the form of GDRs, with one GDR representing one share. The Selling Shareholder is offering 7,500,000 shares. The GDRs are being offered in the United States to QIBs in reliance on Rule 144A and outside the United States and the Russian Federation to certain persons in offshore transactions in reliance on Regulation S. The GDRs will be issued by Deutsche Bank Trust Company Americas, as depositary. The shares are being offered in the Russian Federation and outside the United States to certain persons in offshore transactions in reliance on Regulation S.
Share Capital	Our share capital consists of 278,940,860 shares, each with a nominal value of one ruble, which are fully paid, issued and outstanding. In addition, we are authorized by our charter to issue an additional 19,744,080,140 shares. Our shares have the rights described under "Description of Share Capital and Certain Requirements of Russian Legislation." Following the offering, Sistema will own directly and indirectly 64.9% of our outstanding shares (including the shares subject to a share repurchase transaction).
The GDRs	One GDR will represent one share on deposit with Deutsche Bank Ltd., as Custodian. The GDRs will be issued by the Depositary pursuant to one of two separate deposit agreements, one relating to the Rule 144A GDRs, or the Rule 144A Deposit Agreement, and one relating to the Regulation S GDRs, or the Regulation S Deposit Agreement, among us, the Depositary and holders and beneficial owners from time to time of the relevant GDRs. The Rule 144A Deposit Agreement and the Regulation S Deposit Agreement are herein referred to as the Deposit Agreements. The Regulation S GDRs will be evidenced initially by a Master Regulation S GDR and the Rule 144A GDRs will be evidenced initially by a Master Rule 144A GDR, each to be issued by the Depositary pursuant to the relevant Deposit Agreement. The Master Regulation S GDR and the Master Rule 144A GDR are herein collectively referred to as the Master GDRs. Pursuant to the Deposit Agreements, the shares represented by the GDRs will be held in Russia by the Custodian, for the benefit of the Depositary and for the further benefit of the holders and beneficial owners of GDRs. Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. Subject to the terms of the Deposit Agreements, interests in the Master Regulation S GDR may be exchanged for interests in the corresponding number of GDRs represented by the Master Rule 144A GDR, and vice versa. See "Description of the Global Depositary Receipts," "Settlement and Delivery—The Clearing Systems—Registration and Form" and "Settlement and Delivery—Global Clearance and Settlement Procedures—Secondary Market Trading."

Offer Price	$7.25 per share and per GDR.
Closing Date	Expected to be on or about February 10, 2006.
Registration of Placement Report	Trading in the GDRs on the London Stock Exchange will be subject to cancellation until the placement report is registered by the FSFM. If the placement report is not registered within 60 days after the Closing Date (or such later date to which we and the Selling Shareholder agree with the Underwriters), the gross proceeds (without interest) of the offering of GDRs will be refunded to the holders of the GDRs at or about the time of such cancellation, regardless of the then-prevailing market price of the GDRs, subject to applicable withholding taxes. However, the return of funds may be delayed due to Russian currency control, banking or securities regulations or practices and may be prevented if there is a change in such regulations or practices. Until the registration of the placement report all GDRs will be issued on a provisional basis and holders of GDRs will not be entitled to instruct the Depositary to exercise any voting rights on their behalf, and neither the Depositary nor the Custodian will exercise any voting rights as a shareholder. Holders of GDRs may not withdraw shares or other property on deposit with the Depositary in respect of the GDRs sold in the offering prior to the registration of the placement report. Such limitation on withdrawal and voting of the shares will not prohibit trading in the GDRs. Also, following the Closing Date, no additional shares will be accepted for deposit and no additional GDRs in respect of such shares will be issued until the placement report is registered. The shares being offered by the Selling Shareholder will not be cancelled, and the proceeds of the offering of shares by the Selling Shareholder will not be refunded, in case the placement report is not registered. See "Registration of Placement Report" and "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—Holders of GDRs will not be able to withdraw the shares underlying the GDRs prior to the registration of a placement report for the newly issued shares, and the failure to register this placement report could result in the newly issued shares underlying the GDRs being cancelled, reliance by GDR holders on us and the Underwriters to return the offering proceeds and a small public float based solely on the shares sold by the Selling Shareholder."
Lock-up	We, the Selling Shareholder, Sistema and MGTS have agreed, subject to certain exceptions, not to issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of, directly or indirectly, any shares in us or securities convertible or exchangeable into or exercisable for any shares in us or warrants or other rights to purchase such shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or GDRs representing the right to receive any such securities or publicly announce any intention to do any of the foregoing, from the date hereof until 180 days from the Closing Date, without the prior written consent of the Joint Global Coordinators. However, such consent shall not be required for the sale of the shares to the Underwriters pursuant to the Underwriting Agreement. See "Subscription and Sale."

Transfer Restrictions . . . . The shares and GDRs will be subject to certain restrictions on transfer as described under "Description of the Global Depositary Receipts" and "Subscription and Sale."

Listing and Market for the Shares and GDRs . . . . Our existing shares have been listed on the Moscow Stock Exchange under the symbol "CMST", but are not actively traded.

Application has been made to (1) the UK Listing Authority for a listing of 146,279,300 GDRs, consisting of up to 139,000,000 GDRs to be issued on or about the Closing Date, and up to 7,279,300 additional GDRs to be issued from time to time against the deposit of shares (to the extent permitted by law) with the Depositary, to be admitted to the Official List and (2) the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange's regulated market for listed securities. Conditional trading in the GDRs on the London Stock Exchange is expected to commence on a when and if issued basis on or about February 7, 2006. Admission to the Official List and to trading on the London Stock Exchange's regulated market for listed securities are expected to take place on or about February 13, 2006.

The GDRs will trade on the London Stock Exchange under the symbol "CMST". Application has also been made to have the Rule 144A GDRs designated eligible for PORTAL.

After the registration of the placement report, shares may be deposited, subject to the provisions set forth under "Description of the Global Depositary Receipts" and in the Deposit Agreements, with the Custodian against which the Depositary shall issue GDRs representing such shares (to the extent permitted by law) up to a maximum aggregate number of 146,279,300 GDRs. See also "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—Following the offering you may not be able to deposit shares in the GDR program in order to receive GDRs."

Settlement Procedures . . . . Payment for the GDRs is expected to be made in US dollars in same-day funds through the facilities of DTC, Euroclear and Clearstream on or about the Closing Date. The Depositary will apply to DTC to have the Rule 144A GDRs accepted into DTC's book-entry settlement system. Upon acceptance by DTC, a single Master Rule 144A GDR will be held in book-entry form and will be issued to DTC and registered in the name of Cede & Co., as nominee for DTC. The Master Regulation S GDR will be registered in the name of BT Globenet Nominees Limited, as nominee for Deutsche Bank AG, London Branch, as common depositary for Euroclear and Clearstream. Euroclear and Clearstream are expected to accept the Regulation S GDRs for settlement in their respective book-entry settlement systems. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR only through DTC, Euroclear or Clearstream, as applicable.

Transfers within DTC, Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system. See "Settlement and Delivery."

Each purchaser of the shares in the offering is required to pay for any shares in US dollars or rubles, as the case may be, within two business days after share delivery. In order to take delivery of the shares, potential purchasers will be required to have a depo account at one or more depositaries designated by the Underwriters. Upon taking delivery of the shares, purchasers may choose to hold the shares through a direct account with our share registrar; however, directly held shares are ineligible for trading on the Moscow Stock Exchange. In addition, in order to trade your shares on the Moscow Stock Exchange, you may have to further transfer your shares to an account at a different depositary. See "Settlement and Delivery."

General Information . . . . It is expected that the Rule 144A GDRs will be accepted for clearance through the facilities of DTC and the Regulation S GDRs will be accepted for clearance through Euroclear and Clearstream. The security numbers for the GDRs offered hereby are as follows:

Regulation S GDRs:	CUSIP: 47972P208 ISIN: US47972P2083 Common Code: 024134113
Rule 144A GDRs:	CUSIP: 47972P109 ISIN: US47972P1093 Common Code: 024134156
ISIN for shares:	RU000A0H1BE9
London Stock Exchange trading symbol:	CMST
Moscow Stock Exchange trading symbol:	CMST
PORTAL symbol:	JSCCYP

REGISTRATION OF PLACEMENT REPORT

Under Russian law, placement of the newly issued shares we are offering in the form of GDRs pursuant to this prospectus is subject to our registration of a placement report with the FSFM. Russian law requires that we file the placement report within 30 days following the placement, and we intend to file the placement report as soon as practicable following the closing of the offering. The FSFM is statutorily required to make its decision within two weeks after we file the placement report but it may take longer or the registration of the placement report may not occur at all. Although it is not uncommon for the FSFM to refuse to register the placement report on technical grounds, no such refusals have been reported in relation to major international initial public offerings of Russian companies.

In the event that the placement report is not registered by the FSFM within 60 days after the Closing Date (or such later date to which we and the Selling Shareholder agree with the Underwriters), we will issue a press release and notify the Depositary and the London Stock Exchange. Under Russian law, in the case of non-registration of the placement report we are required to return the full amount of ruble proceeds that were initially deposited into our ruble-denominated account on the Closing Date. Such ruble amount will be converted into US dollars for remittance to the holders of the GDRs. We have agreed in the Underwriting Agreement that we will pay such additional amounts (if any) as may be necessary to ensure that the US dollar funds received by the Depositary for remittance to the holders of GDRs will be equal to the gross US dollar proceeds received from the sale of GDRs, except for the underwriting commissions related to the GDRs, which the Underwriters have agreed to return. The Depositary will promptly distribute through DTC, Euroclear and Clearstream, as applicable, the funds it has received to the holders of the GDRs. The amount returned to the holders of the GDRs is expected to be equal to the gross proceeds (without interest) of the offering of GDRs, regardless of the then-prevailing market prices for the GDRs, subject to applicable withholding taxes. However, the return of funds may be delayed due to Russian currency control, banking and securities regulations or practices and may be prevented if there is a change in such regulations or practices. In addition, the holders of the GDRs will be taking credit risk on us and the Underwriters for the return of funds in the event that the placement report is not registered. We have agreed with the Underwriters that we will not use the proceeds of the offering until the placement report is registered.

Until the registration of the placement report, all GDRs will be issued on a provisional basis and holders of GDRs will not be entitled to instruct the Depositary to exercise any voting rights on their behalf, and neither the Depositary nor the Custodian will exercise any voting rights as a shareholder. Holders of GDRs may not withdraw the shares or other property on deposit with the Depositary in respect of the GDRs sold in the offering prior to the registration of the placement report. Such limitation on withdrawal and voting of the shares will not prohibit trading in the GDRs. Also, following the Closing Date, no additional shares will be accepted for deposit and no additional GDRs in respect of such shares will be issued until the placement report is registered.

The shares being offered by the Selling Shareholder will not be cancelled, and the proceeds of the offering of the shares by the Selling Shareholder will not be returned, in case the placement report is not registered.

See "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—GDR holders will not be able to withdraw the shares underlying the GDRs prior to the registration of a placement report for the newly issued shares, and the failure to register this placement report could result in the newly issued shares underlying the GDRs being cancelled, reliance by GDR holders on us and the Underwriters to return the offering proceeds and a small public float based solely on the shares sold by the Selling Shareholder."

USE OF PROCEEDS

The net proceeds that we will receive from the offering, after deducting underwriting commissions, fees and expenses incurred in connection with the offering, will be approximately $976 million.

The net proceeds of the offering payable to us will be converted into rubles as required by Russian law for settlement purposes, paid into our ruble-denominated account and then deposited in US dollar-denominated accounts at the original conversion rate.

We intend to use all or a significant portion of the proceeds from the offering to finance our regional expansion, including through the build-out of new infrastructure and acquisitions in Russia and the CIS. In particular, potential acquisitions might include the purchase of alternative fixed line communications operators in Russia and the CIS and/or might involve pending or future privatization transactions in Russia and the CIS. We are constantly reviewing a number of specific targets for acquisition, but given the anticipated competition for these and other assets and our strict investment criteria, we do not expect to compete for or successfully complete all acquisition opportunities we evaluate. See "Business—Business Strategy—Selectively expand into other regions in Russia and other CIS countries through organic growth and through acquisitions."

In addition, we may use a portion of the proceeds from the offering to acquire shares of MGTS not currently held by the group in order to reduce minority interests. In connection with any such acquisitions of minority interests, we may seek bridge loans from banks, including the Underwriters, which we may repay with the proceeds of this offering.

We may also use a portion of the net proceeds from the offering to finance our businesses, in particular, the capital expenditures planned in 2006 and 2007, including the development of network infrastructure in Russia and the CIS and the acceleration of the NGN and ADSL build-outs in Moscow and the Moscow region.

We will not receive any of the proceeds from the sale of the shares offered by the Selling Shareholder.

We have agreed with the Underwriters that we will not use the proceeds in the manner described above until the placement report is registered with the FSFM in respect of the newly issued shares of Comstar UTS we are offering in the form of GDRs. See "Registration of Placement Report."

DIVIDEND POLICY

Following the offering, Comstar UTS expects to declare and pay a nominal annual dividend, subject to any applicable Russian legal restrictions. In accordance with our strategy, we expect to reinvest a substantial majority of our cash into our existing business and new investment opportunities for the foreseeable future. See "Business—Business Strategy."

Dividend payments, if any, must be recommended by our Board of Directors and approved by our shareholders. In particular, dividends may be declared only out of net profits calculated under Russian accounting standards and as long as the following conditions have been met:

- our charter capital has been paid in full;
- the value of our net assets, calculated under Russian accounting standards, is not less, and would not, as a result of the proposed dividend payment, become less than the sum of our charter capital, our reserve fund and the difference between the liquidation value and the par value of our issued and outstanding preferred shares;
- we have repurchased all shares from shareholders having the right to demand repurchase; and
- we are not, and would not become as the result of the proposed dividend payment, insolvent.

For purposes of the above, Russian legislation takes into consideration the statutory, non-consolidated financial statements of Comstar UTS prepared under Russian accounting standards, and these differ substantially from our US GAAP consolidated financial statements. We estimate that Comstar UTS' net profits for the nine months ended September 30, 2005, as determined under Russian accounting standards, were 41.6 million rubles (the equivalent of approximately $1.4 million).

Dividends, if declared, are payable to our shareholders within 60 days of the declaration unless a shorter time period is set forth by the shareholders' decision declaring the dividends. Dividends not claimed within three years of the date of payment lapse and accrue to us. For a further description, please refer to "Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital—Dividends."

Companies within our group paid dividends of approximately $10.2 million, $6.6 million, $4.2 million and $13.1 million during the years ended December 31, 2002, 2003 and 2004 and the nine months ended September 30, 2005, respectively. Of these amounts, $3.0 million, $5.3 million, $9.7 million and $7.5 million were paid by MGTS in the years ended December 31, 2002, 2003 and 2004 and the nine months ended September 30, 2005, respectively. We expect MGTS will continue to pay dividends.

We anticipate that any dividends we may pay in the future in respect of the shares represented by the GDRs will be declared and paid to the Depositary in rubles and will be converted into US dollars by the Depositary and distributed to holders of the GDRs, net of the Depositary's fees and expenses. Accordingly, the value of dividends received by holders of the GDRs will be subject to fluctuations in the exchange rate between the ruble and the US dollar. In addition, dividends that we may distribute to the Depositary will be subject to applicable Russian withholding taxes. See "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—You may not be able to benefit from double tax treaties" and "Taxation—Certain Russian Tax Law Considerations—Taxation of Dividends."

Of the dividends paid by MGTS, $1.2 million, $3.5 million, $6.5 million and $6.8 million, respectively, were paid to MGTS' preferred shareholders. MGTS' preferred shares carry guaranteed dividend rights amounting to the higher of (1) 10% of MGTS' net profit as determined under Russian accounting standards and (2) the dividends paid on ordinary shares. No dividends may be declared on ordinary shares before dividends on preferred shares are declared. If a preferred dividend is not paid in full in any year, the preferred shares also obtain voting rights, which will lapse after the first payment of the dividend in full. Otherwise, preferred shares carry no voting rights except on resolutions regarding the liquidation or reorganization of MGTS and changes/amendments to MGTS' charter restricting the rights of holders of preferred shares. Such resolutions require three-fourths approval of preferred shareholders. In the event of liquidation, dividends to preferred shareholders that have been declared but not paid will have priority over ordinary shareholders. See "Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital—Distributions to Shareholders or Liquidation."

CAPITALIZATION

The following table sets forth our combined capitalization as of September 30, 2005, on (1) a historical basis, (2) as adjusted for the Comstar UTS restructuring (including the mandatory buy-out offer for the ordinary shares of MGTS to the extent we have acquired shares as of the date of this prospectus) and (3) as further adjusted for the offering. See "Business—The Restructuring," "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" and our combined financials statements included elsewhere in this prospectus.

	As of September 30, 2005		
	Historical	As adjusted for the Comstar UTS restructuring (including the mandatory buy-out offer for the ordinary shares of MGTS[5])	As adjusted for the Comstar UTS offering
		(in thousands)	
Short-term debt			
Corporate bonds, current portion	$ 52,634	$ 52,634	$ 52,634
Loans from third parties, current portion	17,949	17,949	17,949
Vendor financing, current portion	12,649	12,649	12,649
Capital lease obligations, current portion	8,289	8,289	8,289
Total short-term debt	91,521	91,521	91,521
Long-term debt			
Corporate bonds	52,634	52,634	52,634
Loans from related parties	11,344	11,344	11,344
Loans from third parties	41,971	99,217	99,217
Vendor financing	7,762	7,762	7,762
Capital lease obligations	13,021	13,021	13,021
Total long-term debt	126,732	183,978	183,978
Total debt[1][2]	218,253	275,499	275,499
Shareholders' equity			
Share capital[3]	72,133	18,982	23,812
Additional paid in capital[3]	51,542	108,622	1,079,769
Treasury stock[3]	—	(3,929)	(3,929)
Retained earnings	330,574	330,574	330,574
Accumulated other comprehensive income	8,764	8,764	8,764
Total shareholders' equity[4]	463,013	463,013	1,438,990
Total capitalization	$681,266	$738,512	$1,714,489

(1) Since September 30, 2005, we have incurred additional debt. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments."

(2) As at September 30, 2005, we had contingent liabilities of $nil and had granted guarantees not reflected on our balance sheet in the total amount of $39.0 million. Of our total indebtedness at September 30, 2005, $58.3 million was secured and $160.0 million was unsecured.

(3) As of the completion of the restructuring in the fourth quarter of 2005, Comstar UTS' share capital consisted of 278,940,860 shares, each with a nominal value of one ruble, which are fully paid, issued and outstanding. Certain reclassifications between share capital, additional paid in capital and treasury stock occurred after September 30, 2005 due to the final steps in the restructuring taking legal effect after September 30, 2005. See "Business—The Restructuring." As adjusted for the offering, Comstar UTS' share capital consists of 417,940,860 shares, each with a nominal value of one ruble, which are fully paid, issued and outstanding.

(4) Our combined financial statements for the periods presented include on a 100% basis the accounts of MTU-Intel and Sistema Multimedia. In December 2005, Sistema Multimedia, a Sistema subsidiary, was merged into MTU-Intel. As a result, Comstar UTS' stake in MTU-Intel decreased to 51.82%, with Sistema owning the remaining stake. Were the transaction to be reflected in our combined financial statements as of September 30, 2005, our shareholders' equity would be lower and minority interests higher by $8 million. In the nine months ended September 30, 2005, our net income would be lower by approximately $3 million. These amounts may not be reflective of the market value of the 48.18% stake in MTU-Intel transferred to Sistema. Subsequent to the date of this transaction, the stake in MTU-Intel owned by Sistema will be accounted for as a minority interest in our financial statements.

(5) On December 14, 2005, Comstar UTS announced a mandatory buy-out offer for the ordinary shares of MGTS at a price of 490 rubles per share (the equivalent of approximately $17.03). Shareholders of MGTS may accept the offer within 30 days of receipt of official notification, which was sent by registered mail. As of the date of this prospectus, we have acquired an additional 3,362,332 shares at an aggregate cost of approximately 1.65 billion rubles (the equivalent of approximately $57.25 million as of the date of this prospectus). Comstar UTS financed this purchase through lines of credit.

As of September 30, 2005, Comstar UTS had cash and cash equivalents of $76.1 million.

SELECTED COMBINED FINANCIAL INFORMATION

The table below shows certain combined financial information for the group as of and for the years ended December 31, 2002, 2003 and 2004 and as of and for the nine months ended September 30, 2004 and 2005. The financial information for the years ended December 31, 2002, 2003 and 2004 has been derived from our audited combined financial statements included elsewhere in this prospectus, except as provided in the footnotes below. The unaudited financial information for the nine months ended September 30, 2004 and 2005 includes all normal and recurring adjustments, which are, in our opinion, necessary for a fair presentation of our financial position at such dates and results of operations for such periods. The results of operations for the nine months ended September 30, 2005 are not necessarily indicative of the results for the full year. The selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our combined financial statements included elsewhere in this prospectus.

Our combined financial statements have been prepared in accordance with US GAAP. Although our results are presented in US dollars, you should not construe those translations as a representation that those amounts could be converted from one currency to another at any particular rate or at all. The ruble generally is not convertible outside Russia. A market exists within Russia for the conversion of rubles into other currencies, but the limited availability of other currencies may tend to inflate their values relative to the ruble.

	Years ended December 31,			Nine months ended September 30,	
	2002[1]	2003	2004	2004	2005
				(unaudited)	
			(in thousands)		
Combined statement of operations data					
Operating revenues	$ 438,755	$ 589,218	$ 695,133	$ 510,578	$ 636,823
Operating expenses, exclusive of depreciation and amortization	(248,824)	(353,448)	(445,276)	(327,890)	(367,164)
Depreciation and amortization	(53,417)	(73,097)	(76,138)	(54,607)	(68,861)
Operating income	136,514	162,673	173,719	128,081	200,798
Interest income	1,894	4,718	7,941	6,478	5,449
Interest expense	(31,496)	(18,545)	(18,695)	(14,421)	(12,168)
Foreign currency transactions gain	330	3,594	4,368	821	1,043
Loss from disposal of an affiliate	—	—	(6,610)	(6,610)	—
Income before income tax and minority interests	107,242	152,440	160,723	114,349	195,122
Income tax expense	(22,429)	(38,848)	(41,076)	(34,683)	(50,304)
Income from affiliates	2,427	1,259	542	552	96
Minority interests	(33,082)	(39,526)	(44,400)	(29,220)	(61,102)
Income from continuing operations	55,158	75,325	75,789	50,998	83,812
Gain/(loss) from discontinued operations, net of income tax charges[2]	6,985	(16,914)	4,182	4,182	—
Gain/(loss) from disposal of discontinued operations, net of income tax charges[3]	1,507	—	(3,831)	(3,831)	—
Net income	$ 63,650	$ 58,411	$ 76,140	$ 51,349	$ 83,812

	Years ended December 31,			Nine months ended September 30,	
	2002[1]	2003	2004	2004	2005
				(unaudited)	
			(in thousands)		
Combined statement of cash flow data					
Net cash provided by operations	$ 151,911	$ 207,449	$ 225,806	$ 158,599	$ 223,759
Net cash used in investing activities	(87,134)	(144,536)	(187,872)	(152,275)	(212,138)
of which capital expenditures[4]	(89,365)	(100,306)	(168,847)	(112,911)	(142,689)
Net cash used in financing activities	(46,658)	(55,652)	(19,482)	(16,847)	(2,210)
Combined balance sheet data (end of period)[5]					
Cash and cash equivalents	$ 39,589	$ 46,952	$ 67,436	$ 36,760	$ 76,083
Short-term investments	5,719	66,450	105,313	125,172	121,730
Total assets	1,002,965	1,185,600	1,418,448	1,299,877	1,561,016
Total debt (long-term and short-term)[6]	179,539	169,914	216,797	199,125	218,253
of which capital lease obligations	10,955	8,927	26,699	24,157	21,310
Total liabilities	439,072	502,836	586,383	542,222	616,515
Total shareholders' equity	215,516	294,094	381,441	345,027	463,013
Non-US GAAP measure					
OIBDA[7]	$ 189,931	$ 235,770	$ 249,857	$ 182,688	$ 269,659

(1) The financial information in respect of 2002 is not directly comparable to the other periods presented in the table because Comstar UTS was not under common control with the other companies within the group until 2003. See "Presentation of Financial Information."

(2) Gain/(loss) from discontinued operations is shown net of the income tax charges of $1.7 million, $3.2 million, $1.4 million, $1.4 million and $nil for the years ended December 31, 2002, 2003 and 2004 and the nine months ended September 30, 2004 and 2005, respectively.

(3) Gain/(loss) from disposal of discontinued operations is shown net of the income tax charges of $0.5 million, $nil, $0.8 million, $0.8 million and $nil for the years ended December 31, 2002, 2003 and 2004 and the nine months ended September 30, 2004 and 2005, respectively.

(4) Represents the aggregate of cash outlays for purchases of property, plant and equipment and of intangible assets.

(5) Our combined balance sheet as of September 30, 2004 is not included in this prospectus.

(6) Includes short-term and long-term debt, including current portion, and capital lease obligations, including current portion.

(7) OIBDA represents operating income before depreciation and amortization. OIBDA is not a measure of financial performance under US GAAP. You should not consider it an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of OIBDA may be different from the calculation used by other companies and therefore comparability may be limited. We believe that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of subsidiaries and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under US GAAP, these expenses primarily represent non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods.

Reconciliation of OIBDA to operating income is as follows for the periods indicated:

	Years ended December 31,			Nine months ended September 30,	
	2002	2003	2004	2004	2005
			(in thousands)		
Operating income	$136,514	$162,673	$173,719	$128,081	$200,798
Add: Depreciation and amortization	53,417	73,097	76,138	54,607	68,861
OIBDA	$189,931	$235,770	$249,857	$182,688	$269,659

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of our combined financial condition and results of operations as of and for the years ended December 31, 2002, 2003 and 2004 and as of and for the nine months ended September 30, 2004 and 2005, and of the material factors that we believe are likely to affect our financial condition and results of operations. You should read this section together with our audited combined financial statements as of and for the years ended December 31, 2002, 2003 and 2004 and our unaudited interim combined financial statements as of and for the nine months ended September 30, 2004 and 2005, including the notes to those financial statements, included elsewhere in this prospectus. Our combined financial statements have been prepared in accordance with US GAAP.

Overview

We are a leading provider of integrated communications services in Moscow and the Moscow region based on revenues and subscribers. We also offer communications services in other select regions in Russia and the CIS. We offer voice, data and Internet, pay TV and various value-added services to corporate, operator and residential subscribers using our alternative and PSTN networks. We operate in both the alternative and traditional fixed line communications segments, where we provide regulated and unregulated services. As of September 30, 2005, we had over four million subscribers. For the year ended December 31, 2004 and the nine months ended September 30, 2005, we had combined operating revenues of $695.1 million and $636.8 million, respectively.

Our reportable segments are alternative fixed line communications and traditional fixed line communications.

Our alternative fixed line operations had over 30,000 corporate subscribers, approximately 430,000 residential Internet subscribers, of which more than 198,000 were broadband subscribers, and 2,611 pay TV subscribers as of September 30, 2005. Alternative fixed line services accounted for $246.3 million, or 38.7%, of our combined operating revenues and $53.2 million, or 26.3%, of our combined operating income, before intersegment eliminations, for the nine months ended September 30, 2005.

We provide traditional fixed line communications services through our subsidiary MGTS. As of September 30, 2005, MGTS had approximately 3.5 million residential subscribers and over 75,000 corporate subscribers. Traditional fixed line communications services accounted for $390.5 million, or 61.3%, of our combined operating revenues and $149.2 million, or 73.7%, of our combined operating income, before intersegment eliminations, for the nine months ended September 30, 2005.

Our Combined Financial Statements

The group was formed in the fourth quarter of 2005 through the restructuring by Sistema of its fixed line communications businesses under Comstar UTS. In November 2005, Comstar UTS acquired Sistema's stakes in MGTS, MTU-Inform, Telmos and MTU-Intel and MGTS' stakes in MTU-Inform, Telmos and MTU-Intel. These acquisitions were paid for with newly issued shares of Comstar UTS. As a result, Sistema and its subsidiaries (other than MGTS and its subsidiaries) owned a 79.3% stake in Comstar UTS and the remaining 20.7% stake was owned by MGTS and one of its wholly owned subsidiaries. In December 2005, Sistema Multimedia, a Sistema subsidiary engaged in the pay TV and content production business, was merged into MTU-Intel. As a result, Comstar UTS' stake in MTU-Intel decreased to 51.82%, with Sistema owning the remaining stake. See "Business—The Restructuring."

The group's financial statements as of and for the three years ended December 31, 2002, 2003 and 2004 and as of and for the nine months ended September 30, 2004 and 2005, referred to herein as the "combined financial statements," have been prepared in accordance with U.S. GAAP and include the accounts of the following companies controlled by Sistema and their subsidiaries: Comstar UTS, MGTS, MTU-Inform, Telmos, MTU-Intel and Sistema Multimedia. All significant intercompany transactions, balances and unrealized gains and losses have been eliminated.

The following table sets forth our ownership interests in our key operating subsidiaries as of the date of this prospectus:

Company	Ownership Interest
MGTS	49.86%[(1)]
MTU-Inform	99.00%
Telmos	100.00%
MTU-Intel (and its wholly owned subsidiary, Golden Line)	51.82%

(1) Based on both ordinary and preferred shares. We hold 59.83% of the ordinary shares.

Acquisitions

Our results of operations for the periods under review have been significantly affected by acquisitions and our results of operations for future periods will continue to be so affected in connection with our expansion strategy. See "—Business Strategy." Accounts of newly acquired subsidiaries are included in the combined financial statements from the beginning of the year in which control was acquired, with pre-acquisition earnings of an interest purchased during that year included in minority interests in the combined statements of operations.

In July 2002, Sistema acquired 50% of the ordinary shares of Golden Line for cash consideration of $0.1 million. This transaction increased Sistema's stake in Golden Line to 100% and resulted in Sistema obtaining control over Golden Line's operations. Revenues and expenses of Golden Line have been included in our combined financial statements from January 1, 2002. Golden Line's earnings for the period from January to July 2002, as they relate to the interest acquired by Sistema in July 2002 were included in minority interests in our combined statements of operations.

In December 2003, Sistema acquired 50% of the shares of Comstar UTS, which together with MGTS' 50% stake in Comstar UTS resulted in Sistema obtaining control over Comstar UTS' operations. Revenues and expenses of Comstar UTS have been included in our combined financial statements from January 1, 2003. Comstar UTS' earnings for the period from January to December 2003, as they relate to the 50% interest purchased by Sistema, were included in minority interests in our combined statements of operations. In our combined financial statements for the year ended December 31, 2002, our investment in Comstar UTS and our share in Comstar UTS' net income were accounted for under the equity method. As a result, the financial information for the group as of and for the year ended December 31, 2002, is not directly comparable to the information presented as of and for the years ended December 31, 2003 and 2004 and the nine months ended September 30, 2004 and 2005, as Comstar UTS was not under common control with the other companies within the group until December 2003.

In February 2005, Sistema acquired an additional 20% stake in Telmos from Rostelecom for a cash consideration of $8.5 million, increasing Sistema's stake in Telmos to 100%. In September 2005, Comstar UTS acquired the 20% stake in Telmos from Sistema for a cash consideration of $12.8 million. The remaining 80% stake in Telmos was acquired by Comstar UTS for shares pursuant to the restructuring. See "—Our Combined Financial Statements."

In September 2005, we acquired a 45% stake in Metrocom, an alternative fixed line communications operator in St. Petersburg, for a cash consideration of $12.2 million. Metrocom offers voice, data and Internet services, and maintains a fiber optic network of over 1,000 km. With our acquisition of Metrocom, we gain entry into Russia's second-largest communications market after Moscow based on total revenues, according to Direct INFO. We accounted for the acquisition of Metrocom and our share in its net income using the equity method.

Recent Developments

In October 2005, we acquired 89.4% of the ordinary shares and 31.9% of preferred shares of Tyumenneftegazsvyaz, a leading fixed line telecommunications services provider operating in the Tyumen region, as well as in the autonomous districts of Khanty-Mansi and Yamalo-Nenets, for $9.0 million in cash.

In December 2005, we acquired all of the shares of Conversiya-Svyaz and Overta, two leading alternative fixed line operators in the Saratov region, for $9.0 million in cash and $1.0 million in a deferred cash payment.

In December 2005, we acquired all of the shares of CTK Contrast-Telecom, an alternative fixed line operator in the Moscow region, for $5.5 million in cash.

In December 2005, we entered into an agreement to acquire all of the shares of Unitel Ltd., an alternative fixed line operator in the Moscow region, for a total consideration of $4.9 million. We will make payment for the shares upon the registration of Unitel Ltd.'s amended charter with the Russian tax authorities.

In December 2005, Sistema Multimedia was merged into MTU-Intel. Upon completion of the merger, Comstar UTS' stake in MTU-Intel decreased to 51.82%, with Sistema owning the remaining stake. Subsequent to the date of this transaction, the stake in MTU-Intel held by Sistema will be accounted for as a minority interest in our financial statements.

In December 2005, we repaid a loan to MBRD in the amount of $8.6 million and an additional amount of $3.0 million in January 2006.

In December 2005, we repaid a loan to Alfa-bank in the amount of approximately $0.28 million.

In January 2006, we obtained a syndicated loan facility from ING Bank, ABN Amro Bank and Moscow International Bank in the amount of $65.0 million to finance the acquisition of MGTS' shares and other acquisitions. The loan bears interest of LIBOR+1.4% and matures in January 2007. As of the date of this prospectus, we had drawn under this facility a total amount of $65.0 million. We are in discussions with the lenders to arrange for a second tranche to the facility in the amount of $85.0 million.

As a result of acquiring more than 30% of the ordinary shares of MGTS in the restructuring, Comstar UTS was required by Russian law to make an offer to buy out the remaining ordinary shares in MGTS. In accordance with these requirements, on December 14, 2005 Comstar UTS announced an offer to buy ordinary shares of MGTS at a price of 490 rubles (the equivalent of approximately $17.03) per share. The price was determined on the basis of the market price, which as required under Russian law, cannot be less than the weighted average price of the shares for the preceding six months. Shareholders may accept the offer within 30 days of receiving the offer, which was sent by registered mail. As of the date of this prospectus, Comstar UTS has acquired an additional 4.21% of the ordinary shares of MGTS.

Certain Factors Affecting Our Results of Operations

Our results are affected by a variety of factors, including the following.

Macroeconomic trends in Russia

The majority of our operations are based in Moscow and the Moscow region. As a result, Russian macroeconomic trends and country-specific factors significantly influence our performance. See also "Risk Factors—Risks Relating to the Russian Federation."

The following tables sets out certain information for Russia as of and for the dates indicated.

	Years ended December 31,			Nine months ended September 30,
	2002	2003	2004	2005
GDP growth[1]	4.3%	7.3%	7.1%	6.2%
Consumer price index[1]	15.1%	12.0%	11.7%	8.6%
Average nominal exchange rate (rubles per US dollar)[2]	31.4	30.7	28.7	28.2
Real ruble appreciation against US dollar[3]	9.2%	20.9%	18.6%	5.7%

(1) Source: Rosstat.

(2) Source: Central Bank of Russia. The average of the exchange rates on the last business day of each full month during the relevant period.

(3) Source: Central Bank of Russia. Real ruble appreciation against the US dollar is a consumer price index adjusted for nominal exchange rate changes over the same period.

GDP growth rates in Russia remain relatively high compared to North America, Western Europe and Japan. The growth in Russian GDP and in real and disposable income in Russia is subject to the ability of the government to continue to progress economic and regulatory reforms currently underway and to the influences of various political groups whose interests may not be aligned with those of the current government.

Over the past several years, the rate of increase in the consumer price index in Russia has steadily declined, in large part due to conservative fiscal and monetary policies of the Russian government and the resulting federal budget surpluses. However, inflation remains high in comparison to countries in North America and Western Europe. According to Rosstat, the inflation rate was 10.9% in 2005.

The majority of our unregulated tariffs are denominated in US dollars, though subscribers are required to settle their accounts in rubles at the official ruble/dollar exchange rate of the Central Bank of Russia in effect as of the date of payment. Our regulated tariffs are denominated in rubles and not linked to the US dollar. Certain of our costs, including employee costs and interconnection costs of our alternative fixed line business, are denominated in US dollars or are closely linked to the US dollar. Certain of our other costs, including employee costs associated with our traditional fixed line business and utility costs, are denominated in rubles and are sensitive to rises in overall price levels in Russia.

During each of the years from 2002 to 2005, the ruble appreciated against the US dollar in real terms. We expect increases in ruble-denominated costs, driven by real appreciation of the ruble against the US dollar, to put pressure on the margins of our alternative fixed line business. In addition, in order to compete effectively, we may not be able to increase our unregulated prices and tariffs sufficiently to maintain our current operating margins. Accordingly, further ruble appreciation against the US dollar could materially adversely affect the results of our alternative fixed line business.

Industry regulation

The Communications Law came into force on January 1, 2004 and replaced the law of 1995 regulating the same subject matter. The Communications Law creates a framework in which government authorities are required to enact specific regulations. Regulations enacted under the legislative framework in place prior to enactment of the Communications Law continue to be applicable to the extent they do not conflict with the Communications Law and the new regulations adopted under this law. The lack of interpretive guidance from the regulatory authorities regarding the new regulations and the uncertainty surrounding their compatibility with the regulations still in effect impedes our ability to effectively assess the impact of the new regulations under the Communications Law on our business. See "Business—Regulation."

The Communications Law provides for a special regulation of PSTN operators occupying a "substantial position," *i.e.*, operators which together with their affiliates have, in the Russian Federation generally or in a geographically defined specific numerical zone, 25% or more of installed capacity or capacity to carry out transmission of not less than 25% of traffic. In particular, upon the adoption by the Russian government of the relevant implementing rules, such operators, including MGTS, will be obliged to grant equal access to all other operators. If the Russian government chooses to implement such local loop unbundling or local loop shared access, which would allow other operators access to MGTS' "last mile," then competition in the local data and Internet services market may increase and one of our main competitive advantages may suffer.

Furthermore, connection and traffic transmission tariffs that such operators holding a substantial position may charge other operators are currently subject to government regulations pursuant to the Communications Law. In the past, some of the alternative operators in our group have benefited from favorable connection and traffic transmission tariff arrangements with MGTS. Going forward, MGTS will be required to provide identical tariff treatment to telecommunications operators, whether in or group or not.

The Communications Law also opens the DLD/ILD market to competition and contemplates a new three-layer interconnection system to take effect on January 1, 2006, consisting of DLD/ILD, zone and local operators. Under this new structure, end-users will have the right to pre-select a long-distance operator and DLD/ILD operators will be required to have interconnection points in each of the 88 sub-federal units of the Russian Federation. Unless we receive a DLD/ILD license, we will need to enter into agency agreements with DLD/ILD operators in order to share in the revenues from DLD/ILD traffic generated by our subscribers. We cannot assure investors that the terms of these revenue sharing agreements will be on terms more favorable than, or even comparable to, our current arrangement with Rostelecom. Additionally, under the new regulatory regime, we may lose the opportunity to provide DLD/ILD services directly to our subscribers, as well as the opportunity to manage long-distance tariffs. Thus, the liberalization of the long-distance market may result in a decrease of long-distance tariffs, thereby putting pressure on our operating revenues.

New regulations implementing the provisions of the Communications Law have also changed the licensing framework by contemplating licensing based on the type of communication services rather than the licensing of certain communication technologies. This change implies, for example, that the IP technology may be used by an operator only to the extent permissible under the license granted to such operator. Thus, as long as we are not licensed to provide DLD/ILD communication services, we will be able to offer, for example, VoIP DLD/ILD services only as an agent for licensed DLD/ILD operators.

In the past, we generated significant operating revenues from renting out numbering capacity including the "495" Moscow numbers to other operators; however, the Russian government recently took the view that numbering capacity assigned to one operator could not be rented to other operators. Accordingly, we have entered into a new arrangement whereby we make our numbers available directly to the subscribers of mobile operators via agency contracts between the subscribers and the mobile operators acting on our behalf. Any future restrictions on our ability to use the numbering capacity in this manner may adversely affect our business and results of operations.

The Communications Law also provides for the establishment of a "universal services reserve fund" for the purpose of supporting communications companies operating in less developed regions of Russia through the financing, construction and maintenance of communications networks in low-profit and unprofitable sectors. This reserve fund is aimed at eliminating the practice of cross-subsidies by compensating operators for certain mandatory, loss-making local services in rural and sparsely populated areas. It will be funded by a levy imposed on all communication services operators, including us. The Russian government set the levy at 1.2% of the difference between an operator's total revenues and revenues generated by interconnection and traffic transmission services. The levy is payable on a quarterly basis starting from the second quarter of 2005. Our contributions to the fund for the second and third quarters of 2005 amounted to $3.4 million.

As the only licensed PSTN operator in Moscow, MGTS is considered a monopoly under Russian anti-monopoly regulations. Consequently, the Federal Tariff Service regulates MGTS' tariffs for voice telephony services provided to its PSTN subscribers, including monthly subscription fees, installation fees and local call charges. Most of the services provided by MGTS are subject to governmental regulation, including the monthly fees that comprise a large majority of our traditional fixed line operating revenues. In addition, the law sets forth the general principle that regulated entities may not refuse to provide regulated services to certain types of consumers or discriminate against one operator in favor of another.

The Federal Tariff Service sets the tariffs MGTS can charge taking into account cost of services, network investment and a certain profit margin, and the current tariffs fully compensate MGTS for the cost of services provided to residential and government subscribers. According to Russian legislation, MGTS is allowed to petition the Federal Tariff Service for tariff increases upon certain conditions, such as inflation or increases in the cost of services. Since 2000, residential monthly tariffs have risen at a CAGR of approximately 25.0%. The margins of our traditional fixed line business may be adversely affected if we are unable to obtain the approval of the Federal Tariff Service for future tariff increases in line with future increases in cost of services or inflation.

Competition

The markets for alternative fixed line communications services in Moscow, the Moscow region, St. Petersburg and other commercial centers in Russia are rapidly evolving and becoming increasingly competitive. Competition is generally based on price, product functionality, range of service offerings and customer service. In addition, customer demand patterns in Moscow and the Moscow region are evolving and becoming more sophisticated as these markets mature. Smaller companies with insufficient scale and limited resources are focusing on niche segments of the market while large players act as market consolidators. The continued consolidation of smaller alternative fixed line operators and/or their acquisition by larger operators may further increase competition. Intensifying competition in the Moscow alternative fixed line market has resulted in increasing pressure on prices and profitability for all operators and, as a result, the Moscow market is presently dominated by two large operators: Comstar UTS and Golden Telecom.

According to Direct INFO, in 2004, we had a 17.4% and Golden Telecom had a 22.4% market share in the alternative fixed line communications services market in Moscow. Furthermore, Corbina Telecom recently announced plans to expand its fiber optic network by approximately 5,000 km, which would give it the ability to provide broadband and pay TV services to each residential building in Moscow. In addition, home network operators represent our main competition in the Moscow Internet market. As of September 30, 2005, home network operators had a 63.8% share of the broadband Internet market in Moscow, according to Pyramid Research.

In addition, many of the products and services we offer are technology intensive and utilize technological components that are rapidly evolving. The development of new technologies may render our services obsolete and uncompetitive, and we may have to make substantial additional investments to develop, roll out and/or obtain licenses for new technologies to remain competitive. New technologies in which we choose to invest may not be introduced in a timely manner and may not prove commercially viable.

Furthermore, we expect to continue to reduce our tariffs to remain competitive in the alternative fixed line business, particularly with respect to voice and broadband Internet services. As a result, we intend to focus on increasing operating revenues by growing our subscriber base and upgrading existing subscribers to higher value packages with the aim of minimizing the effect of decreases in ARPU.

Operating Revenues

Our principal sources of operating revenues in our alternative and traditional fixed lines segments are as follows:

Segment	Types of services	Sources of operating revenues
Alternative fixed line communications	Voice telephony services to corporate and residential subscribers	—traffic charges —monthly subscription fees —connection fees —revenues from prepaid calling cards
	Data transmission, dial-up and broadband Internet services to corporate and residential subscribers	—traffic charges —monthly subscription fees —connection fees
	Services to other operators	—interconnection fees —access to numbering capacity
	Value-added services to corporate and residential subscribers	—usage charges —monthly subscription fees —connection fees
	Pay TV services to residential subscribers	—monthly subscription fees —connection fees
Traditional fixed line communications (regulated services)	Voice telephony services to residential and corporate subscribers	—local traffic charges (corporate) —monthly subscription fees —connection fees
Traditional fixed line communications (unregulated services)	Services to other operators	—traffic charges —connection fees —access to numbering capacity —rental of lines, underground ducts and properties
	Voice telephony services to residential and corporate subscribers	—revenues from prepaid calling cards —value-added services

Alternative fixed line communications segment

The following table sets forth the operating revenues from our alternative fixed line communications segment. Segment operating revenues are presented on an aggregated basis, which is operating revenues after elimination of intra-segment (between entities in the same segment) transactions, but before inter-segment (between entities in different segments) eliminations:

Alternative fixed line communications	Years ended December 31, 2002	Years ended December 31, 2003	Years ended December 31, 2004	Nine months ended September 30, 2004	Nine months ended September 30, 2005
			(in thousands)		
Corporates					
Voice	$ 24,161	$ 65,511	$ 73,396	$ 50,455	$ 50,609
Data and Internet	26,809	39,161	50,820	41,500	47,390
Value-added services	2,083	3,378	4,884	3,496	4,157
Other	70	333	2,404	1,198	2,639
Total	53,123	108,383	131,504	96,649	104,795
Residential					
Voice	485	970	942	633	1,023
Broadband	—	1,634	9,682	5,044	27,898
Dial-up	16,696	18,844	25,097	18,850	15,253
Other	250	1,321	1,566	1,103	4,194
Total	17,431	22,769	37,287	25,630	48,368
Operators	84,375	107,680	103,447	76,423	83,300
Other	9,514	10,193	10,151	9,268	10,308
Total revenues	$164,443	$249,025	$282,389	$207,970	$246,771

The following table sets certain operational data for our alternative fixed line communications segment:

Alternative Fixed Line Business	As of and for the years ended December 31, 2002[1]	2003	2004	As of and for the nine months ended September 30, 2004	2005
Subscribers[2]					
Residential subscribers	373,246	501,761	451,059	373,172	435,779
Broadband	784	4,357	102,516	37,003	198,654
Dial-up	371,407	493,154	343,691	331,655	232,004
Voice	1,055	4,250	4,852	4,514	5,121
Corporate subscribers[3]	8,931	23,555	27,258	26,164	30,310
Operators	252	250	349	290	392
Total	382,429	525,566	478,666	399,626	466,481
Active telephone lines[2]					
Corporates	39,396	100,694	116,842	116,669	130,655
Operators	384,061	404,262	406,019	405,729	429,682
Mobile operators	289,571	303,571	303,574	303,573	323,571
Fixed line operators	94,490	100,691	102,445	102,156	106,111
Residential	4,669	9,511	7,683	7,566	7,925
Total	428,126	514,467	530,544	529,964	568,262
Installed capacity (telephone lines)	450,000	548,600	588,600	548,600	628,600
ADSL and data transmission channels	10,499	20,403	19,701	17,784	24,092
Operators					
Local minutes	239,960	255,683	5,451,939	2,794,188	2,853,874
DLD/ILD minutes	121,490	210,510	312,683	411,255	456,532
Total	361,450	466,192	5,764,622	3,205,443	3,310,406
Corporate users					
Local minutes (in thousands)	273,670	366,011	617,423	573,446	888,944
DLD/ILD minutes (in thousands)	40,502	99,932	122,905	117,048	154,566
Total	314,172	465,943	740,327	690,853	1,043,509
ARPU (monthly)					
Residential					
ADSL[4]	$ —	$ —	$ 22.8	$ 23.2	$ 19.4
Dial-up	4.4	3.6	5.3	5.1	5.9
Voice	16.6	16.8	8.6	9.3	16.8
ARPL (monthly)					
Corporates—voice	$ 51.8	$ 73.4	$ 52.5	$ 47.9	$ 42.5
Operators—voice	37.7	40.8	34.8	33.9	36.3
ARPC (monthly)					
Corporates—data	$ 236.3	$ 201.8	$ 268.3	$ 225.7	$ 231.2

(1) Data for the year ended December 31, 2002 does not include Comstar UTS as control over Comstar UTS was acquired by Sistema in 2003.

(2) We calculate our subscribers based on the number of active lines in service. A line is considered "active" if the subscriber has used the service within the last 30 days.

(3) Includes state-owned enterprises and government agencies.

(4) ARPU for ADSL in 2004 was calculated on the basis of revenues and total subscribers from September to December following the launch of Stream.

We provide a range of alternative fixed line services to corporate subscribers, which vary in size ranging from large multinational and Russian corporations with thousands of employees to small- and medium-sized enterprises with up to several hundred employees. Specifically, we offer to corporates local and DLD/ILD voice, data transmission and Internet services through our Comstar UTS and Tochka.RU brands, including dial-up and broadband Internet access, VoIP, VPNs and data center services. In addition, we provide value-added services, such as dedicated hosting, co-location and IP VPNs. For the years ended December 31, 2002, 2003 and 2004 and the nine months ended September 30, 2005, operating revenues from services provided to corporates accounted for approximately 32.3%, 43.5%, 46.6% and 42.5%, respectively, of combined operating revenues in our alternative fixed line communications segment.

Our service offerings to residential subscribers primarily include dial-up and broadband Internet services through our Stream brand. In September 2005, we began offering pay TV services to residential subscribers through our StreamTV brand. For the years ended December 31, 2002, 2003 and 2004 and the nine months ended September 30, 2005, operating revenues from services provided to residential subscribers accounted for approximately 10.6%, 9.1%, 13.2% and 19.6%, respectively, of combined operating revenues in our alternative fixed line communications segment.

We offer a range of services to other fixed line communications operators, ISPs and mobile operators, including the following: (1) interconnection and completion services for telephone calls originating in Russia and the CIS, as well as calls terminating in Russia, (2) provision of a portion of our allocation of the "495" prefix Moscow telephone numbers to the subscribers of other alternative fixed line communications and mobile operators through agency agreements concluded with such operators, (3) data transmission services, including frame relay, SDH capacity and IP-VPNs, (4) IP transit ports, and (5) installation and maintenance of equipment on customers' premises. For the years ended December 31, 2002, 2003 and 2004 and the nine months ended September 30, 2005, operating revenues from services provided to operators accounted for approximately 51.3%, 43.2%, 36.6% and 33.8%, respectively, of combined operating revenues in our alternative fixed line communications segment.

The tariffs and fees we charge for alternative fixed line communications services are not regulated by any organization or governmental authority in Russia. Instead, we set our tariffs and fees with reference to our operating costs as well as market forces and we expect to decrease such tariffs and fees in the future as the competitive environment intensifies. We expect that future alternative fixed line operating revenues will be driven predominantly by an increase in broadband Internet and data services. To achieve these increases, we intend to further grow our subscriber base, migrate existing subscribers to higher speed and higher value packages, reduce tariffs for such services in order to gain additional subscribers with the aim of minimizing the effect of decreases in ARPU and consolidate market share.

Traditional fixed line communications segment

The following table sets forth the operating revenues from our traditional fixed line communications segment. Segment operating revenues are presented on an aggregated basis, which is operating revenues after elimination of intra-segment (between entities in the same segment) transactions, but before inter-segment (between entities in different segments) eliminations:

Traditional fixed line communications	Years ended December 31,			Nine months ended September 30,	
	2002	2003	2004	2004	2005
			(in thousands)		
Residential					
Voice	$ 78,421	$118,626	$156,094	$109,800	$163,465
Payphones	9,505	9,575	8,008	4,147	1,938
Additional telecommunication services	3,971	4,376	5,268	3,855	6,593
Other	7,298	7,267	2,061	1,728	2,137
Total	99,195	139,844	171,431	119,530	174,133
Corporates					
Voice	107,988	117,848	125,403	88,661	94,708
Access node / Trunks rental	13,482	15,597	19,215	14,479	26,707
Additional telecommunication services	14,510	7,680	9,907	6,392	9,021
Other	2,108	3,976	7,179	5,405	6,451
Total	138,088	145,101	161,704	114,937	136,887
Operators	65,738	100,734	147,712	113,493	151,988
Total revenues	$303,021	$385,679	$480,847	$347,960	$463,008

The following table sets forth certain operational data for our traditional fixed line communications segment:

Traditional Fixed Line Business	As of and for the years ended December 31,			As of and for the nine months ended September 30,	
	2002[1]	2003	2004	2004	2005
Subscribers[2]					
Residential	3,368,482	3,409,841	3,472,661	3,448,361	3,524,112
Corporates[3]	72,435	77,464	76,407	76,586	75,525
Operators	199	204	222	208	198
Total	3,441,116	3,487,509	3,549,290	3,525,155	3,599,835
Active telephone lines[2]					
Residential	3,368,482	3,409,841	3,472,661	3,448,361	3,524,112
Corporates	716,000	717,950	723,611	722,181	725,689
Total	4,084,482	4,127,791	4,196,272	4,170,542	4,249,801
Installed capacity (telephone lines)	4,334,862	4,367,102	4,491,055	4,402,066	4,610,323
Access node/line rented					
Corporates	30,035	30,348	31,154	31,074	31,186
Operators	120,943	131,576	170,736	144,393	182,996
Total	150,978	161,924	201,890	175,467	214,182
Interconnect/Operator					
DLD/ILD minutes (in thousands)	2,282,561	2,619,573	2,739,831	1,946,887	1,983,337
DLD/ILD traffic charges per minute	$ 0.009	$ 0.009	$ 0.010	$ 0.011	$ 0.010
ARPL (monthly)					
Residential—voice	$ 1.86	$ 2.79	$ 3.64	$ 3.42	$ 5.02
Corporates—voice	11.81	12.79	13.48	12.70	13.40
Revenue per access node/line (monthly)					
Corporates	$ 37.41	$ 42.83	$ 51.40	$ 51.77	$ 95.15
Operators	19.22	22.75	34.21	44.26	46.36

(1) Data for the year ended December 31, 2002 does not include Comstar UTS as control over Comstar UTS was acquired by Sistema in 2003.

(2) We calculate our subscribers based on the number of active lines in service. A line is considered "active" if the subscriber has used the service within the last 30 days.

(3) Includes state-owned enterprises and government agencies.

Regulated services

As the only licensed PSTN operator in Moscow, MGTS is considered a monopoly under Russian anti-monopoly regulations. Consequently, the Federal Tariff Service regulates MGTS' tariffs for voice telephony services provided to its PSTN subscribers, including monthly subscription fees, installation fees and local call charges. For the years ended December 31, 2002, 2003 and 2004 and for the nine months ended September 30, 2005, operating revenues from regulated services accounted for approximately 53.8%, 56.2%, 55.1% and 49.9% of MGTS' service revenues, respectively.

According to Russian legislation, MGTS is allowed to petition the Federal Tariff Service for tariff increases upon certain conditions, such as inflation or increases in the cost of services. Historically, MGTS has petitioned for tariff increases once or twice per year. See "Business—Our Customers and Services—Traditional Fixed Line Business—Residential" for a description of MGTS' regulated tariff development in the period from May 1, 1999 to October 1, 2005. In October 2005, the Federal Tariff Service increased fixed monthly charges by 17.6% for residential subscribers and by 5.0% for corporate subscribers and access fee charges by 20.0% for both residential and corporate subscribers. A large majority of our traditional fixed line revenues are derived from monthly subscription fees and, accordingly, we expect to continue to depend heavily on tariff increases to generate additional operating revenues.

Prior to January 1, 2005, MGTS was required to grant discounts ranging from 20% to 100% on installation and monthly fees to certain categories of residential subscribers, such as pensioners and military veterans and was entitled to full reimbursement of these discounts from the federal budget. In 2004, approximately 37.3% of MGTS' residential subscribers received discounts. In the years ended December 31, 2002, 2003 and 2004, the federal budget reimbursed approximately $8.1 million, $7.2 million and $10.0 million of these discounts, respectively representing 33.4%, 23.5% and 23.4% respectively, of the total owed to MGTS in these years. MGTS' right to any remaining reimbursement is not reflected in our combined financial statements as accounts receivable or otherwise, due to the uncertainty of collection. According to Russian legislation, effective as of January 1, 2005, substantially all residential subscribers are required to pay the full price for voice telephony services, and those entitled to discounts are to receive reimbursement from the government rather than discounts from MGTS.

As a result of the increase in regulated tariffs and the decrease in individuals eligible for discounts of our regulated services, operating revenues from regulated services increased in 2005.

Unregulated services

According to Russian legislation, data transmission, public payphones, value-added and a number of other services provided by MGTS are not subject to tariff regulation. During the years ended December 31, 2002, 2003, 2004 and the nine months ended September 30, 2005, operating revenues from unregulated services accounted for approximately 46.2%, 43.8%, 44.9% and 50.1%, respectively, of MGTS' operating revenues.

MGTS offers a range of services to other communications operators, including interconnection, leased line and data transmission services, for which we receive revenues from usage charges, service activation and installation fees and rental of lines, underground ducts and properties. For the years ended December 31, 2002, 2003, 2004 and the nine months ended September 30, 2005, operating revenues from services provided to other operators, including services to our alternative fixed line communications segment, accounted for approximately 21.7%, 26.1%, 30.7% and 32.8%, respectively, of MGTS' operating revenues. MGTS intends to increase its operating revenues in the future by offering additional value-added services over its partially upgraded network at unregulated rates.

MGTS has also established an active presence in the data transmission market. Its PDTN was established in 2001 and it allows MGTS to provide high quality high-speed ADSL-based Internet services on a wholesale basis to other operators. MGTS also provides other ADSL-based services on a wholesale basis to Comstar UTS and its subsidiaries, and we market them on the basis of line lease agreements. Pursuant to these agreements, MGTS receives monthly fees for each corporate and residential ADSL subscriber of Comstar UTS. As of September 30, 2005, we rented ADSL lines from MGTS at a rate of $86.00 and $8.00 per line per month for corporate and residential subscribers, respectively.

MGTS is not licensed to provide DLD/ILD telecommunications services directly to its subscribers but must route such traffic through a licensed DLD/ILD operator. As a result, DLD/ILD traffic originated by MGTS subscribers is carried by Rostelecom, the largest provider of DLD/ILD services in Russia, which bills MGTS subscribers directly. Under MGTS' revenue sharing agreement with Rostelecom for 2005, MGTS was entitled to receive a fixed annual fee for a certain portion of DLD/ILD traffic generated from MGTS subscribers based on traffic. If the amount of traffic exceeded a certain agreed upon level, MGTS was entitled to receive a certain percentage of the additional DLD/ILD revenue generated from MGTS subscribers. For the years ended December 31, 2002, 2003 and 2004 and the nine months ended September 30, 2005, Rostelecom paid MGTS approximately $1.8 million, $2.0 million, $2.4 million and $2.2 million per month on average of its DLD/ILD revenues generated by MGTS' subscribers. On December 1, 2005, MGTS entered into a new revenue sharing agreement with Rostelecom for 2006 in which MGTS receives predetermined tariffs for calls both initiated and terminated by MGTS' subscribers rather than a percentage of revenues.

Operating Expenses

The following table sets forth a breakdown of operating expenses of our alternative fixed line communications and traditional fixed line communications segments. Segment operating expenses are presented on an aggregated basis, which is operating expenses after elimination of intra-segment (between entities in the same segment) transactions, but before inter-segment (between entities in different segments) eliminations:

	Years ended December 31,			Nine months ended September 30,	
	2002	2003	2004	2004	2005
			(in thousands)		
Alternative fixed line communications					
Interconnection costs	$ 40,506	$ 72,401	$ 90,842	$ 71,827	$100,399
Employee costs	19,680	34,113	43,623	28,929	36,265
Depreciation and amortization	15,139	26,160	22,216	15,646	18,874
General and administrative expenses	9,531	13,122	13,591	7,544	10,008
Network repair and maintenance	4,757	7,538	7,202	4,050	3,086
Selling expenses	5,485	11,080	16,140	11,468	9,743
Other expenses, net	16,181	22,180	26,388	16,706	15,172
Total	111,279	186,594	220,002	156,170	193,547
Traditional fixed line communications					
Employee costs	80,903	114,839	154,567	114,032	130,953
Depreciation and amortization	38,466	46,020	53,922	38,961	49,987
General and administrative expenses	41,364	48,216	69,025	51,242	54,225
Network repair and maintenance	38,506	49,541	59,943	44,538	49,688
Selling expenses	2,834	3,307	3,312	1,106	1,516
Other expenses, net	16,613	22,554	26,949	21,262	27,428
Total	218,686	284,477	367,718	271,141	313,797
Eliminations	(27,724)	(44,526)	(66,306)	(44,814)	(71,319)
Combined operating expenses	$302,241	$426,545	$521,414	$382,497	$436,025

Interconnection costs

Interconnection costs include charges payable to other operators for access to, and use of, their networks, which are necessary in the course of providing service to our subscribers. Interconnection charges are primarily payments by our alternative fixed line communications segment to Rostelecom for use of its networks for routing of DLD/ILD traffic generated by our subscribers. We expect the liberalization of the Russian long distance telecommunications market to put pressure on unit interconnect costs; however, we anticipate that our overall interconnection costs will increase as our subscriber base and traffic volumes increase.

Employee costs

Employee costs include employee salaries, unified social tax payable to the Russian government and pension costs. While we expect staff salaries to increase in line with a more qualified workforce and the expected increase in average disposable income levels in Moscow, we do not expect overall employee costs to increase in the short term due to reductions in the number of personnel in our traditional fixed line communications segment resulting from our plans for network modernization and outsourcing of certain non-core functions. See "Business—Integration."

Depreciation of property and network equipment and amortization of intangibles

We expect depreciation and amortization expenses, which are principally associated with the depreciation of network equipment, to continue to increase in line with our network development program and the build-out associated with our regional license areas.

General and administrative expenses

Our general and administrative expenses include, among others, expenses related to utilities, rent, insurance and transportation. We expect that in the short term our general and administrative expenses will increase due to the expansion of our operations outside of Moscow and the Moscow region. Our research and development activities were not significant for the last three years and primarily included activities focused on new telecommunication technologies and evaluation of new or improved services and systems.

Network repair and maintenance

The costs of maintaining and repairing network equipment and transmission devices are charged to operating expenses as incurred. In the short term, we expect these costs to decline on a per subscriber basis, as we implement our plans for network modernization, which we believe should decrease the need for network repair and maintenance relative to the current level.

Selling expenses

Selling expenses reflect, among other things, advertising, promotions, commissions paid to distributors, and other costs associated with the expansion of our services and are expected to increase as subscriber numbers and market competition increase. In addition, we expect these costs to increase in the short term as we further develop our brands, introduce value-added services and focus on services such as pay TV which involve commission payments to our distributors.

Interest expense

We expect interest expense to increase in the short term. In January 2006, we incurred additional debt to finance the acquisition of MGTS' shares and other acquisitions. See "—Recent Developments."

Income tax expense

Taxation on income of Russian companies is regulated by a number of laws, government decrees and implementation instructions. From January 1, 2002, new Chapter 25 "Income Tax of Organizations" of the Tax Code became effective, which to some extent consolidates and simplifies income tax regulations.

The income tax base for Russian companies is defined as income received from sales of goods, works and services and property rights and income from non-sale operations, reduced by the amount of certain business expenses incurred in such operations. During the periods under review, these expenses were computed according to several special deductibility regulations. These regulations combined very detailed guidance as to what can be deducted for income tax purposes with specified limitations and restrictions on deductibility. Deductions were limited or denied for a number of items commonly seen as fully deductible under Western tax systems, such as interest on loans, advertising and business travel expenses above a stated limit, non-mandatory insurance expenses and training expenses. Additionally, the new income tax legislation does not provide for special tax concessions related to investments in infrastructure.

Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. We believe that we have adequately provided for tax liabilities in our combined financial statements; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues and the effect could potentially be significant. See "Risk Factors—Risks Relating to the Russian Federation—Legal Risks and Uncertainties—Characteristics of and changes in the Russian tax system could materially adversely affect our business, financial condition, results of operations and prospects and the value of the shares and GDRs."

Results of Operations

The following tables set forth selected financial information for our reportable segments as of the dates shown:

	Years Ended December 31,			Nine Months Ended September 30,	
	2002	2003	2004	2004	2005
			(in thousands)		
Operating revenues					
Alternative fixed line communications	$164,443	$249,025	$282,389	$207,970	$246,771
Traditional fixed line communications	303,021	385,679	480,847	347,960	463,008
Eliminations(1)	(28,709)	(45,486)	(68,103)	(45,352)	(72,956)
Total	438,755	589,218	695,133	510,578	636,823
Operating expenses					
Alternative fixed line communications	(111,279)	(186,594)	(220,002)	(156,170)	(193,547)
Traditional fixed line communications	(218,686)	(284,477)	(367,718)	(271,141)	(313,797)
Eliminations(1)	27,724	44,526	66,306	44,814	71,319
Total	(302,241)	(426,545)	(521,414)	(382,497)	(436,025)
Operating income					
Alternative fixed line communications	53,164	62,431	62,387	51,800	53,224
Traditional fixed line communications	84,335	101,202	113,129	76,819	149,211
Eliminations(1)	(985)	(960)	(1,797)	(538)	(1,637)
Total	136,514	162,673	173,719	128,081	200,798
Interest income					
Alternative fixed line communications	944	2,472	4,511	3,720	3,077
Traditional fixed line communications	950	2,246	3,430	2,758	2,372
Total	1,894	4,718	7,941	6,478	5,449
Interest expense					
Alternative fixed line communications	(1,506)	(1,488)	(1,562)	(1,459)	(968)
Traditional fixed line communications	(29,990)	(17,057)	(17,133)	(12,962)	(11,200)
Total	(31,496)	(18,545)	(18,695)	(14,421)	(12,168)
Foreign currency transactions gain	330	3,594	4,368	821	1,043
Loss from disposal of an affiliate	—	—	(6,610)	(6,610)	—
Income tax expense					
Alternative fixed line communications	(12,171)	(20,579)	(16,421)	(15,027)	(15,078)
Traditional fixed line communications	(10,258)	(18,269)	(24,655)	(19,656)	(35,226)
Total	(22,429)	(38,848)	(41,076)	(34,683)	(50,304)
Income from affiliates	2,427	1,259	542	552	96
Minority interests	(32,082)	(39,526)	(44,400)	(29,220)	(61,102)
Gain/(loss) from discontinued operations, net of income tax charge	6,985	(16,914)	4,182	4,182	—
Gain/(loss) from disposal of discontinued operations, net of income tax charge	1,507	—	(3,831)	(3,831)	—
Net income	$ 63,650	$ 58,411	$ 76,140	$ 51,349	$ 83,812

(1) Represents the elimination of intercompany sales, operating expenses and the related operating income, primarily for intercompany interconnection arrangements and sales of telephone numbering capacity, as well as other intercompany transactions.

Nine Months Ended September 30, 2005 Compared to the Nine Months Ended September 30, 2004

Operating Revenues

Our combined operating revenues increased by $126.2 million, or 24.7%, from $510.6 million for the nine months ended September 30, 2004 to $636.8 million for the nine months ended September 30, 2005. This increase was primarily due to the growth in tariffs for regulated services of our traditional fixed line communications segment and to the growth in the subscriber base of our alternative fixed line communications segment, particularly for broadband Internet services to residential subscribers, following the introduction of new competitive tariffs and our sales and marketing efforts.

Alternative fixed line communications

Operating revenues of our alternative fixed line communications segment increased by $38.8 million, or 18.7%, from $208.0 million for the nine months ended September 30, 2004 to $246.8 million for the nine months ended September 30, 2005.

Operating revenues from corporates increased by $8.1 million, or 8.4%, from $96.6 million for the nine months ended September 30, 2004 to $104.8 million for the nine months ended September 30, 2005. Operating revenues from the provision of data transmission and Internet services to corporates increased by $5.9 million, or 14.2%, from $41.5 million for the nine months ended September 30, 2004 to $47.4 million for the nine months ended September 30, 2005. This growth was primarily due to a 12.0% increase in the number of active lines utilized by corporate subscribers.

Operating revenues from residential subscribers increased by $22.7 million, or 88.7%, from $25.6 million for the nine months ended September 30, 2004 to $48.4 million for the nine months ended September 30, 2005. Growth in operating revenues from residential broadband subscribers accounted for more than half of the increase in our combined operating revenues. In September 2004, we introduced a new residential focused brand, Stream, and reduced ADSL tariffs by 50%, which led to an increase in the number of broadband subscribers from 37,003 as of September 30, 2004 to 198,654 as of September 30, 2005. Operating revenues from dial-up Internet services decreased by $3.6 million, or 19.1%, from $18.9 million for the nine months ended September 30, 2004 to $15.3 million for the nine months ended September 30, 2005, as the number of our residential dial-up subscribers declined from approximately 331,655 as of September 30, 2004 to approximately 232,004 as of September 30, 2005. The decrease was primarily the result of an internal migration of subscribers from a dial-up Internet package to one of our broadband Stream packages.

Operating revenues from operators increased by $6.9 million, or 9.0%, from $76.4 million for the nine months ended September 30, 2004 to $83.3 million for the nine months ended September 30, 2005. The number of active lines utilized by operators increased by approximately 24,000, or 5.9%, from approximately 406,000 in the nine months ended September 30, 2004 to 430,000 in the nine months ended September 30, 2005. In addition, the traffic from operators increased by 3.3% for the first nine months of 2005 compared to the corresponding period in 2004.

Traditional fixed line communications

Operating revenues from our traditional fixed line communications segment increased by $115.0 million, or 33.1%, from $348.0 million for the nine months ended September 30, 2004 to $463.0 million for the nine months ended September 30, 2005. This increase was primarily due to an increase in tariffs for regulated services for all categories of subscribers in October 2004.

Operating revenues from the provision of services to residential subscribers increased by $54.6 million, or 45.7%, from $119.5 million for the nine months ended September 30, 2004 to $174.1 million for the nine months ended September 30, 2005. This increase in revenues was primarily due to an increase in the regulated tariffs set by the Federal Tariff Service. Specifically, fixed monthly charges for voice transmission approved by the Federal Tariff Service for residential subscribers increased by $1.2 per month, or 26%, from $4.6 per month for the nine months ended September 30, 2004 to $5.8 per month for the corresponding period in 2005.

According to Russian legislation, effective as of January 1, 2005, substantially all residential subscribers are required to pay the full price for voice telephony services, and those entitled to discounts are to receive reimbursement directly from the government rather than through discounts from MGTS. In the nine months ended September 30, 2004, the discounts provided to residential subscribers for which we were not compensated by the federal budget totaled $19.6 million.

Operating revenues from the provision of services to corporates increased by $22.0 million, or 19.1%, from $114.9 million for the nine months ended September 30, 2004 to $136.9 million for the nine months ended September 30, 2005. Operating revenues from voice transmission services increased by $6.0 million, or 6.8%, from $88.7 million for the first nine months of 2004 to $94.7 million for the first nine months of 2005. This increase was primarily due to an increase in the regulated fixed monthly charges we were permitted to charge corporates, which increased by $1.4 per month, or 24.6%, from $5.7 per month for the nine months ended September 30, 2004 to $7.1 per month for the same period in 2005. Operating revenues from the rental of trunks increased by $12.2 million, or 84.1%, from $14.5 million for the nine months ended September 30, 2004 to $26.7 million for the corresponding period in 2005, resulting primarily from an increase in MGTS' tariffs for such services.

Operating revenues from the provision of services to operators increased by $38.5 million, or 33.9%, from $113.5 million for the nine months ended September 30, 2004 to $152.0 million for the nine months ended September 30, 2005. This increase was primarily attributable to tariff increases charged in the first nine months of 2005 for the rental of access nodes and trunks, as well as an increase in data transmission. Operating revenues from long distance interconnection declined by $1.5 million, or 7.0%, from $21.3 million for the nine months ended September 30, 2004 to $19.8 million for the corresponding period in 2005, primarily due to a decrease in the volume of long distance traffic generated by MGTS' subscribers.

Operating revenues from MGTS' sales to our alternative fixed line communications segment increased by $27.7 million, or 61.8%, from $44.8 million for the nine months ended September 30, 2004 to $72.5 million for the nine months ended September 30, 2005. This increase was primarily attributable to an increase in the volume of services provided by MGTS, particularly services provided pursuant to agreements for usage of MGTS' PDTN network, which is an essential component for providing broadband Internet services to end users. In addition, MGTS charged higher tariffs for the rental of its trunks.

Operating expenses

Combined operating expenses increased by $53.5 million, or 14.0%, from $382.5 million for the nine months ended September 30, 2004 to $436.0 million for the nine months ended September 30, 2005. More than 60% of the increase in operating expenses was attributable to an increase in employee costs and in depreciation and amortization expenses. Combined employee costs increased by $24.2 million, or 16.9%, from $143.0 million for the nine months ended September 30, 2004 to $167.2 million for the nine months ended September 30, 2005 and combined depreciation and amortization expenses increased by $14.3 million, or 26.2% from $54.6 million for the nine months ended September 30, 2004 to $68.9 million for the nine months ended September 30, 2005.

Alternative fixed line communications

Operating expenses of our alternative fixed line communications segment increased by $37.3 million, or 23.9%, from $156.2 million for the nine months ended September 30, 2004 to $193.5 million for the nine months ended September 30, 2005. In particular, interconnection costs of the segment increased by $28.6 million, or 39.8%, from $71.8 million for the nine months ended September 30, 2004 to $100.4 million for the nine months ended September 30, 2005, resulting from the growth in subscriber base and related increase in traffic volumes.

Employee costs of the segment increased by $7.4 million, or 25.6%, from $28.9 million for the nine months ended September 30, 2004, to $36.3 million for the nine months ended September 30, 2005. The increase in employee costs resulted primarily from the increase in the salary levels.

Depreciation and amortization expenses of the segment increased by $3.3 million, or 21.2%, from $15.6 million for the nine months ended September 30, 2004 to $18.9 million for the nine months ended September 30, 2005. The increase in depreciation and amortization expenses resulted from the continuing expansion of the segment's network in Moscow.

General and administrative expenses of the segment increased by $2.5 million, or 33.3%, from $7.5 million for the nine months ended September 30, 2004 to $10.0 million for the nine months ended September 30, 2005. The increase in general and administrative expenses resulted primarily from the introduction under the new Communications Law, effective second quarter 2005, of the levy to the "universal services reserve fund" of 1.2% of the difference between an operator's total revenues and revenues generated by interconnection and traffic transmission services.

Network repair and maintenance costs of the segment decreased by $1.0 million, or 24.4%, from $4.1 million for the nine months ended September 30, 2004 to $3.1 million for the nine months ended September 30, 2005, due to synergies from continuing operational integration of Comstar, MTU-Inform and Telmos.

Selling expenses of the segment decreased by $1.8 million, or 15.7%, from $11.5 million for the nine months ended September 30, 2004 to $9.7 million for the nine months ended September 30, 2005, resulting from a decrease in expenses for promotion of our unified Comstar UTS brand compared to the nine months ended September 30, 2004, partially offset by the increase in expenses for promotion of our Stream brand.

Traditional fixed line communications

Operating expenses of the traditional fixed line communications segment increased by $42.7 million, or 15.8%, from $271.1 million for the nine months ended September 30, 2004 to $313.8 million for the nine months ended September 30, 2005. The majority of the increase was attributable to the increase of employee costs and depreciation and amortization expenses.

Employee costs of the segment increased by $17.0 million, or 14.9%, from $114.0 million for the nine months ended September 30, 2004 to $131.0 million for the nine months ended September 30, 2005. The growth in employee costs of the segment resulted from a 16.5% increase in the base salary rate for MGTS' employees, which was partially offset by a 7.1% decline in the average number of MGTS' employees for the nine months ended September 30, 2005 compared to the same period in 2004.

Depreciation and amortization expenses of the segment increased by $11.0 million, or 28.2%, from $39.0 million for the nine months ended September 30, 2004 to $50.0 million for the nine months ended September 30, 2005, as we continued to invest in the modernization of MGTS' network.

General and administrative expenses of the segment increased by $3.0 million, or 5.9%, from $51.2 million for the nine months ended September 30, 2004 to $54.2 million for the nine months ended September 30, 2005. The increase in general and administrative expenses resulted primarily from the increase in allowance for doubtful accounts for the nine months ended September 30, 2005.

Network repair and maintenance expenses increased by $5.2 million, or 11.7%, from $44.5 million for the nine months ended September 30, 2004 to $49.7 million for the nine months ended September 30, 2005 primarily due to increasing costs of maintenance for the segment's analog equipment and cable network.

Selling expenses of the segment increased by $0.4 million, or 36.4%, from $1.1 million for the nine months ended September 30, 2004 to $1.5 million for the nine months ended September 30, 2005 due to the promotion of new value-added telecommunication services.

Operating income

Combined operating income increased by $72.7 million, or 56.8%, from $128.1 million for the nine months ended September 30, 2004 to $200.8 million for the nine months ended September 30, 2005. Our combined operating income margin was 25.1% for nine months ended September 30, 2004 compared to 31.5% for the corresponding period in 2005. The increase in the operating income margin was primarily attributable to an increase in regulated and unregulated tariffs for our traditional fixed line services.

Alternative fixed line communications

Operating income of our alternative fixed line communications segment increased by $1.4 million, or 2.7%, from $51.8 million for the nine months ended September 30, 2004 to $53.2 million for the nine months ended September 30, 2005. The operating income margin decreased from 24.9% for the nine months ended September 30, 2004 to 21.6% for the corresponding period in 2005 primarily due to an increase in the proportion of operating revenues from services with lower margins on a segment basis.

Traditional fixed line communications

Operating income of our traditional fixed line communications segment increased by $72.4 million, or 94.3%, from $76.8 million for the nine months ended September 30, 2004 to $149.2 million for the nine months ended September 30, 2005. The operating income margin increased from 22.1% for the nine months ended September 30, 2004 to 32.2% for the corresponding period in 2005 primarily as a result of an increase in both regulated and unregulated tariffs.

Interest expense

Combined interest expense decreased by $2.2 million, or 15.3%, from $14.4 million for the nine months ended September 30, 2004 to $12.2 million for the nine months ended September 30, 2005. In May 2005, MGTS issued five-year ruble-denominated bonds (fifth issue) in the amount of 1.5 billion rubles (equal to $52.6 million as of September 30, 2005). The proceeds from the issuance were used to repay previous bond issues. The decline in our combined interest expense was primarily due to a decrease in the interest rate of the most recent bond compared to the previous bond issues.

Foreign currency transactions gain

Combined foreign currency transactions gain was $0.8 million for the nine months ended September 30, 2004 and $1.0 million for the nine months ended September 30, 2005. The foreign currency transactions gain in both periods resulted primarily from the increase of the value of the ruble compared to the US dollar. See "—Quantitative and Qualitative Disclosures about Market Risks—Foreign Currency Risk."

Loss from disposal of an affiliate

Loss from the disposal of an affiliate in an amount equal to $6.6 million for the nine months ended September 30, 2004 was incurred upon the sale of our 23.5% stake in MCC, a wireless operator in the Moscow region, for a cash consideration of $0.7 million to Sky-Link, an affiliate of Sistema.

Income tax expense

Combined income tax expense increased by $15.6 million, or 45.0%, from $34.7 million for the nine months ended September 30, 2004 to $50.3 million for the nine months ended September 30, 2005. The effective tax rate declined from 30.3% for the nine months ended September 30, 2004 to 25.8% for the nine months ended September 30, 2005. The decrease of the effective tax rate was primarily due to a reduction of non-tax deductible expenses and decrease in the valuation allowance for deferred tax assets recognized in the nine months ended September 30, 2005.

Minority interests

Minority interests represent shares in the book value of net assets of our combined entities proportional to equity interests in those entities owned, directly or indirectly, by shareholders other than Sistema and its subsidiaries.

Minority interests increased by $31.9 million, or 109.2%, from $29.2 million for the nine months ended September 30, 2004 to $61.1 million for the nine months ended September 30, 2005, primarily as a result of growth of combined income before minority interests and of MGTS' share in the combined income.

Net income

As result of the foregoing factors combined net income increased by $32.5 million, or 63.4%, from $51.3 million for the nine months ended September 30, 2004 to $83.8 million for the nine months ended September 30, 2005.

Year Ended December 31, 2004 Compared to the Year Ended December 31, 2003

Operating revenues

Our combined operating revenues increased by $105.9 million, or 18.0%, from $589.2 million for the year ended December 31, 2003 to $695.1 million for the year ended December 31, 2004. This increase over the period was primarily due to the growth in tariffs for regulated services offered by our traditional fixed line communications segment. The increase in operating revenues was also due to growth in the subscriber base of our alternative fixed line communications segment, particularly broadband subscribers, following the introduction of new competitive tariffs and our sales and marketing efforts.

Alternative fixed line communications

Operating revenues from our alternative fixed line communications segment increased by $33.4 million, or 13.4%, from $249.0 million for the year ended December 31, 2003 to $282.4 million for the year ended December 31, 2004.

Operating revenues from services provided to our corporates increased by $23.1 million, or 21.3%, from $108.4 million for the year ended December 31, 2003 to $131.5 million for the year ended December 31, 2004. The increase in operating revenues from corporates was primarily due to a 16.0% increase in our corporate subscriber base and a 59.0% increase in traffic from corporates, which was partially offset by a reduction in our tariffs.

Operating revenues from services provided to our residential subscribers increased by $14.5 million, or 63.6%, from $22.8 million for the year ended December 31, 2003 to $37.3 million for the year ended December 31, 2004. In September 2004, we introduced a new residential focused brand, Stream, and reduced ADSL tariffs by 50%, which led to an increase in the number of our broadband Internet subscribers from approximately 4,400 as of December 31, 2003 to approximately 102,500 as of December 31, 2004. At the same time, the number of our dial-up Internet subscribers declined from approximately 493,200 as of December 31, 2003 to approximately 343,700 as of December 31, 2004. The decrease was primarily the result of an internal migration of subscribers from a dial-up Internet packages to one of our broadband Stream packages.

Operating revenues from services provided to operators declined by $4.2 million, or 3.9%, from $107.7 million for the year ended December 31, 2003 to $103.5 million for the year ended December 31, 2004, primarily due to the decrease in revenues from the rental of numbering capacity.

Traditional fixed line communications

Operating revenues from our traditional fixed line communications segment increased by $95.1 million, or 24.7%, from $385.7 million for the year ended December 31, 2003 to $480.8 million for the year ended December 31, 2004.

Operating revenues from services provided to our residential subscribers increased by $31.6 million, or 22.6%, from $139.8 million for the year ended December 31, 2003 to $171.4 million for the year ended December 31, 2004. This increase in revenues was primarily due to an increase of 17.8% in the regulated tariffs set by the Federal Tariff Service. In addition, traffic volume increased for the year ended December 31, 2004 compared to 2003.

Operating revenues from services provided to our corporate subscribers increased by $16.6 million, or 11.4%, from $145.1 million for the year ended December 31, 2003 to $161.7 million for the year ended December 31, 2004. This increase in revenues was primarily due to an increase of 5.3% in the regulated tariffs set by the Federal Tariff Service. In addition, traffic volume increased for the year ended December 31, 2004 compared to 2003.

Operating revenues from services provided to operators increased by $47.0 million, or 46.7%, from $100.7 million for the year ended December 31, 2003 to $147.7 million for the year ended December 31, 2004. This increase was attributable to an increase in the number of access channels by 29.8% and an increase in the number of subscribers by 8.8%.

Operating expenses

Combined operating expenses increased by $94.9 million, or 22.3%, from $426.5 million for the year ended December 31, 2003 to $521.4 million for the year ended December 31, 2004. The increase in operating expenses was primarily attributable to an increase in combined employee costs of $49.2 million, or 33.0%, from $149.0 million for the year ended December 31, 2003 to $198.2 million for the year ended December 31, 2004, resulting from salary increases for our employees and an increase in taxes other than income taxes of $14.3 million, or 94.1%, from $15.2 million for the year ended December 31, 2003 to $29.5 million for the year ended December 31, 2004, resulting from changes in tax legislation effective from January 1, 2004, which abolished property tax exemptions for network infrastructure.

Alternative fixed line communications

Operating expenses of our alternative fixed line communications segment increased by $33.4 million, or 17.9%, from $186.6 million for the year ended December 31, 2003 to $220.0 million for the year ended December 31, 2004. In particular, interconnection and line rental costs increased by $18.4 million, or 25.4%, from $72.4 million in the year ended December 31, 2003 to $90.8 million in the year ended December 31, 2004, primarily due to the growth in our subscriber base and related traffic expenses.

Employee costs of the segment increased by $9.5 million, or 27.9%, from $34.1 million for the year ended December 31, 2003 to $43.6 million for the year ended December 31, 2004, resulting from the increase of salary levels and performance based bonuses paid to employees in 2004.

Depreciation and amortization expenses of the segment decreased by $4.0 million, or 15.3%, from $26.2 million for the year ended December 31, 2003 to $22.2 million for the year ended December 31, 2004. The decrease in depreciation and amortization expenses resulted from the allocation of the purchase price for a 50% stake in Comstar acquired in December 2003, which decreased the historical basis of Comstar's property, plant and equipment.

General and administrative expenses of the segment increased by $0.5 million, or 3.8%, from $13.1 million for the year ended December 31, 2003 to $13.6 million for the year ended December 31, 2004, primarily resulting from an increase in rents.

Network repair and maintenance costs of the segment decreased from $7.5 million for the year ended December 31, 2003 to $7.2 million for the year ended December 31, 2004.

Selling expenses of the segment increased by $5.0 million, or 45.0%, from $11.1 million for the year ended December 31, 2003 to $16.1 million for the year ended December 31, 2004. The increase in selling expenses resulted primarily from the promotion campaigns for our unified Comstar UTS and Stream brands launched in 2004.

Traditional fixed line communications

Operating expenses of our traditional fixed line communications segment increased by $83.2 million, or 29.2%, from $284.5 million for the year ended December 31, 2003 to $367.7 million for the year ended December 31, 2004. The increase in operating expenses was primarily attributable to an increase in employee costs of $39.8 million, or 34.7%, from $114.8 million for the year ended December 31, 2003 to $154.6 million for the year ended December 31, 2004. This increase resulted from an increase in salary levels for MGTS' employees, while the average number of employees of MGTS in 2004 decreased by 3.5% compared to 2003.

Depreciation and amortization expenses of the segment increased by $7.9 million, or 17.2%, from $46.0 million for the year ended December 31, 2003 to $53.9 million for the year ended December 31, 2004, as we continued to invest in the modernization of MGTS' network.

General and administrative expenses of the segment increased by $20.8 million, or 43.2%, from $48.2 million for the year ended December 31, 2003 to $69.0 million for the year ended December 31, 2004. The increase in general and administrative expenses resulted primarily from an increase in taxes other than income taxes of $15.3 million, or 143.0%, from $10.7 million for the year ended December 31, 2003 to $26.0 million for the year ended December 31, 2004, following changes in tax legislation effective from January 1, 2004 which abolished property tax exemptions for network infrastructure, and an increase in rents and prices of utilities.

Network repair and maintenance costs of the segment increased by $10.4 million, or 21.0%, from $49.5 million for the year ended December 31, 2003 to $59.9 million for the year ended December 31, 2004, primarily due to increasing costs of maintenance for the segment's analog equipment and cable network.

Selling expenses of the segment remained at $3.3 million for the years ended December 31, 2003 and 2004.

Operating income

Combined operating income increased by $11.0 million, or 6.8%, from $162.7 million for the year ended December 31, 2003 to $173.7 million for the year ended December 31, 2004. Our combined operating income margin was 27.6% for the year ended December 31, 2003 compared to 25.0% for the year ended December 31, 2004. This decrease in our combined operating income margin was primarily due to an increase in property tax expenses which resulted from the abolition of property tax exemptions for network infrastructure, which became effective on January 1, 2004.

Alternative fixed line communications

Operating income of our alternative fixed line communications segment remained at $62.4 million for the years ended December 31, 2003 and 2004. The operating income margin decreased from 25.1% for the year ended December 31, 2003 to 22.1% for the year ended December 31, 2004, primarily due to an increase in the proportion of operating revenues from services with lower margins, including Internet services and services to other operators.

Traditional fixed line communications

Operating income of our traditional fixed line communications segment increased by $11.9 million, or 11.8%, from $101.2 million for the year ended December 31, 2003 to $113.1 million for the year ended December 31, 2004. The operating income margin decreased from 26.2% for the year ended December 31, 2003 to 23.5% for 2004, primarily as a result of an increase of personnel costs on a per subscriber basis and the abolition of property tax exemptions for network infrastructure.

Interest expense

Combined interest expense was $18.5 million and $18.7 million for the years ended December 31, 2003 and 2004, respectively. We did not enter into any significant new loan agreements during the year ended December 31, 2004. In April 2004, however, MGTS issued five-year ruble-denominated bonds in the amount of 1.5 billion rubles (equal to for the $54.1 million as of December 31, 2004). The proceeds from the issuance were used to repay previous bond issues.

Foreign currency transactions gain

Combined foreign currency transactions gain was $3.6 million for the year ended December 31, 2003 compared to $4.4 million for the year ended December 31, 2004. The foreign currency transactions gain in both periods was primarily the result of an increase of the value of the ruble compared to the US dollar. See "—Quantitative and Qualitative Disclosures about Market Risks—Foreign Currency Risk."

Loss from disposal of an affiliate

Loss from the disposal of an affiliate in an amount equal to $6.6 million for the year ended December 31, 2004 was incurred upon the sale of our 23.5% stake in MCC, a wireless operator in the Moscow region, for cash consideration of $0.7 million to Sky-Link, an affiliate of Sistema.

Income tax expense

Combined income tax expense increased by $2.3 million, or 5.9%, from $38.8 million for the year ended December 31, 2003 to $41.1 million for the year ended December 31, 2004. The effective tax rate was stable at 25.5% for the years ended December 31, 2003 and 2004.

Minority interests

Minority interests increased by $4.9 million, or 12.4%, from $39.5 million for the year ended December 31, 2003 to $44.4 million for the year ended December 31, 2004, primarily as a result of the growth of combined income before minority interests and of MGTS' share in the combined income.

Discontinued operations

During 2003, Sistema discontinued operations of P-Com, which was operating a CDMA-800 network in Moscow. In August 2004, we sold 83.25% of the ordinary shares of P-Com to Sky-Link for consideration in the amount of $16.0 million. Loss on disposal of discontinued operations, net of income tax charges, for the year ended December 31, 2004 amounted to $3.8 million.

Our combined financial statements reflect P-Com as a discontinued operation for the years ended December 31, 2003 and 2004. Accordingly, revenues, costs and expenses, assets, liabilities and cash flows of P-Com have been excluded from the respective captions in the combined statements of operations, balance sheets and statements of cash flows for the years ended December 31, 2003 and 2004.

The results of discontinued operations, net of income tax charges, for the years ended December 31, 2003 and 2004 amounted to a loss of $16.9 million and a gain of $4.2 million, respectively. Loss from discontinued operations, net of income tax charge, for the year ended December 31, 2003 included an impairment charge of $19.3 million, that arose as a result of an impairment test of goodwill assigned to P-Com, performed concurrently with the decision of Sistema to discontinue operations of P-Com.

Net income

As a result of the foregoing factors combined net income increased by $17.7 million, or 30.3%, from $58.4 million for the year ended December 31, 2003 to $76.1 million for the year ended December 31, 2004.

Year Ended December 31, 2003 Compared to the Year Ended December 31, 2002

Operating revenues

Combined operating revenues increased by $150.4 million, or 34.3%, from $438.8 million for the year ended December 31, 2002 to $589.2 million for the year ended December 31, 2003. In 2003, Sistema acquired control over Comstar UTS, which contributed $52.7 million to our combined operating revenues for the year ended December 31, 2003. Excluding the increase in operating revenues due to the acquisition of Comstar UTS, our combined operating revenues for the year ended December 31, 2003 increased by $97.7 million, or 22.3%. This increase was due to the growth in tariffs for regulated services of our traditional fixed line communications segment and to the growth in the subscriber base of our alternative fixed line communications segment in 2003.

Alternative fixed line communications

Operating revenues from our alternative fixed line communications segment increased by $84.6 million, or 51.5%, from $164.4 million for the year ended December 31, 2002 to $249.0 million for the year ended December 31, 2003. This increase in operating revenues was attributable to an increase in our subscriber base both through organic growth of our businesses and acquisitions. The subscriber base for our alternative fixed line communications segment increased from approximately 382,429 as of December 31, 2002 to approximately 525,566 as of December 31, 2003. The acquisition of Comstar UTS added approximately 63,000 subscribers, while the remaining increase, primarily related to our Internet services, resulted from active marketing campaigns. The acquisition of Comstar UTS contributed $64.5 million to operating revenues of our alternative fixed line communications segment. Excluding the effects of the Comstar UTS acquisition, operating revenues from our alternative fixed line business increased by $20.1 million, or 12.2%, for the year ended December 31, 2003.

Operating revenues from services provided to corporates increased by $55.3 million, or 104.1%, from $53.1 million for the year ended December 31, 2002 to $108.4 million for the year ended December 31, 2003. The acquisition of Comstar UTS added $48.8 million to operating revenues from services provided to corporates for the year ended December 31, 2003, while the organic growth of operating revenues from corporates for the same period was $6.5 million, or 12.2%. The organic growth resulted primarily from a 17.0% increase in the number of active lines.

Operating revenues from services provided to residential subscribers increased by $5.4 million, or 31.0%, from $17.4 million for the year ended December 31, 2002 to $22.8 million for the year ended December 31, 2003. The increase was attributable to the growth in the number of our broadband Internet subscribers from approximately 800 as of December 31, 2002 to approximately 4,400 as of December 31, 2003, while the number of our dial-up Internet subscribers increased from approximately 371,400 as of December 31, 2002 to approximately 493,150 as of December 31, 2003. This increase in revenues from subscriber growth was partially offset by a decrease in tariffs for these services.

Operating revenues from services provided to operators increased by $23.3 million, or 27.6%, from $84.4 million for the year ended December 31, 2002 to $107.7 million for the year ended December 31,

2003. The acquisition of Comstar UTS added $12.3 million to revenues from operators for the year ended December 31, 2003, while the increase in operating revenues due to organic growth for the same period was $11.0 million, an increase of 13.0%. The 29.0% increase in traffic from operators was partially offset by a decrease of tariffs charged to operators.

Traditional fixed line communications

Operating revenues from our traditional fixed line communications segment increased by $82.7 million, or 27.3%, from $303.0 million for the year ended December 31, 2002 to $385.7 million for the year ended December 31, 2003. The increase was primarily attributable to the increase in tariffs for regulated services for residential subscribers, as well as for corporates and the public sector (including state-owned enterprises and governmental agencies funded by the federal budget).

Operating revenues from services provided to residential subscribers increased by $40.6 million, or 40.9%, from $99.2 million for the year ended December 31, 2002 to $139.8 million for the year ended December 31, 2003. Fixed monthly charges for residential subscribers increased from $2.7 per month as of January 1, 2002 to $4.6 per month as of August 1, 2003. Although the number of residential subscribers increased slightly from approximately 3,370,000 as of December 31, 2002 to approximately 3,410,000 as of December 31, 2003, the average monthly charge for residential subscribers during that same period increased by 43.2%. Therefore, the increase in operating revenues was primarily the result of an increase in the regulated tariffs paid by residential subscribers.

Operating revenues from services provided to corporates increased by $7.0 million, or 5.1%, from $138.1 million for the year ended December 31, 2002 to $145.1 million for the year ended December 31, 2003. Fixed monthly charges for public sector subscribers increased by 17.9% as of December 31, 2003 compared to 2002. However, operating revenues generated by the increase in tariffs was largely offset by a decrease in the nominal rate of the ruble against the US dollar, which adversely affected revenues from fixed monthly charges, as well as installation fees for most of 2003.

Operating revenues from services provided to operators increased by $35.0 million, or 53.3%, from $65.7 million for the year ended December 31, 2002 to $100.7 million for the year ended December 31, 2003. Revenues generated by our traditional fixed line communications segment for intercompany sales to our alternative fixed line operators increased by $16.1 million, or 56.9%, from $28.3 million for the year ended December 31, 2002 to $44.4 million for the year ended December 31, 2003. This increase in revenues was attributable to growth in the volume of services. In addition, long-distance interconnection revenues from Rostelecom increased by $3.5 million, or 16.5%, from $21.2 million for the year ended December 31, 2002 to $24.7 million for the corresponding period in 2003 as a result of an increase in traffic generated by MGTS' subscribers. For a further description of our arrangement with Rostelecom, see "Business—Our Customers and Services—Traditional Fixed Line Business."

Operating expenses

Combined operating expenses increased by $124.3 million, or 41.1%, from $302.2 million for the year ended December 31, 2002 to $426.5 million for the year ended December 31, 2003. The acquisition of Comstar UTS contributed $50.5 million to our combined operating expenses for the year ended December 31, 2003. Excluding the effects of the acquisition of Comstar UTS, our combined operating expenses for the year ended December 31, 2003 increased by $73.8 million, or 24.4%, to $376.0 million. The increase in combined operating expenses was primarily attributable to an increase in combined employee costs of $48.4 million, or 48.1%, from $100.6 million for the year ended December 31, 2002 to $149.0 million for the year ended December 31, 2003. The acquisition of Comstar UTS contributed $10.0 million to our combined employee costs for the year ended December 31, 2003.

Alternative fixed line communications

Operating expenses of our alternative fixed line communications segment increased by $75.3 million, or 67.7%, from $111.3 million for the year ended December 31, 2002 to $186.6 million for the year ended December 31, 2003. The acquisition of Comstar UTS contributed $59.9 million to the operating expenses of the segment for the year ended December 31, 2003. Excluding the effects of the acquisition of Comstar UTS, operating expenses of the segment for the year ended December 31, 2003 increased by $15.4 million, or 13.8%, to $126.7 million. The growth of the segment's operating expenses in 2003 was primarily attributable to an increase in interconnection and line rental expenses and to the write-off of Telmos' equipment damaged by the fire in February 2003 at one of MGTS' switching stations, in excess of the insurance coverage.

Interconnection costs of the segment increased by $12.0 million (excluding the effect of the acquisition of Comstar UTS of $19.9 million), or 29.6%, from $40.5 million for the year ended December 31, 2002 to $52.5 million for the year ended December 31, 2003. The increase in interconnection costs resulted from an increase in the subscriber base.

Employee costs of the segment increased by $4.4 million (excluding the effect of the acquisition of Comstar UTS of $10.0 million), or 22.3%, from $19.7 million for the year ended December 31, 2002 to $24.1 million for the year ended December 31, 2003, resulting from an increase in salary levels.

Depreciation and amortization expenses of the segment decreased by $1.5 million (excluding the effect of the acquisition of Comstar UTS of $12.6 million), or 9.9%, from $15.1 million for the year ended December 31, 2002 to $13.6 million for the year ended December 31, 2003, following the write-off of equipment damaged by the fire at one of MGTS' switching stations in February 2003.

General and administrative expenses of the segment decreased by $2.0 million (excluding the effect of acquisition of Comstar UTS of $5.6 million), or 21.1%, from $9.5 million for the year ended December 31, 2002 to $7.5 million for the year ended December 31, 2003. The decrease in general and administrative expenses was primarily due to changes in tax legislation, effective January 1, 2003, which abolished the road users tax for companies.

Network repair and maintenance costs of the segment increased by $2.4 million (excluding the effect of the Comstar UTS acquisition of $0.3 million), or 50.0%, from $4.8 million for the year ended December 31, 2002 to $7.2 million for the year ended December 31, 2003, as a result of the expansion of our network.

Selling expenses of the segment increased by $3.2 million (excluding the effect of the acquisition of Comstar UTS of $2.4 million), or 58.2%, from $5.5 million for the year ended December 31, 2002 to $8.7 million for the year ended December 31, 2003, resulting from an increase in expenses for our brands.

Traditional fixed line communications

Operating expenses of our traditional fixed line communications segment increased by $65.8 million, or 30.1%, from $218.7 million for the year ended December 31, 2002 to $284.5 million for the year ended December 31, 2003. This was primarily due to $33.9 million, $11.0 million and $7.5 million increases in employee costs, network repair and maintenance expenses and depreciation and amortization charges, respectively. The increase in employee costs occurred as a result of an increase in the salary rates of MGTS' employees, while the average number of employees of MGTS for 2003 decreased by 0.6% compared to 2002.

Depreciation and amortization expenses of the segment increased by $7.5 million, or 19.5%, from $38.5 million for the year ended December 31, 2002 to $46.0 million for the year ended December 31, 2003, as we continued to invest in the modernization of MGTS' network.

General and administrative expenses of the segment increased by $6.8 million, or 16.4%, from $41.4 million for the year ended December 31, 2002 to $48.2 million for the year ended December 31, 2003. The increase in general and administrative expenses was a result of the increased prices for rent and utilities, partially offset by the abolition of the road users tax.

Network repair and maintenance costs increased by $11.0 million, or 28.6%, from $38.5 million for the year ended December 31, 2002 to $49.5 million for the year ended December 31, 2003, primarily due to increasing costs of maintenance for the segment's analog equipment and expansion of our network.

Selling expenses of the segment increased slightly by $0.5 million, or 17.9%, from $2.8 million for the year ended December 31, 2002 to $3.3 million for the year ended December 31, 2003, due to the promotion of new value-added telecommunication services.

Operating income

Combined operating income margin was 31.1% for the year ended December 31, 2002 compared to 27.6% for the year ended December 31, 2003. The decrease in our combined operating income margin was due to an increase in personnel costs on a per subscriber basis and to the acquisition of Comstar UTS and the costs associated with its operations, which had a relatively lower margin of 7.3% for the year ended December 31, 2003.

Alternative fixed line communications

Operating income of our alternative fixed line communications segment increased by $9.2 million, or 17.3%, from $53.2 million in the year ended December 31, 2002 to $62.4 million in the year ended December 31, 2003. The increase was primarily attributable to the acquisition of Comstar UTS, which contributed $4.8 million to operating income for the year ended December 31, 2003 and to the increase in the number of active lines of the existing businesses. This increase, however, was partially offset by losses resulting from the write-off of Telmos' equipment damaged by the fire at one of MGTS' switching stations in February 2003, that amounted to $6.8 million, net of insurance coverage.

Traditional fixed line communications

Operating income of our traditional fixed line communications segment increased by $16.9 million, or 20.0%, from $84.3 million for the year ended December 31, 2002 to $101.2 million for the year ended December 31, 2003. However, the operating income margin of the segment decreased from 27.8% for the year ended December 31, 2002 to 26.2% for the year ended December 31, 2003, primarily as a result of the growth of employee costs on a per subscriber basis.

Interest expense

Combined interest expense decreased from $31.5 million for the year ended December 31, 2002 to $18.5 million for the year ended December 31, 2003 due to the repayment of the Sberbank loan and MGTS bonds. This indebtedness was refinanced at lower rates.

Foreign currency transactions gain

Combined foreign currency transactions gain was $0.3 million for the year ended December 31, 2002 compared to $3.6 million for the year ended December 31, 2003. The foreign currency transactions gain in both periods resulted primarily from an increase in the value of the ruble compared to the US dollar. See "—Quantitative and Qualitative Disclosures about Market Risks—Foreign Currency Risk."

Income tax expense

Combined income tax expense increased by $16.4 million, or 73.2%, from $22.4 million for the year ended December 31, 2002 to $38.8 million for the year ended December 31, 2003. Increases in income tax expenses were the result of an increase in the effective tax rate from 20.9% as of December 31, 2002, to 25.5% for the same period in 2003. The increase was primarily due to a decrease in the valuation allowance for deferred tax assets recognized in the year ended December 31, 2002.

Minority interests

Minority interests increased by $7.4 million, or 23.1%, from $32.1 million for the year ended December 31, 2002 to $39.5 million for the year ended December 31, 2003, as a result of the growth of combined income before income tax and minority interests and of MGTS' share of the combined income.

Discontinued operations

The results of P-Com, net of income tax effects, for the years ended December 31, 2002 and 2003, amounted to a gain of $7.0 million and a loss of $16.9 million, respectively.

In October 2002, we sold 7.5% of the ordinary shares of P-Com to Qualcomm for a promissory note with a par value of $5.1 million. The net gain on the disposal, amounting to $1.5 million, was included in the gain on disposal of discontinued operations for the year ended December 31, 2002.

Loss from discontinued operations, net of income tax charge, for the year ended December 31, 2003 included an impairment charge of $19.3 million that arose as a result of an impairment test of goodwill assigned to P-Com, performed concurrently with the decision of Sistema to discontinue operations of P-Com. P-Com was disposed of in August 2004.

Net income

As a result of the foregoing factors, combined net income decreased by $5.3 million, or 8.3%, from $63.7 million for the year ended December 31, 2002 to $58.4 million for the year ended December 31, 2003.

Liquidity and Capital Resources

Capital Requirements

We need capital to finance the following:

- capital expenditures, consisting of cash outlays for purchases of property, plant and equipment and intangible assets;
- acquisitions, including acquisitions of minority interests;
- repayment of debt;
- changes in working capital; and
- general corporate activities, including dividends.

We anticipate that capital expenditures, acquisitions, repayment of debt and dividends will represent the most significant uses of funds for several years to come.

Our cash outlays for capital expenditures, consisting of purchases of property, plant and equipment and intangible assets, in the years ended December 31, 2002, 2003 and 2004 and the nine months ended September 30, 2005 were $89.4 million, $100.3 million, $168.8 million and $142.7 million, respectively. We expect to continue to finance most of our capital expenditure needs through our operating cash flows and, to the extent required, additional indebtedness incurred through borrowings or capital raising activities, including this offering. Historically, a significant portion of our capital expenditures have been related to the modernization and expansion of our network, and we expect that capital expenditures in connection with the continued modernization of our network will remain for the foreseeable future a large portion of our cash outflows. These investments are required to accelerate the development of our NGN and ADSL build-out in the Moscow area, as well as to modernize MGTS' network. We may incur additional capital expenditures to finance the build-out in select regions in Russia during 2006 and 2007. We estimate our capital expenditures to be approximately $374 million and $295 million for 2006 and 2007, respectively. Our actual capital expenditures may vary significantly from our estimates. See "Business—Capital Expenditures for Network Development."

Our business strategy include the selective expansion into other regions in Russia and other CIS countries through acquisitions. See "Business—Business Strategy." In the nine months ended September 30, 2005, we spent $8.5 million in cash to acquire a 20% stake in Telmos and $12.2 million in cash to acquire a 45% stake in Metrocom. Since September 30, 2005, we have spent another $76.4 million to acquire businesses, including $52.9 million for the acquisition of ordinary shares of MGTS. See "—Acquisitions" and "—Recent Developments." Our cash requirements relating to potential acquisitions may vary significantly based on market opportunities and the availability of attractive acquisition opportunities.

MGTS paid dividends of approximately $3.0 million, $5.3 million, $9.7 million and $12.0 million in the years ended December 31, 2002, 2003 and 2004 and the nine months ended September 30, 2005, respectively. Of these amounts, $1.2 million, $3.5 million, $6.5 million and $6.8 million, respectively, were paid to MGTS' preferred shareholders. On June 18, 2005, MGTS' shareholders approved cash dividends totaling $12.0 million (including dividends of $6.8 million to preferred shareholders). MGTS' preferred shares carry guaranteed dividend rights amounting to the higher of (1) 10% of MGTS' net profit as determined under Russian accounting standards and (2) the dividends paid on ordinary shares. We expect MGTS will continue to pay dividends.

Capital Resources

Our major sources of capital have been cash provided by operations, proceeds of MGTS' ruble-denominated bond issuances and other debt financings, including capital leases. We will continue to rely on these sources, and may also access international debt and equity markets. The availability of debt financing is influenced by many factors, including our profitability, operating cash flows, debt levels, credit ratings, contractual restrictions and market conditions. We cannot assure you that we will be able to continue to obtain debt financing in the future.

As of September 30, 2005, our indebtedness was comprised of the following:

Indebtedness	Currency	Annual interest rate (Actual rate at September 30, 2005)	Amount
			(in thousands)
MGTS Bonds 4th issue	RUR	10.0%	$ 52,634
MGTS Bonds 5th issue	RUR	8.3%	52,634
Total bonds			105,268
ABN Amro	USD	LIBOR+2.95%	20,039
Citibank	USD	LIBOR+1.6%	19,583
MBRD	USD	11%	11,344
Vneshtorgbank	EUR	higher of 7.5% or EURIBOR+5.4%	7,895
Vneshtorgbank	EUR	EURIBOR+5.4%	6,296
Vneshtorgbank	USD	LIBOR+4.9%	2,920
Commerzbank	EUR	4.0%	2,912
Alfa Bank	USD	12.5%	275
Long-term portion of vendor financing	various	various	7,762
Short-term portion of vendor financing	various	various	12,649
Total debt			196,943
Less amounts maturing within one year			(83,232)
Total debt, net of current portion			$113,711

The following table presents aggregate scheduled maturities of debt principal outstanding as of September 30, 2005:

Payments due in the year ended September 30,	Amount
	(in thousands)
2006	$ 83,232
2007	29,103
2008	15,080
2009	9,943
2010	59,191
Thereafter	394
Total	$196,943

In addition, we had capital lease obligations in the amount of $21.3 million as of September 30, 2005, respectively. The terms of our material debt obligations and capital lease obligations as of September 30, 2005 are described in Notes 14 and 15, respectively, to our interim combined financial statements.

Our ability to incur further debt is limited by restrictive covenants in some of our debt financings, as follows:

The credit facilities MGTS entered into with Citibank (amounting to $19.6 million in total outstanding balance as of September 30, 2005) contain restrictive covenants, which require MGTS to maintain a debt to equity ratio and debt service to earnings before interest and taxes ratio not exceeding 3:1 and not to incur more than $250.0 million in debt. The written approval of Citibank is required for MGTS to obtain borrowings individually exceeding $30.0 million or to alienate more than 10% of its assets.

In September 2005, Comstar UTS entered into a credit facility agreement with ABN Amro, which also contains several restrictive covenants. For instance, Comstar UTS is required, among other things, to maintain an interest cover ratio equal to or more than 3:1 and a total debt to earnings before interest, taxes, depreciation and amortization ratio equal to or less than 3:1 and to not alienate more than 3% of its assets. As of September 30, 2005, the amount outstanding under the credit facility was $20.0 million.

In January 2006, Comstar UTS entered into a syndicated credit facility agreement with ING Bank (Eurasia) ZAO, ZAO ABN AMRO BANK A.O. and ZAO International Moscow Bank, in the amount of $65.0 million, which requires Comstar UTS, among other things, to (1) maintain a debt to operating income before depreciation and amortization expenses ratio equal to or less than 3:1, (2) not encumber its assets in an amount exceeding $17.5 million, (3) not alienate more than 5% of its assets and (4) not incur more than $290.0 million in debt. Comstar UTS had drawn $65.0 million under this credit facility as of the date of this prospectus.

In addition, Sistema is subject to various covenants in the indentures relating to its outstanding notes (in the aggregate principal amount of $700.0 million), which impose restrictions on Sistema and its restricted subsidiaries (including us) with respect to, *inter alia*, incurrence of indebtedness, creation of liens and disposal of assets. See "Risk Factors—Risks Relating to Our Financial Condition—Certain of our loan agreements and the indentures of our controlling shareholder contain restrictive covenants."

A summary of our cash flows is presented below for the periods indicated:

	Years Ended December 31,			Nine Months Ended September 30,	
	2002	2003	2004	2004	2005
			(in thousands)		
Net cash provided by operations	$151,911	$ 207,449	$ 225,806	$ 158,599	$ 223,759
Net cash used in investing activities					
Capital expenditures[(1)]	(89,365)	(100,306)	(168,847)	(112,911)	(142,689)
Acquisition of subsidiaries, net of cash acquired	22	3,018	—	—	—
Acquisition of minority interests in a combined entity	—	—	—	—	(8,529)
Purchases of short-term and long-term investments, net of proceeds from sale	1,028	(50,123)	(37,157)	(58,510)	(66,588)
Other	1,181	2,875	18,132	19,146	5,668
Total	(87,134)	(144,536)	(187,872)	(152,275)	(212,138)
Net cash used in financing activities					
Contributions from the controlling shareholder	—	—	—	—	12,508
Proceeds from borrowings	50,294	91,990	101,329	88,065	117,023
Principal payments on borrowings and capital lease obligations	(92,778)	(141,059)	(110,610)	(95,171)	(114,348)
Dividends and other distributions to shareholders	(4,174)	(6,583)	(10,201)	(9,741)	(17,393)
Total	(46,658)	(55,652)	(19,482)	(16,847)	(2,210)
Effects of currency translation on cash and cash equivalents	(665)	102	2,032	331	(764)
Net increase in cash and cash equivalents	$ 17,454	$ 7,363	$ 20,484	$ (10,192)	$ 8,647

(1) Consisting of cash outlays for purchases of property, plant and equipment and intangible assets.

Nine months ended September 30, 2005 compared to the nine months ended September 30, 2004

Net cash provided by operations increased by $65.2 million, or 41.1%, from $158.6 million for the nine months ended September 30, 2004 to $223.8 million for the nine months ended September 30, 2005. The increase was primarily attributable to the growth in operating income, which increased by $72.7 million, partially offset by an increase in working capital.

Net cash used in investing activities increased by $59.8 million, or 39.3%, from $152.3 million for the nine months ended September 30, 2004 to $212.1 million for the nine months ended September 30, 2005. This increase is the result of several factors, including an increase by $29.8 million in capital expenditures and an increase by $36.4 million in long-term investments (primarily related to the acquisition of a 45% stake in Metrocom and promissory notes of Sistema's subsidiaries and affiliates). These factors were partially offset by a decrease in net purchases of short-term investments (primarily promissory notes of Sistema's subsidiaries and affiliates) during the nine months ended September 30, 2005 compared to the corresponding period in 2004.

Net cash used in financing activities decreased by $14.6 million, or 86.9%, from $16.8 million for the nine months ended September 30, 2004 to $2.2 million for the nine months ended September 30, 2005. Net cash used in financing activities decreased because we obtained additional financing through the issuance by MGTS of five-year ruble-denominated bonds in the amount of 1.5 billion rubles (equal to $52.6 million as of September 30, 2005) in May 2005. MGTS paid dividends in the total amount of $12.0 million during the nine months ended September 30, 2005, which included dividends paid to preferred shareholders. For the nine months ended September 30, 2005, Sistema contributed $12.5 million in cash to the group comprising $5.5 million in proceeds from a disposal of promissory notes and $7.0 million related to a cash contribution of Sistema to the increase of the share capital of Sistema Multimedia in the third quarter of 2005.

Year ended December 31, 2004 compared to the year ended December 31, 2003

Net cash provided by operations increased by $18.4 million, or 8.9%, from $207.4 million for the year ended December 31, 2003 to $225.8 million for the year ended December 31, 2004. The increase was primarily attributable to an increase of the combined operating income and deferred connection fees collected from subscribers in 2004.

Net cash used in investing activities increased by $43.4 million, or 30.0%, from $144.5 million for the year ended December 31, 2003 to $187.9 million for the year ended December 31, 2004. Of the $187.9 million used in investing activities, $168.8 million was related to the purchase of property, plant and equipment and intangible assets, and $37.8 million to purchases of short-term investments (primarily promissory notes of Sistema's subsidiaries and affiliates), which were partially offset by the proceeds from the disposal of P-Com shares in the amount of $16.0 million.

Net cash used in financing activities in 2004 was $19.5 million. MGTS paid dividends in the total amount of $9.7 million during 2004, which also included dividends paid to preferred shareholders. The remaining amount was used to repay our borrowings, including capital lease obligations.

Year ended December 31, 2003 compared to the year ended December 31, 2002

Net cash provided by operations increased by $55.5 million, or 36.5%, from $151.9 million for the year ended December 31, 2002 to $207.4 million for the year ended December 31, 2003. This increase was primarily attributable to the combination of Comstar UTS in our financial statements effective January 1, 2003, and an increase in the combined operating income for the year ended December 31, 2003 compared to 2002.

Net cash used in investing activities increased by $57.4 million, or 65.9%, from $87.1 million for the year ended December 31, 2002 to $144.5 million for the year ended December 31, 2003. Increased net cash used in investing activities was due in large part to the purchase of property, plant and equipment and intangible assets, as well as purchases of short-term investments (primarily promissory notes of Sistema's subsidiaries and affiliates), which were partially offset by cash in the amount of $3.0 million acquired as a result of the acquisition of Comstar UTS and proceeds from the sale of shares in certain non-core investees and settlement of long-term promissory notes in the aggregate amount of $4.1 million.

Net cash used in financing activities increased by $9.0 million, or 19.3%, from $46.7 million for the year ended December 31, 2002 to $55.7 million for the year ended December 31, 2003. Of this amount, $43.8 million related to net cash outflows from repayment of borrowings (primarily repayment of the first issue of MGTS bonds in amount of $9.5 million, partial repayment of the second issue of MGTS bonds in amount of $12.8 million and repayment of loans from banks in the amount of $21.5 million), $6.6 million to dividend payments and $5.3 million to principal payments on capital lease obligations.

Liquidity

As of December 31, 2004 and September 30, 2005, we had total cash and cash equivalents of $67.4 million and $76.1 million, respectively. Of these amounts, $45.5 million and $68.1 million, respectively, were deposited with the MBRD, a subsidiary of Sistema. In addition, we had short-term investments of $105.3 million and $121.7 million as of December 31, 2004 and September 30, 2005. A majority of these investments consisted of time deposits at and promissory notes of MBRD. See notes 5 and 6 to our combined financial statements.

For developments related to our debt financings subsequent to September 30, 2005, see "Recent Developments." In particular, we have obtained a syndicated loan facility from ING Bank, ABN Amro Bank and Moscow International Bank in the amount of $65.0 million to finance the acquisition of MGTS' shares and other acquisitions.

Working Capital

We define working capital as current assets less current liabilities. Our combined working capital increased by $28.4 million, or 25.2%, from $112.5 million as of December 31, 2004 to $140.9 million as of September 30, 2005. The increase in working capital was primarily attributable to the excess of cash provided by operations for the first nine months of 2005 over cash used during the same period for investing and financing purposes.

Our combined working capital increased by $24.0 million, or 27.1%, from $88.5 million as of December 31, 2003 to $112.5 million as of December 31, 2004. The increase in working capital was primarily attributable to the excess of cash provided by operations for the year ended December 31, 2004 over cash used during that year for investing and financing purposes. Cash and cash equivalents and short-term investments increased by $20.4 million and $38.9 million to $67.4 million and $105.3 million, respectively, in 2004.

As of December 31, 2002, we had working capital of $21.5 million compared to $88.5 million as of December 31, 2003. Short-term investments increased by $60.7 million. The significant increase in working capital was primarily due to the refinancing of short-term debt to Sberbank.

Credit Ratings

Our credit ratings impact our ability to obtain short- and long-term financing, and the cost of such financing. In determining our credit ratings, the rating agencies consider a number of factors, including our operating cash flows, total debt outstanding, commitments, interest requirements, liquidity needs and availability of liquidity. Other factors considered may include our business strategy, the condition of our industry and our position within the industry. Although we understand that these and other factors are among those considered by the rating agencies, each agency might calculate and weigh each factor differently.

The credit ratings of certain of our subsidiaries as of the date of this prospectus were as follows:

Issuer	Rating Agency	Long-Term Debt Rating	Outlook/Watch
MGTS	Standard & Poor's(1)	BB–	Stable
MGTS	Moody's(2)	Ba3	Stable

(1) Rated on March 24, 2005

(2) Rated on January 19, 2006

None of our existing indebtedness has any events of default provisions related to our credit ratings.

Critical Accounting Policies

Critical accounting policies are those policies that require the application of management's most challenging, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. We believe that our most critical accounting policies are those described below. For a detailed discussion of these and other accounting policies, see the combined financial statements included elsewhere in this prospectus.

Revenue Recognition

Our revenues are principally derived from the provision of telecommunications services, which consist of monthly subscription fees, local traffic charges, connection fees, revenues from data transmission and internet services, revenues from value-added and additional services, revenues from services to other operators and revenues from payphones. We record revenues over the periods they are earned as follows:

- Monthly subscription fees are recognized in the month during which the telephone services are provided to customers;
- Local traffic charges are recognized as the services are provided;
- Upfront fees received for connection of new subscribers are deferred and recognized over the expected subscriber relationship period. According to management estimates, the average subscriber relationship period for residential fixed line subscribers of voice services in our traditional fixed line business is 15 years. For all other categories of subscribers, except for residential subscribers of our broadband Internet services, the subscriber relationship period is estimated at 3 to 5 years. Effective July 1, 2005, we changed our estimates of average subscriber lives for residential subscribers of broadband Internet services from 3 years to 1 year. Net income increased by approximately $4.0 million, net of income tax, for the nine months ended September 30, 2005, as a result of this change in estimate;
- Revenues from the provision of data transmission and internet services are recognized when the services are provided to customers;
- Revenues derived from value-added and additional telecommunications services are recognized when the services are provided to customers;
- Revenues from services to other operators are recognized when the services are provided to the operators; and
- Revenues from payphones are recognized as the prepaid calling cards are used by the customer or expire.

Local voice services provided by MGTS to corporate and residential subscribers, accounting for approximately 37.2%, 36.8%, 38.1% of the combined revenues for the years ended December 31, 2002, 2003 and 2004, respectively, and 36.3% of the combined revenues for the nine months ended September 30, 2005, are regulated tariff services, and changes in the rate structure for these services are subject to the Federal Tariff Service's approval. We believe that MGTS is not subject to the requirements of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" as the regulated rates for local voice services provided by MGTS are not designed to recover the specific costs of providing the services.

Useful Lives of Property Plant and Equipment

We calculate depreciation expense for property, plant and equipment on a straight-line basis over their estimated useful lives. We establish useful lives for each category of property, plant and equipment, as indicated in Note 2 to our combined financial statements, based on our assessment of the use of the assets and anticipated technology evolution. We review and revise if appropriate the assumptions used in the determination of useful lives of property, plant and equipment at least on an annual basis.

Impairment of Long-lived Assets

We periodically evaluate the recoverability of the carrying amount of our long-lived assets in accordance with Statement of Financial Accounting Standard, or SFAS, No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, we compare undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, we record impairment losses to write the asset down to fair value, measured by the estimated discounted net future cash flows expected to be generated from the use of the assets.

Translation Methodology

We follow a translation policy in accordance with SFAS No. 52, "Foreign Currency Translation." Due to the highly inflationary economy in the Russian Federation in 2002, the US dollar (our reporting currency) was designated as our functional currency. Accordingly, all foreign currency amounts were translated into US dollars using the remeasurement method.

Starting from January 1, 2003, the Russian economy ceased to be considered highly inflationary for accounting purposes. We have determined that beginning January 1, 2003, the functional currency of MGTS would be the Russian ruble. Accordingly, the reporting currency amounts for MGTS were translated into its functional currency at the exchange rate current at January 1, 2003. These amounts became the new accounting bases for the non-monetary assets and liabilities. We believe that the US dollar is still the appropriate functional currency of the companies within our alternative fixed line business, as the majority of our revenues, costs, capital expenditures and debt are either priced, incurred, payable or otherwise measured in US dollars.

We have selected the US dollar as our reporting currency and translate financial statements of MGTS into US dollars. Assets and liabilities are translated at the exchange rates current at the balance sheet date, while income and expense items are translated at average rates of exchange prevailing during the period.

The ruble is generally not convertible outside of the territory of the Russian Federation. The translation of ruble-denominated assets and liabilities into US dollars for the purpose of our financial statements does not indicate that we could realize or settle in US dollars the reported values of the assets and liabilities. Likewise, it does not indicate that we could return or distribute the reported US dollar values of capital and retained earnings to our shareholders.

Taxation

Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. Even where our tax declarations have been already inspected, these inspections do not eliminate the possibility of re-inspection.

We believe that we have adequately provided for tax liabilities and contingencies in our financial statements; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

We recognize deferred tax assets and liabilities for the expected future tax consequences of existing differences between financial reporting and tax reporting bases of assets and liabilities, and loss or tax credit carry forwards using enacted tax rates expected to be in effect at the time these differences are realized. We record valuation allowances for deferred tax assets when it is more likely than not that these assets will not be realized.

New Accounting Standards

In July 2004, the EITF issued EITF No. 02-14, "Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock." A consensus was reached regarding an investor that has the ability to exercise significant influence over the operating and financial policies of the investee. This type of investor should apply the equity method of accounting only when it has an investment(s) in common stock and/or an investment that is in-substance common stock. The Task Force also reached a consensus on the definition of in-substance common stock and related guidance. EITF No. 02-14 is effective for reporting periods beginning after September 15, 2004. We are evaluating whether the adoption of EITF No. 02-14 will have a material impact on its financial position or results of operations.

In September 2004, the EITF issued a final consensus on EITF Issue No. 04-1, "Accounting for Preexisting Relationships between the Parties to a Business Combination." In this issue the EITF reached a consensus that a business combination between two parties having a preexisting relationship is a multiple-element transaction with one element being the business combination and the other element being the settlement of the preexisting relationship. This Issue requires certain additional disclosures for business combinations between parties with a preexisting relationship. EITF Issue No. 04-1 is effective for reporting periods beginning after October 13, 2004. We do not anticipate that the adoption of EITF Issue No. 04-1 will have a material impact on its financial position or results of operations.

At the September 2004 meeting of the Emerging Issues Task Force, the SEC staff issued an announcement D-108, "Use of the Residual Method to Value Acquired Assets Other Than Goodwill," which requires the companies to use the direct value method to determine the fair value of their intangible assets acquired in business combinations completed after September 29, 2004. Under the new accounting guidance, we will use the direct method to measure the fair value of licenses acquired in the future business combinations. We do not anticipate impact from adoption of the above SEC guidance to be material to our combined results of operations or financial position.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets," an amendment of APB Opinion No. 29, "Accounting for Nonmonetary Transactions." SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets set in the APB Opinion No. 29 and replaces it with a general exception for exchanges that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective prospectively for nonmonetary exchanges occurring after June 15, 2005. We do not anticipate the adoption of SFAS No. 153 to have a material impact on our results of operations or financial position.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("FAS No. 123R"), a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123R supersedes Accounting Principles Board, or APB, Opinion No. 25, "Accounting for Stock Issued to Employees" and requires all entities to recognize compensation cost in an amount equal to the fair value of share-based payments grant-date to employees. That cost will be recognized over the period during which an employee is required to provide service in exchange for an award of equity instruments. For public entities (other than those filing as small business issuers) SFAS No. 123R is effective in the first interim or annual reporting period of the first fiscal year that begins after June 15, 2005. For nonpublic entities SFAS No. 123R is effective in the first annual reporting period that begins after December 15, 2005. Companies can select whether they will apply the standard retroactively by restating their historical financial statements or prospectively for new stock-based compensation arrangements and the unvested portion of existing arrangements. We do not anticipate the adoption of SFAS No. 123R will have a material impact on our financial position, cash flows and results of operations.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143." This Interpretation clarifies that the term "conditional asset retirement obligation" as used in FASB Statement No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity, in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists to make a reasonable estimate of the fair value of the obligation. Interpretation 47 becomes effective beginning January 1, 2006. We are currently in the process of assessing effects of Interpretation 47 on our combined financial position and result of operations.

In March 2005, the SEC released Staff Accounting Bulletin 107, "Share-Based Payments," or SAB 107. The interpretations in SAB 107 express views of the SEC staff regarding the interaction between SFAS No. 123R and certain SEC rules and regulations, and provide the SEC staff's views regarding the valuation of share-based payment arrangements for public companies. In particular, SAB 107 provides guidance related to share-based payment transactions with nonemployees, the transition from non-public to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS No. 123R in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS No. 123R, the modification of employee share options prior to adoption of SFAS No. 123R.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," which replaces APB Opinion No. 20, "Accounting Changes" and FAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle and is applicable to all voluntary changes and to changes required by an accounting pronouncement if such pronouncement does not specify transition provisions. SFAS No. 154 requires retrospective application to the prior periods' financial statements of changes in accounting principle. In cases when it is impracticable to determine the period-specific or cumulative effects of an accounting change, the statement provides that the new accounting principle should be applied as of the earliest period for which retrospective application is practicable or, if impracticable to determine the effect of a change to all prior periods, prospectively from the earliest date practicable. This Statement shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In June 2005, the EITF reached a consensus on EITF Issue No. 05-2, "The Meaning of 'Conventional Convertible Debt Instrument' in EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." Issue No. 00-19 is used to evaluate whether embedded derivatives should be bifurcated under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. Specifically, Statement 133 provides guidance as to when an issuer is required to bifurcate a conversion option that is embedded in convertible debt. However, Issue 00-19 does not define "conventional convertible debt instrument." Given the development of numerous contractual terms that may be included in a convertible debt instrument, it is not clear when a convertible debt instrument is "conventional." The consensus reached by EITF No. 05-2 is effective for new instruments entered into and instruments modified in reporting periods after June 29, 2005. We do not anticipate the adoption of EITF No. 05-2 to have a material impact on our financial position and results of operations.

In June 2005, the EITF reached a consensus on EITF Issue No. 05-6, "Determining the Amortization Period for Leasehold Improvements." As part of a business combination, the acquiring entity will often assume existing lease agreements of the acquired entity and acquire the related leasehold improvements. The issues are whether the "lease term" should be re-evaluated at consummation of a purchase business combination and whether the amortization period for acquired leasehold improvements should be re-evaluated by the acquiring entity in a business combination. The consensus reached by EITF No. 05-6 is effective for leasehold improvements that are purchased or acquired in reporting periods beginning June 29, 2005. We do not anticipate the adoption of EITF No. 05-6 to have a material impact on our financial position and results of operations.

Off-balance Sheet Arrangements

Obligations under guarantee contracts

As of September 30, 2005 our off-balance sheet arrangements consisted of debt guarantees issued to related parties as follows:

	Guaranteed amount outstanding at September 30, 2005
	(in thousands)
Sistema-Hals	$ 8,000
Invest-Svyaz-Holding	8,500
Sky-Link	22,500
Total	$39,000

In 2004, MGTS became a guarantor under a credit facility provided to Sistema-Hals by WestLB Vostok Bank. The loan of $10.4 million matures in December 2006. MGTS' guarantee amounted to $8.0 million as of September 30, 2005.

In 2004, MGTS became a guarantor under a credit facility provided to Invest-Svyaz-Holding by Commerzbank (Eurasia). The credit line for the total amount of $17.0 million matures in 2006. MGTS' guarantee amounted to $8.5 million as of September 30, 2005. Invest-Svyaz-Holding uses this facility primarily to finance its leases to MGTS.

In 2004, MTU-Inform issued guarantees to MBRD on behalf of Sky-Link for a total amount of $22.5 million, all of which expired in the fourth quarter of 2005.

Under the above guarantees, we could potentially be liable for a maximum amount of $16.5 million in case of the borrowers' default under their obligations. As of the date of this prospectus, no event of default occurred under any of the guarantees issued by us. We are currently not aware of any events that would cause a default of the borrowers, which would require us to make payments under these guarantees. These guarantees are not reflected in our combined balance sheet.

Tabular Disclosure of Contractual Obligations

We have various contractual obligations and commercial commitments to make future payments, including debt agreements, lease obligations and certain committed obligations. The following table summarizes our future obligations (including interest) under these contracts due by the periods indicated as of September 30, 2005:

	October 1, 2005-September 30, 2006	October 1, 2006-September 30, 2007	October 1, 2007-September 30, 2008	October 1, 2008-thereafter	Total
			(in thousands)		
Contractual Obligations:					
Notes payable	$ 64,536	$ 4,369	$ 4,369	$ 61,371	$134,645
Bank loans	21,518	24,258	18,006	19,807	83,589
Capital leases	10,167	8,172	5,499	640	24,478
Operating leases and service agreements	6,368	5,323	3,512	34,007	49,210
Committed Investments:					
Purchases of property, plant and equipment	6,100	—	—	—	6,100
Total	$108,689	$42,122	$31,386	$115,825	$298,022

In December 2003, MGTS announced its long-term investment program for the period from 2004 to 2012 providing for extensive capital expenditures including the expansion and full digitalization of its Moscow telephone network. The program was approved by a resolution of the Moscow government dated December 16, 2003. Capital expenditures to be made under the investment program are currently estimated at approximately $1.6 billion during the years 2004-2012 and include reconstruction of 350 local telephone stations and installation of 4.3 million digital phone numbers. Telephone stations with total capacity of 220,308 and 309,640 digital phone numbers were installed during the year ended December 31, 2004 and the nine months ended September 30, 2005, respectively. As of the date of this prospectus, the investment agreements with the Moscow government regarding the realization of the investment program have not been signed.

Quantitative and Qualitative Disclosures about Market Risks

We are exposed to market risk from changes in both foreign currency exchange rates and interest rates. We are subject to market risk deriving from changes in interest rates, which may affect the cost of our financing. We do not use financial instruments, such as foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks. We do not hold or issue derivative or other financial instruments for trading purposes as at September 30, 2005.

Foreign Currency Risk

Our principal exchange rate risk involves changes in the value of the ruble relative to the US dollar. As a result of inflation in Russia, we link monetary assets and transactions of our alternative fixed line business, when possible, to the US dollar. We have not entered into any currency hedging arrangements.

A majority of our capital expenditures and operating and borrowing costs of our alternative fixed line business are either denominated in US dollars or tightly linked to the US dollar exchange rate. These include salaries, interconnection costs, cost of customer equipment, capital expenditures and borrowings. In order to hedge against a significant portion of this risk, we also denominate a majority of the tariffs of our alternative fixed line business, which are payable in rubles, in units linked to the US dollar and require accounts to be settled at the official exchange rate of the Central Bank of Russia on the date of payment.

If the ruble declines against the US dollar and our tariffs cannot be adjusted accordingly due to competitive or other reasons, the operating margins in our alternative fixed line business could be adversely affected.

Our investment in monetary assets denominated in rubles is also subject to risk of loss in US dollar terms. In particular, we are unable to hedge the risks associated with our ruble bank or deposit accounts mainly due to the virtual absence of this market in Russia. The potential decline in the value of the ruble against the US dollar also reduces the US dollar value of tax savings arising from the depreciation of our property, plant and equipment since their basis for tax purposes is denominated in rubles at the time of the investment or acquisition.

A portion of our capital expenditures, operating and borrowing costs are denominated in euro. We currently do not hedge against the risk of decline in the ruble or the US dollar against the euro.

Interest Rate Risk

We are exposed to variability in cash flow risk related to our variable interest rate debt and exposed to fair value risk related to our fixed-rate bonds. As of September 30, 2005, approximately $56.7 million, or 26.0% of our total indebtedness, including capital leases, was variable interest rate debt, while $161.6 million, or 74.0% of our total indebtedness, including capital leases, was fixed interest rate debt. Currently, we do not use derivative financial instruments such as swaps, futures, options or forward rate agreements to manage interest rate risk.

For indebtedness with variable interest rates, the table below presents principal cash flows and related weighted average interest rates by contractual maturity dates as of September 30, 2005.

Contractual Maturity Date as of September 30, 2005

Bank	Currency	2006	2007	2008	2009	2010	Total	Annual interest rate (Actual interest rate at September 30, 2005)
		(in thousands except percentages)						
ABN Amro	USD	$ 8,571	$11,468	$ —	$ —	$ —	$20,039	LIBOR+2.95% (7.18%)
Citibank	USD	4,127	5,733	5,733	3,186	804	19,583	LIBOR+1.6% (5.83%)
Vneshtorgbank	USD	1,961	959	—	—	—	2,920	LIBOR+4.9% (9.13%)
Total USD variable debt		$14,659	$18,160	$5,733	$3,186	$ 804	$42,542	
Weighted average USD interest rate		4.8%	6.0%	5.3%	4.7%	2.9%	5.4%	
Vneshtorgbank	EUR	$ 1,754	$ 1,754	$1,754	$1,754	$ 879	$ 7,895	EURIBOR+5.4% (7.56%)
Vneshtorgbank	EUR	1,259	1,259	1,259	1,259	1,259	6,295	EURIBOR+5.0% (7.21%)
Total EUR variable debt		$ 3,013	$ 3,013	$3,013	$3,013	$2,138	$14,190	
Weighted average EUR interest rate		4.9%	6.9%	6.7%	6.3%	4.7%	6.0%	

We would experience an additional interest expense of approximately $0.6 million on an annual basis as a result of a hypothetical increase in the LIBOR/EURIBOR by 1.0% over the current rate as of September 30, 2005. For details of our variable rate debt, see Note 14 to our interim combined financial statements.

The fair value of MGTS fixed-rate long-term bonds as of September 30, 2005 ranged from 102.0% to 102.4% of the notional amount. As of September 30, 2005, the difference between the carrying value and the fair value of other fixed rate debt, including capital lease obligations was immaterial. For details of our fixed rate debt, see to Note 14 to our interim combined financial statements. The fair value of variable rate debt is equivalent to the carrying value.

INDUSTRY

Fixed Line Communications Industry Trends in Europe

We consider the following industry trends in Europe to be important to our business.

Transition to all-IP networks

The advancement of IP-routing protocols, such as MPLS, has enabled operators to combine various services into a single IP-network. This, coupled with the low unit costs of IP-equipment, has meant that, in time, the most cost-effective form of network will be a multiple service IP-platform. Incumbent operators around the world are replacing the costly multiple network infrastructure with a single network. The most significant impact of this change will be the eventual replacement of the "circuit-switched" PSTN/ISDN network with an IP-one, initially for components of the network and a limited number of customers, but eventually in its entirety. Companies, such as our subsidiary MGTS, which have not yet fully implemented ISDN, will have the potential to skip that generation of technology and move straight to IP in all future upgrades *i.e*., rolling out a triple-play network as discussed in more detail below.

Advancement in DSL speeds is increasing the importance of copper loop ownership

DSL technology has developed through a combination of hardware- and software-based developments, ranging from speeds not much faster than ISDN (*e.g*., first deployments of DSL tended to be around 256 Kbps, 4x an ISDN single channel speed) to speeds previously only achieved with fiber optics and corporate Ethernet in-building networks (*e.g*., ADSL2+ has downstream speed of up to 24 Mbps, which is faster than the standard Ethernet speeds). While the speed realized depends on both the quality of the copper and the distance between the subscriber and the exchange building, these advances nevertheless suggest that the copper loop of the incumbent operators can become the core access infrastructure for IP broadband networks. Fiber optic networks will still need to be deployed for the backbone but not "to the building," as previously expected. In cities where the copper path lengths are short (meaning DSL effective speeds are very high), fiber to the local exchange may be all that is required.

MGTS' average copper path length in Moscow is approximately 1.7 km, while typically DSL can work on lengths up to 5 km without the need for a signal amplifier. As in other countries, DSL technology is widespread in Russia. According to Pyramid Research, DSL lines represented approximately 36.6% of the total broadband infrastructure in Moscow as of September 30, 2005. We are increasingly using DSL technology to provide value-added services to corporate and residential subscribers. MGTS owns most of the "last mile" infrastructure in Moscow. Therefore, the further implementation of DSL technology to upgrade service levels in Russia appears to be the most efficient and cost effective approach. According to Pyramid Research, MGTS had approximately 75% of the total copper wire infrastructure in Moscow as of September 30, 2005.

Increasing demand for bandwidth

The general increase in Internet use to access a variety of services and applications, together with the development and improvement of bandwidth-intensive services and applications accessible over the Internet, such as online gaming and video streaming, accounts, in part, for the increase in broadband penetration in recent years. That is, dial-up access to the Internet is increasingly inadequate for consumers' requirements. In addition, the increase in popularity of digital entertainment devices (*e.g*., TV, video and music players) combined with measures to protect against piracy, has led to increased use of digital format in content transmission and recording, such as television programs, movies and music. The Internet eliminates the need for physical reproduction and shipping and, therefore, is currently the lowest-cost distribution medium for such digital content. We are the largest ISP in Moscow by number of subscribers. According to Pyramid Research, we had a 50.5% market share of Internet dial-up subscribers and approximately 30% of broadband Internet subscribers in Moscow as of September 30, 2005.

Voice over Broadband/IP—"Double Play"

We believe adding voice services to DSL networks running packet prioritization is technologically simple and incrementally profitable. Voice can be digitized into very few data packets relative to other applications and be carried effectively over modern IP networks. However, to retain quality, voice packets must be given priority in order to minimize delay, or latency, and must be reassembled in the correct order. Independent VoIP operators, such as Skype, that lack end-to-end networks, cannot ensure the packet prioritization that voice services require. Providers of broadband Internet services, particularly if also providing extensive end-to-end network connectivity, can bundle voice with broadband, the so-called "Double Play." We believe that we are well positioned to provide IP-based services in Moscow for subscribers of such services taking into account our vast infrastructure, large subscriber base and competitive offering of broadband services. However, the potential transition to IP-based services in the future will be subject to the receipt of a DLD/ILD license and further global technological developments.

Digital video initiatives—"triple play"

The combination of streaming protocols for IP/LAN networks, higher speeds of ADSL2+ technology and security systems designed to deal with piracy collectively allow DSL/LAN operators to add TV and video services to their core broadband offerings, providing a potentially attractive incremental revenue stream for broadband operators. In many well-developed broadband markets, competition has arisen among incumbent network operators, cable TV operators and DSL/LAN operators to develop attractive "triple play" offerings, such as broadband Internet services, VoIP and digital TV. One of our focuses is developing "triple play" services to residential subscribers in Moscow and the Moscow region. Through MGTS, we benefit from direct access to end-users not available to our competitors. In addition, we produce our own proprietary TV content and provide it to our StreamTV subscribers and sell it to other pay TV providers. We also intend to form strategic alliances with various global content providers, as well as expand regionally.

Fixed Mobile Convergence (FMC)—"quadruple play"

The trend of mobile for fixed substitution is growing across the United States and Western Europe, as more and more mobile users make calls from their mobile handsets rather than from a fixed line and, in some cases, dispense with their fixed line altogether. FMC should give the fixed line operators the opportunity to respond by allowing subscribers to use an integrated Wi-Fi/mobile handset. The handset would automatically connect to a fixed network when in close proximity and to a mobile network when the subscriber is far from a fixed network (*e.g.*, in transit or outside a building). One example of such FMC service is "BT Fusion" by BT Group plc in the United Kingdom, which can roam on mobile networks as a subscriber leaves the premises where the fixed line is located. Given that most mobile calls are made when the subscriber is stationary and/or in close proximity to a fixed network, the opportunity for fixed line operators to take back revenue with an FMC product is significant assuming proper marketing and the implementation of technological solutions, such as convenient and functional handsets. Until FMC is fully realized, effective fixed line tariffs per minute/second must remain sufficiently low in order to retain fixed line customers. We believe the absence of an FMC product or infrastructure does not represent an immediate threat to MGTS, as the cost of a fixed line in Moscow has remained low relative to mobile handset costs.

Opportunities for end-to-end network operators

The proliferation of MPLS, incumbents operating over one IP-based network versus multiple legacy networks and the shift among residential consumers to channel all communications into and out of the home through one modem create significant theoretical synergies for end-to-end network operators. The ability to provide high margin services in bundled packages with voice services at significantly lower costs than similar services provided by non-facilities-based alternative operators represents a significant competitive advantage for an end-to-end network operator. We believe our combined business has the potential to capitalize on such opportunities in the long term subject to the receipt of a DLD/ILD license.

Fixed Line Communications Industry Trends in Russia

The fixed line communications industry in Russia is expected to post one of the highest growth rates worldwide. According to Pyramid Research, the total revenues of the traditional fixed line segment in Russia is likely to grow at a 13.4% CAGR from 2005 to 2010, compared to a 0.24% decline expected for the industry globally in the same period and 1.8% decline for the industry in Western Europe. The alternative fixed line segment is expected to grow at a 16.2% CAGR by 2010, according to Pyramid Research.

The major growth drivers for the fixed line communications market in Russia are the following:

- further strengthening of the Russian economy;
- growing demand for high quality traditional fixed line services;
- continued tariff rebalancing between local and long distance tariffs;
- further modernization and digitization of the network infrastructure;
- improvements in the quality of services, marketing and operational efficiencies;
- greater regulatory and corporate governance transparency;
- growing demand for Internet services among residential subscribers; and
- growing demand for value-added services, including broadband Internet access and video streaming, among residential subscribers.

The improving Russian economy is a major factor in determining the growth of the Russian telecommunications market. According to the Russian Ministry of Economic Development and Trade, Russian GDP grew by 7.2% during 2004, and it is forecasted to increase by 6.4% in 2005. Average disposable income in Russia is expected to increase by 9.1% in 2005 and 8.0% through 2008, according to the Russian Ministry of Economic Development and Trade. It is expected that consumer basket composition will gradually redistribute towards a higher share of services, including telecommunications services.

The range of fixed telephony services purchased by residential customers has expanded significantly between 2000 and 2004. In particular, spending by residential customers for broadband services in Russia during this period grew at an average annual rate of approximately 38%, with revenues totaling approximately $76 million for the year ended December 31, 2004, according to Pyramid Research. According to the latter, the increasing demand from the residential segment is expected to be the main driver of growth for Russian alternative fixed line operators until 2010.

The type of fixed telephony services purchased by corporate customers also changed significantly during 2000 to 2004. Spending by corporate customers for broadband services in Russia during this period grew at an average annual rate of approximately 28% with revenues totaling approximately $96 million for the year ended December 31, 2004, according to Pyramid Research.

We expect the following major trends in the fixed line communications market in Russia:

- changes in legislation;
- potential Svyazinvest privatization;
- both incumbent and alternative fixed line operators focusing on better quality and range of services, branding and marketing;
- incumbents seeking to optimize costs and invest in infrastructure modernization to bring their performance to international standards;
- leading alternative operators becoming more likely to concentrate on adoption of new broadband technologies, such as NGN and IP networks, Wi-Max and Wi-Fi solutions; and
- subject to new legislation, alternative fixed line operators with a DLD/ILD license building long distance infrastructure for the most profitable routes to optimize interconnection costs.

Russian Telecommunications Market Overview

According to Pyramid Research, communications services in Russia comprised approximately 2.4% of the total Russian GDP in 2004. The Ministry of Information Technologies and Communications estimates that approximately 47.7% of total communications revenues during 2004 were attributable to corporate customers.

Revenues generated in the Russian communications market in 2003 and 2004 totaled approximately $12.9 billion and $18.8 billion, respectively, according to the Ministry of Information Technologies and Communications. Fixed line operators accounted for 53.6% of the total revenues in 2003, or $6.9 billion, of which 71.2% was generated by incumbent operators and 28.8% was generated by alternative fixed line operators. According to the same source, revenues from fixed line communications generated 49.2% of the total revenues in 2004, or $9.2 billion, of which 69.8% was generated by traditional fixed line operators, also called "incumbent" operators, and 30.2% was generated by alternative fixed line operators. According to the Ministry of Information Technologies and Communications, approximately 88% of the fixed line infrastructure in Russia is owned by incumbent operators, while a majority of the alternative operators either lease their infrastructure or pay interconnection fees for traffic transmission and connectivity.

The communications market in Russia is dominated by four major groups, including:

- *Svyazinvest*, in which the government holds a 75% minus 1 share ownership stake. Svyazinvest controls seven regional telephony operators, or RTOs, and Rostelecom, Russia's largest DLD/ILD operator. It also currently owns 28% of the ordinary shares of MGTS.
- *Sistema*, our controlling shareholder, controls Mobile TeleSystems (MTS), Russia's largest mobile communications operator; owns a 50% stake in Interregional Transit Telecom (MTT), operator of a nationwide communications transit network; and owns a 50% stake in Sky-Link, a Russian mobile operator using the CDMA 2000 standard.
- *Alfa Group and Telenor,* each owning blocking minority stakes in Vimpelcom and Golden Telecom. Alfa Group also owns a 25% stake in MegaFon, Russia's third largest mobile communications operator (although its ownership of this stake is currently being disputed by another MegaFon shareholder).
- *Telecominvest and TeliaSonera*, which own 31% and 36% stakes in MegaFon, respectively, as well as stakes in Peterstar, PTT and several other alternative operators.

Segments

The Russian communications market consists of three major segments: mobile communications, alternative fixed line communications and traditional fixed line communications.

Mobile Communications

The Russian mobile communications market is characterized by rapid growth in subscribers and revenues and increasing consolidation among few large national operators. According to the Ministry of Information Technologies and Communications, mobile operators generated 41% of the total revenues generated in the Russian communications market in 2004, up from 35% in 2003.

Demand for mobile communications services in Russia grew rapidly over the last seven years due to rising disposable incomes, increased business activity and declining prices due to intensified competition among mobile communications providers. The number of mobile subscribers more than doubled in each of the last two years, with Russia's regional markets growing at almost triple the rate of Moscow and St. Petersburg. As of September 30, 2005, overall mobile penetration in Russia was approximately 78%, or approximately 111.7 million subscribers, according to Pyramid Research, compared to 52% mobile penetration, or approximately 75.4 million subscribers, as of December 31, 2004. As of September 30, 2005, mobile penetration in Moscow and St. Petersburg reached 129% and 111%, respectively, according to Pyramid Research.

The competition has evolved in recent years to exist primarily between MTS, Vimpelcom and MegaFon, each of which operates throughout Russia. In the Volga, Urals and Siberia regions, the three national mobile operators also compete with the mobile divisions of Svyazinvest's regional companies. Furthermore, SMARTS creates additional competition in the Volga region. MTS, which is controlled by

Sistema, is the leading mobile operator in Russia, with a subscriber base in Russia of 34.09 million subscribers and a 30.5% market share as of September 30, 2005, according to Pyramid Research.

Alternative fixed line communications segment

A number of alternative communications service operators, including CLECs, emerged in Moscow in the early 1990s, focusing on the burgeoning corporate and residential segments—market niches neither occupied nor targeted by the incumbent fixed line operators, which suffered from a lack of qualified marketing personnel, low digitization levels and chronic underinvestment into the communications infrastructure during the Soviet period. Thus, an unusual feature of the Russian fixed line communications market is that alternative operators have never really competed with incumbent operators for subscribers on the basis of price, but rather on the basis of availability and quality of services provided. Most of the alternative operators that emerged were small operators licensed to provide telematic services and data transmission services, including IP telephony and Internet services, leasing their infrastructure from larger traditional and alternative operators. According to the Ministry of Information Technologies and Communications, alternative fixed line operators generated 15.4% and 14.8% of the total revenues generated in the Russian communications market in 2003 and 2004, amounting to approximately $2.0 billion and $2.8 billion, respectively.

The most significant market for alternative operators in Russia is Moscow, home to approximately 7% of the Russian population. See "—Communications Market in Moscow" below for additional information. The development of alternative operators in the regions was hampered by Russia's economic decline during the late 1990s.

We and Golden Telecom are the two principal alternative fixed line operators in Russia. According to Direct INFO, in 2004, we had a 17.4% and Golden Telecom had a 22.4% market share of the alternative fixed line communications services market in Moscow.

Other alternative operators include: Transtelecom, MTT, Equant, Central Telegraph and Corbina Telecom; however, their combined market share in the Moscow alternative communications market was less than 29.0% at the end of 2004, according to Direct INFO. Other alternative operators involved in leasing long distance infrastructure and/or providing data and mobile transmission services include Transtelecom, MTT, GazCom and others.

Alternative operators provide a broad range of fixed line telecommunications services including voice telephony, Internet dial-up and broadband to residential and corporate customers.

Corporate

Corporates are the main consumers of alternative fixed line services although the number of residential subscribers has grown after the take up of various broadband services. According to the Ministry of Information Technologies and Communications, spending by corporate and residential subscribers constituted 69.6% and 30.4%, respectively, of total consumer spending on all fixed telephony in Russia during 2004. Spending by corporate and residential subscribers on alternative fixed line services comprised 95.4% and 4.6% of total consumer spending on all fixed telephony in Russia during 2004, according to the Ministry of Information Technologies and Communications. According to Pyramid Research, the growth in the corporate segment is likely to continue at a double digit CAGR of 11.7% until 2010 due to: (1) growing business activity in Moscow and other regions in Russia; (2) the further integration of Russia into the global economy therefore facilitating growth in the use of telecommunications services, including long distance communications; and (3) promotion of new services, technological solutions and improved customer care offered by operators.

Residential—Internet Access and Broadband

According to Pyramid Research, Internet penetration (on the basis of households) in Russia was at 8% as of September 30, 2005, lower than the Internet penetration rates in the Czech Republic (55%), Poland (39%) and Hungary (27%). Between 2000 and 2004, growth in the number of Internet users in Russia averaged 43% per year, according to Pyramid Research. According to Pyramid Research, Russia will have approximately 18.8 million Internet users by the end of 2005 and approximately 53.4 million new subscribers by 2010. The primary reasons for Russia's Internet growth are the country's well educated population, the growth of consumer wealth and improvement in the telecommunications infrastructure.

The broadband Internet market is largely untapped in Russia and the Moscow market is relatively small compared to Western European countries. The broadband Internet penetration was 2.2% in Russia and 18.2% in Moscow as of September 30, 2005, according to Pyramid Research, compared to 1.0% and 8.7%, respectively, as of December 31, 2004. The broadband Internet market in Moscow and other regions in Russia is expected to continue experiencing significant growth over the next five years. Pyramid Research estimates that penetration of broadband Internet in households in Russia and Moscow will increase to approximately 4.8% and 56.2%, respectively, by 2010. Growth in broadband Internet penetration in large regional cities (over 300,000 inhabitants) is expected to exceed significantly that of Moscow over the same period. Such growth is expected to be attributed to both organic growth in new subscribers and increasing churn from dial-up. Until 2004, no major operator targeted the residential broadband Internet market, with most accounts serviced by either Ethernet-based shared-access local networks or LANs. The residential broadband Internet market in Moscow grew significantly following our introduction in 2004 of Stream brand services based on ADSL technology targeted at residential subscribers. As of September 30, 2005, we had approximately a 30% market share of the broadband Internet market in Moscow, according to Pyramid Research.

The table below demonstrates current broadband Internet penetration levels in Moscow and Russia, as well as other Central and Eastern European countries as of September 30, 2005:

Area	Penetration[1]
Moscow	18.2%
Hungary	10.3%
Poland	9.4%
Czech Republic	7.5%
Russia	2.2%
Ukraine	0.5%

Source: Pyramid Research.

(1) As a percentage of households.

Residential—Pay TV

The pay TV market remains underdeveloped in Russia compared with other rapidly developing service industries like wireless communications. According to Pyramid Research, as of September 30, 2005, 631,000 households in Russia were regular subscribers of cable TV services and 435,000 households had satellite dishes. According to Pyramid Research, 2.25% of Russian households were regular subscribers of cable TV services and/or had satellite dishes, respectively, as of September 30, 2005. Pyramid Research estimates that penetration of pay TV in households in Russia and Moscow may increase to approximately 5.1% and 34.6%, respectively, by 2010. According to Pyramid Research, total pay TV revenues are expected to account for approximately $483 million and $207 million for Russia and Moscow, respectively, in 2010. The demand for pay TV in Russia is expected to be fueled by increasing broadband penetration, disposable incomes, improved infrastructure and the availability of convenient and attractive pay TV platforms.

The pay TV market has two segments: basic service and premium service. Basic service typically consists of a small number of channels, generally ranging from 15 to 20, and no premium content such as exclusive sport and movie channels. The typical monthly ARPU of these subscribers is approximately $1.10, according to Pyramid Research. Premium service typically includes over 50 international and local channels, including premium content such as exclusive sport, movie and adult channels. NTV-Plus, a DTH satellite provider that covers mainly the European part of Russia, is the only national premium service provider. In Moscow, premium service is also offered by us under the StreamTV brand; Kosmos TV, an MMDS provider and a subsidiary of Sistema; and Comcor TV, a cable provider. Many local utilities also charge residents a regulated, nominal fee for access to up to 16 free-to-air channels via local cable. However, we do not consider this segment to be part of the pay TV market.

Traditional fixed line communications segment

The Russian traditional fixed line communications market is characterized by relatively low telephone penetration and low levels of digitalization. According to the Ministry of Information Technologies and Communications, fixed line penetration in Russia was at 25.4%, 26.6% and 28.4% as of December 31, 2002, 2003 and 2004, respectively. The traditional fixed line communications segment is dominated by Svyazinvest. According to the Ministry of Information Technologies and Communications, approximately 41% of the local telephone networks in Russia were digitalized as of December 31, 2002, compared to 48% as of December 31, 2003 and 56% as of December 31, 2004. The digitalization growth has accelerated since 2002 driven by the positive effect of regional mergers described below.

Following the collapse of the Soviet Union in 1991, the Russian Ministry of Telecommunications (the predecessor of the current Ministry of Information Technology and Communications) controlled the fixed line communications market in Russia until 1995, when fixed line communications operations were reorganized into 85 separate regional operators under a new Russian telecommunications holding company, Svyazinvest. To streamline Russia's regional telecommunications operations, the regional operators were subsequently reorganized and merged geographically in 2002 to create seven RTOs, Russia's incumbent operators, and Rostelecom. Each of the seven RTOs and Rostelecom are controlled by Svyazinvest. Svyazinvest also has a 28% voting interest in MGTS.

In July 1997, a 25% plus 1 share voting stake in Svyazinvest was sold to a consortium of private investors. The Russian government remains Svyazinvest's controlling shareholder. According to media reports, the government has approved a draft decree on the privatization of Svyazinvest which has been submitted to the presidential administration for approval. The presidential administration returned the draft decree to the government for further revision. However, if or when the final decree will be approved and the structure and timing of the privatization are currently unclear.

The RTOs generally provide traditional fixed line services, including local, DLD/ILD services, to corporate, public sector and residential subscribers within their respective regions. RTOs also have an obligation to provide "universal services" at a discount to poor and rural areas within their respective regions in the event that no other operator is able and selected on the basis of a tender to do so. Universal services include public telephone, data transmission and Internet services. Previously, RTOs were only partly compensated by the government for the provision of such services. At the beginning of 2005, a new decree was enacted implementing the Universal Services Reserve Fund which obliges all operators to pay 1.2% of the difference between an operator's total revenues and revenues generated by interconnection and traffic transmission services to compensate for those operators who provide universal services. Thus RTOs are now compensated for losses incurred from the provision of universal services out of the Universal Services Reserve Fund established in April 2005. See "Business—Regulation—Universal Services Reserve Fund" for additional information.

Tariffs for local and DLD calls, installation fees and monthly subscription fees charged by the RTOs and MGTS are regulated by the Federal Tariff Service. Tariffs for other services, including ILD services, are not regulated. RTOs, however, do not have any flexibility in terms of setting ILD tariffs as such tariffs are set by Rostelecom, the dominant operator of Russia's long distance market. RTOs bill end-users for long distance services by accounting for all of each end-user's bill and paying interconnection for transmission and termination to Rostelecom. Conversely, in Moscow, Rostelecom directly bills its subscribers and accounts for all of each end-user's bill while transferring a certain amount to MGTS as payment for traffic origination and termination. The RTOs' business model, however, is likely to change when the new regulatory framework is finalized and approved by the government. RTOs have recently begun to develop value-added service offerings for their subscribers, such as dial-up and broadband Internet services and NGN services.

Communications Market in Moscow

Set out below are certain specific features of the Moscow communications market. For a further description of the Moscow communications market in terms of penetration and growth in the segments where we operate compared to all of Russia, see the discussion above and in "Business."

Moscow, the main location of our operations, is the largest and most attractive communications market in Russia due to the higher disposable income levels and level of business activity relative to other parts of Russia. According to Rosstat, in 2004, average disposable income was 275% higher in Moscow than the regional averages in Russia. In 2004, the average disposable income in Moscow was on average 69% higher than those in Poland, Hungary and Czech Republic according to Economist Intelligence Unit. According to Direct INFO, Moscow represented 18.5% of Russia's total GDP in 2004 as well as nearly a quarter of the total consumer spending in Russia. Furthermore, according to Direct INFO, approximately 7% of the total population of Russia resides in Moscow and nearly all of the large corporates are represented in Moscow.

We believe Moscow has favorable conditions for the further development of the communications sector, including modern and traditional communications services. Moscow has the most developed and competitive communications market in Russia, accounting for 38% of total communications revenues in Russia in 2004, according to Direct INFO.

The share of the communications services of the GDP of Moscow has grown at a steady rate, increasing from 3.1% in 2000 to 3.7% in 2004, according to Direct INFO.

The following table illustrates Moscow's fixed line communications market:

	As of and for the years ended December 31,					As of and for the nine months ended September 30,
	2000	2001	2002	2003	2004	2005
	(amounts in millions, except percentages)					
Active lines[1]	4.6	4.7	5.1	5.4	5.6	5.8
Active line penetration	45%	46%	49%	52%	54%	55%
Total fixed line revenues	$522.7	$729.4	$831.8	$1,060.3	$1,435.5	$1,365.0

Source: Pyramid Research.

(1) There is no uniform definition of active lines in service in the Russian fixed line market.

Total revenues from fixed line communications services in Moscow totaled approximately $1,435.5 million and approximately $1,365.0 million in 2004 and for the nine months ended September 30, 2005, respectively, according to Pyramid Research. The total fixed line communications market in Moscow grew by 35.4% in 2004 in terms of revenues but to a lesser extent in terms of number of lines and penetration. According to Pyramid Research, total revenues in the alternative fixed line market in Moscow reached $933.0 million and $966.0 million in 2004 and for the nine months ended September 30, 2005, respectively. Pyramid Research expects the Moscow fixed line market to grow at a 12.2% CAGR from 2005 to 2010.

MGTS' telephone lines accounted for 13.1% of the total installed lines in Russia in 2004, according to Pyramid Research. MGTS accounted for 72.0% of the telephone lines in Moscow in 2004 and had a 17.6% market share by revenues of the Moscow fixed line communications market in 2004, according to Direct INFO

The Moscow fixed line communications market is characterized by a number of characteristics that distinguish it from the Russian market as a whole and the markets of other regions in the Russian Federation, including:

- high level of consumer spending and the highest share of communications spending as a percentage of total consumer spending;
- higher level of fixed line penetration and usage and fixed monthly tariffs for unlimited usage;
- low level of digitalization of the traditional fixed line operator's network due to the age of the network;
- low level of unsatisfied demand for high quality traditional fixed line telephone services in the business sector;
- high level of competition among alternative operators, with the alternative operators developing their own infrastructure and providing accessibility to their services in many parts of the city; and
- less favorable long distance interconnection terms for the incumbent operators, *i.e*., MGTS as compared with that in other regions of Russia.

BUSINESS

Overview

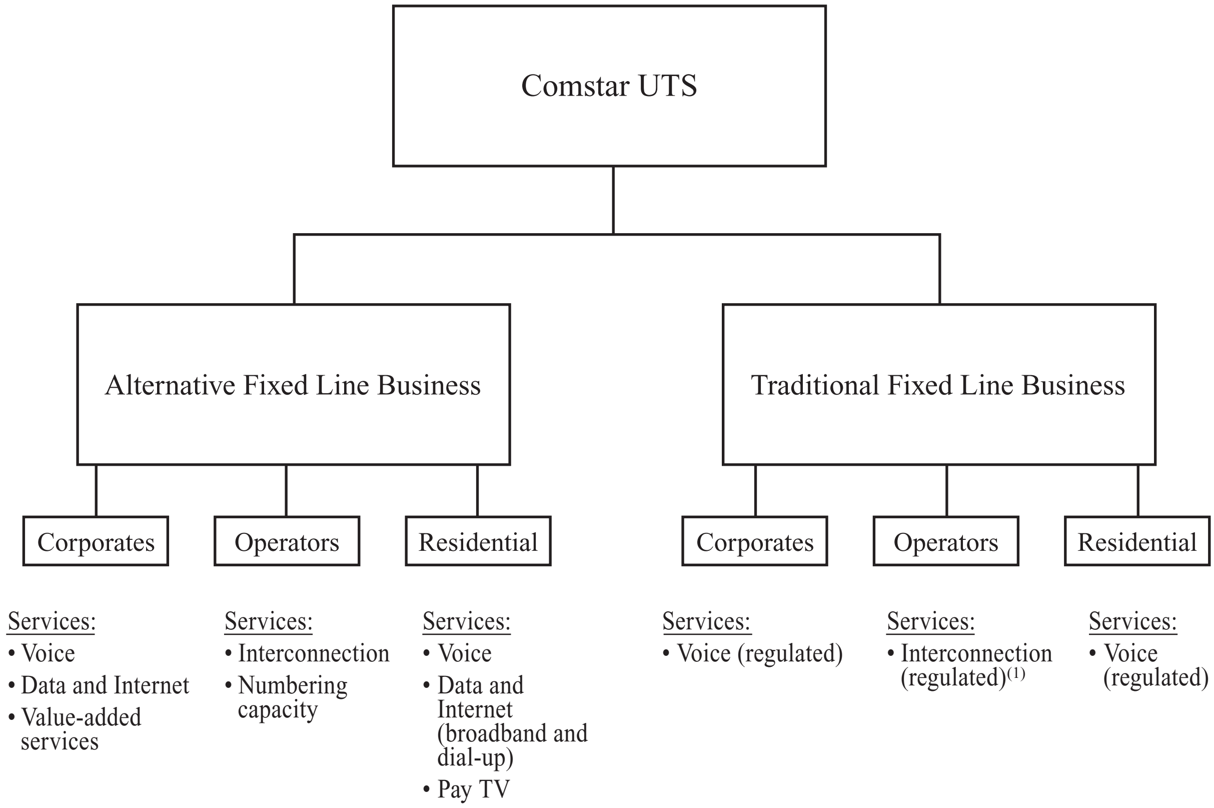
We are a leading provider of integrated communications services in Moscow and the Moscow region based on revenues and subscribers. We also offer communications services in other select regions in Russia and the CIS. We offer voice, data and Internet, pay TV and various value-added services to corporate, operator and residential subscribers using our alternative and PSTN networks. We operate in both the alternative and traditional fixed line communications segments, where we provide regulated and unregulated services and had over four million subscribers as of September 30, 2005. For the year ended December 31, 2004 and the nine months ended September 30, 2005, we had combined operating revenues of $695.1 million and $636.8 million, respectively.

We organize our operations into two primary segments as follows:

- ***Alternative Fixed Line Business:*** We provide alternative fixed line communications services in Moscow and the Moscow region, and in other select regions in Russia and the CIS through Comstar UTS and our subsidiaries, MTU-Intel and Golden Line using brand names that include Comstar and Stream. As of September 30, 2005, we had approximately 600,000 active lines. The infrastructure of our alternative fixed line business includes approximately 577 km of copper cable and approximately 6,250 km of fiber optic cable. Our alternative fixed line communications services include voice, data and Internet and pay TV services for corporate and residential subscribers. In addition, we provide interconnection to other communications operators and numbering capacity to their subscribers. None of these services is regulated by the Russian government and, consequently, we are permitted to establish our own tariff structures in the market. For the nine months ended September 30, 2005, operating revenues for our alternative fixed line business were $246.3 million and accounted for 38.7% of our combined operating revenues.

- ***Traditional Fixed Line Business:*** We provide traditional fixed line communications services in Moscow through our subsidiary MGTS, which is the incumbent PSTN operator in Moscow. As of September 30, 2005, MGTS had approximately 4.25 million active lines in service, of which 83% were for residential subscribers. MGTS' PSTN infrastructure includes approximately 94,000 km of copper cable and over 5,300 km of fiber optic cable. MGTS provides both regulated and unregulated services, such as local telephony services at tariffs regulated by the Russian government, DLD/ILD voice transmission through licensed operators, wholesale Internet and interconnection services. MGTS also operates a PDTN enabling it to offer wholesale broadband services based on ADSL technology to companies within our group. For the nine months ended September 30, 2005, operating revenues for our traditional fixed line business were $390.5 million and accounted for 61.3% of our combined operating revenues. During the same period, regulated and unregulated services constituted 59.2% and 40.8%, respectively, of the operating revenues of our traditional fixed line business, excluding intersegment sales.

The chart below sets forth our segments, their respective targeted subscriber groups and services offered.



(1) Prior to January 1, 2006, interconnection services provided to operators were unregulated.

Competitive Strengths

Our main competitive strengths are the following:

- ***Leading market position in the attractive Moscow market.*** We are the leading provider of fixed line communications services in Moscow, with a 28.1% share of the Moscow market as of December 31, 2004, according to Direct INFO. We are currently a market leader in each of our unregulated service consumer segments, with a 19.0% share of corporates, 30.0% share of operators and 47.0% share of residential subscribers in Moscow as of December 31, 2004, according to Direct INFO. We believe our favorable reputation, strong brand awareness and current market position in Moscow for many of our major product and service offerings will allow us to more easily introduce and cross sell new products to our existing subscriber base. Furthermore, we believe that the market in Moscow is one of the most attractive in Russia with high growth potential for corporate and residential communications services given the relatively high level of income per capita, educated population and increasing numbers of corporates.
- ***Broad range of services offered, including "triple play" services in Moscow and the Moscow region.*** We provide a wide range of fixed line communications services in Moscow and the Moscow region to various subscriber segments and continue to expand our portfolio of services. We have been first to market with several new ADSL-based services, such as broadband Internet and pay TV, allowing us to establish initial pricing on the market and making us the preferred partner for a variety of data content and application providers, hardware manufacturers and other service providers. By introducing StreamTV, which allows us to provide DTV services to our corporate and residential subscribers using ADSL technology, we are currently able to provide "triple play" services, including voice, broadband Internet and digital video to our residential subscribers in Moscow and the Moscow region. We launched the Stream brand for residential broadband Internet subscribers in September 2004, and our residential broadband Internet subscriber base grew from 37,003 as of September 30, 2004 to 198,654 as of September 30, 2005.

In addition, we had approximately 6,500 subscribers of StreamTV as of December 31, 2005, only seven months following the launch of the service.

- ***Largest network in Moscow with the leading position in providing "last mile" connectivity to subscribers.*** We have the leading position in providing connectivity to residential users throughout Moscow and, as a result, we believe we are well positioned to operate in a increasingly competitive and changing marketplace. Our "last mile" infrastructure covers nearly all of the population of Moscow and, accordingly, gives us the ability to offer broadband Internet services based on ADSL technology to nearly all of the businesses and residences in Moscow. Furthermore, we are not required to provide access to other operators to any part of our "last mile" network other than on terms we consider commercially acceptable. We have the largest and most extensive local communications network infrastructure, covering all of Moscow and part of the Moscow region, and as of September 30, 2005, had numbering capacity of approximately 5.4 million numbers (including spare numbering capacity in the "495" Moscow area code), approximately 95,000 km of copper cable infrastructure, approximately 11,300 km of fiber optic cable and approximately 14,400 payphones. In addition, our multi-protocol NGN allows for the transmission of data at a speed of up to 10 Gbps. Our networks are constructed using hardware provided by global vendors, such as Ericsson, Lucent Technologies, Marconi, Nokia and Siemens, among others. We believe that our strong relations with these strategic partners and equipment and software suppliers enhance our ability to access the resources required to maintain and expand our network.

- ***Strong brand awareness and marketing expertise.*** We believe we have developed several strong brands with a high level of consumer recognition in Moscow, including, for example, MGTS, one of the most recognized brands in Moscow, according to GFK Russia, as well as our Stream, Tochka.RU and Logic Line brands. In 2004, we received the EFFIE "Brand of the Year" award, regarded in the marketing industry as a prestigious award for advertising, for our Stream product.

- ***Experienced management team and value enhancing controlling shareholder.*** Our senior management team has substantial and diversified experience in the Russian communications industry with an average of more than ten years experience in this industry. For example, our CEO holds a science degree relevant to the communications industry and has 15 years of experience serving in various senior positions with us. See "Management." Several key executive officers have worked at a range of communications companies, both at startups and mature businesses, including local telephone companies, long distance carriers, competitive carriers, web hosting companies, Internet and data providers and mobile communications operators. In addition, we believe we have a substantial competitive advantage in being a subsidiary of Sistema, the largest private sector consumer services company in Russia and the CIS, which oversees the strategic direction of our businesses. We expect that being part of the large Sistema group will also provide us with various opportunities to cross sell our services and the potential to increase our number of subscribers.

Business Strategy

We intend to organize and coordinate our fixed line business based on the services offered by and strengths of each company in the group with the goal of achieving growth in operating revenues, operating income and cash flow. We also plan to extend our position as the leading fixed line communications operator in Moscow and the Moscow region, and to expand our operations in Russia and other CIS countries. To accomplish these goals, we intend to implement the following strategies:

- ***Continue to focus on each of our core business competencies and brands by providing competitively structured products and tariffs that appeal to our various subscriber segments.*** We intend to continue to focus on our specific core competencies, to develop targeted communications and product and service offerings that appeal to specific subscriber segments, including corporate, operator and residential subscribers. Our aim is to be a single source of fixed line communications for all of our subscribers, and to develop individual, bundled and value-added services to satisfy customer demand. To support this effort, we will continue to engage in various promotions and customer-loyalty programs to attract and retain subscribers in each of our subscriber segments. Additionally, we plan to expand the range of unregulated value-added services offered to MGTS' regulated subscribers and to subscribers in our alternative fixed line business, and to seek increases in the tariffs for MGTS' regulated services.

- ***Develop and grow our "triple play" service offering.*** In May 2005, we launched StreamTV, and, as a result, we are currently able to offer "triple play" services to many of our corporate and residential subscribers—voice, broadband Internet and digital video. We believe we are well positioned to expand our broadband Internet and pay TV businesses. According to Pyramid Research, residential broadband penetration in Moscow in terms of households is expected to increase from approximately 19.5% in 2005 to approximately 56.2% in 2010, while pay TV penetration in Moscow in terms of households is expected to increase from approximately 9.7% to approximately 34.6% over the same period. In order to benefit from these trends, we intend to focus on promoting the Stream brand in an effort to increase our share of the residential broadband Internet market in Moscow, and to use the commercial success and brand recognition of Stream to enhance sales of StreamTV. We also intend to develop unified pricing policies and coordinate marketing initiatives, taking advantage of attractive cross-marketing opportunities within the group, as well as develop strategies to enhance customer loyalty.

- ***Further expand the range of our services, including value-added services that we offer to meet evolving customer demand.*** We are focused on expanding our service offerings to all of our targeted subscriber segments. For example, we are seeking to develop and offer a full range of NGN services, including IP-Centrex, IP-VPN and Hybrid-VPN and value-added outsourcing services, such as hosting, hosted PBX and call center support to our corporates. As of September 30, 2005, we had introduced Wi-Fi services in over 40 Hot Spots across Moscow and plan to extend our Wi-Fi network to over 100 Hot Spots during 2006. As we digitalize our core MGTS network, we also plan to offer digital value-added services, such as voicemail and Caller ID, to our residential subscribers. In addition, we intend to continue to develop and evaluate new technologies and services. For example, we are currently testing various types of equipment to be able to offer Wi-Max services in Moscow and the Moscow region once specific frequencies are distributed by the Russian Ministry of Information Technologies and Communications, in addition to other new products.

- ***Maintain a leading position in quality of services, technological innovation and brand recognition.*** We intend to invest in the upgrade of our core network, focusing on the development of packet switching technology and new efficient NGN technologies once they become available on the market at reasonable prices. Our aim is to remain a leading innovator in our core business of providing fixed line communications services with the ability to expand our service offerings to subscribers, allowing us to differentiate ourselves from our competitors and maintain strong brand recognition. Through technological innovations and continued focus on customer care, we expect to improve on our leading market position in quality of services and brand recognition.

- ***Realize the benefits of our integrated group, including improvements in efficiency.*** Our group was formed in the fourth quarter of 2005 through the restructuring of Sistema's fixed line communications businesses, although we started integrating our operations well before this restructuring. We believe that there are a number of benefits to our new structure and that we can enhance operating revenues by eliminating internal competition among the companies comprising the group, segmenting our target customer base to reduce churn and serving our existing subscribers through the offer of value-added services. For example, we plan to utilize our Comstar UTS brand for our corporates and operators and our Stream brand for the majority of our unregulated residential services. We also intend to continue to develop and strengthen our centrally managed corporate function and integrate our operations in order to streamline our marketing efforts, eliminate redundant service offerings, increase efficiencies, lower costs and benefit from shared resources, marketing, operational and infrastructure synergies. We also plan to further develop and integrate the Comstar UTS and MGTS networks in an effort to reduce certain future capital expenditure requirements. In particular, we will seek to eliminate duplicative investments in network construction and in network technologies within the same geographical zones, upgrade technologies based on the needs of all of our subsidiaries, ensure the maximum and most efficient use of our existing technological resources and construct a unified backbone network in Moscow on the basis of our existing networks. In addition, we believe that the digitalization of the MGTS network, which we expect to complete by 2012, will further reduce inefficiencies and help us to reduce the number of our employees and associated costs by up to 45% in the same period. See "—Integration."

- ***Selectively expand into other regions in Russia and other CIS countries through organic growth and through acquisitions.*** With the view to becoming a leading integrated communications provider in Russia and the CIS, we intend to expand both organically and through acquisitions. We intend to pursue an acquisition strategy aimed at identifying attractive acquisition opportunities that satisfy a majority of the following criteria: (1) financial attractiveness, (2) legal transparency, (3) existing customer base with strong ARPU generation potential, (4) "last mile" infrastructure and/or other local infrastructure considerations, such as the presence of intra-zone switches, (5) licenses and frequency allocation and (6) ability to acquire control. For example, in furtherance of this strategy, in September 2005, we acquired a 45% interest in Metrocom, an alternative fixed line communications operator in St. Petersburg, which is Russia's second-largest communications market after Moscow based on total revenues, according to Direct INFO. In October 2005, we acquired 89.4% of the ordinary shares and 31.9% of the preferred shares of Tyumenneftegazsvyaz, a leading fixed line communications services provider operating in the Tyumen region, as well as in the autonomous districts of Khanty-Mansi and Yamalo-Nenets. In December 2005, we acquired all of the shares of Conversiya-Svyaz and Overta, two leading alternative fixed line operators in the Saratov region. In December 2005, we acquired all of the shares of CTK Contrast-Telecom, an alternative fixed line operator in the Moscow region. We intend to remain focused on identifying potential acquisition targets and developing an expansion strategy with respect to each targeted region, as well as to pursue attractive opportunities to expand organically taking into account a target region's population, per capita income, number of operating entities and the level of penetration of fixed line communications services.

History of Our Businesses

Our group currently consists of Comstar UTS and its key operating subsidiaries, MGTS, MTU-Intel, Telmos, MTU-Inform and Golden Line.

Comstar UTS

Comstar UTS was originally established in 1989 as a 50/50 joint venture between Marconi International and MGTS. Comstar UTS was one of the first alternative telecommunications providers in Russia. In December 2003, Sistema acquired a 50% stake in Comstar in a transaction with a third party in exchange for notes of Metromedia International Group. The third party acquired the stake in Comstar from Metromedia International Group in exchange for the notes. As a result of the transaction, all of the shares of MGTS were held directly and indirectly by Sistema.

Comstar UTS is the parent company of our group and oversees the management and integration of our businesses. Comstar UTS is also licensed to provide a wide range of services, including audio conference and video conference services, lease line services, voice telephony services and data transmission services and conducts a large part of our alternative fixed lines business. Comstar UTS also owns part of the group's fiber optics network.

MGTS

MGTS, the incumbent fixed line PSTN operator in Moscow, was established in 1882. In 1917, MGTS was nationalized and in the course of its privatization in 1994, MGTS was reorganized into an open joint stock company. In April 1995, Sistema won a privatization tender for the ordinary shares of MGTS, representing 25% of MGTS' share capital. As part of its tender obligations, Sistema committed to invest approximately $106 million in MGTS over a three-year period in exchange for the right to purchase an additional issue of MGTS' ordinary shares. In 1998, upon satisfying its tender obligations, Sistema exercised this right and increased its stake to 50% of MTGS' share capital.

Immediately prior to the completion of the restructuring, Sistema held 55.6% of MGTS' ordinary shares, which constituted 46.4% of the total share capital of MGTS. Sistema's stake in MGTS was transferred to Comstar UTS in the restructuring. As of the date of this prospectus, Comstar UTS has acquired a further 4.21% of MGTS' ordinary shares pursuant to the mandatory buy-out offer. See "—The Restructuring." Svyazinvest owns 28% of the ordinary shares of MGTS. The remaining ordinary and preferred shares of MGTS are publicly held and traded on the RTS Stock Exchange and MICEX. In addition, MGTS' shares are held in the form of depositary receipts in a Level I ADR program.

MTU-Intel

MTU-Intel was established in 1993 as a joint venture under the name Interlink Holding. By 2001, the Sistema group held all of the shares in MTU-Intel, which were transferred to Comstar UTS in the restructuring. MTU-Intel started offering ADSL services to corporate subscribers in May 2000 under the brand "Tochka.RU" and currently conducts substantially all of our residential broadband Internet business, using the Stream brand.

In October 2005, Sistema Multimedia, which, at that time, was wholly owned by Sistema and held the rights to StreamTV technology and produced content for four pay TV channels, entered into a merger agreement with MTU-Intel. The merger was conducted through the swap of Sistema Multimedia shares and newly issued shares of MTU-Intel. The swap ratio was determined in an independent evaluation by KPMG. Upon the completion of the merger in December 2005, Sistema Multimedia ceased to exist, and as a result of the merger, we currently own 52% of the ordinary shares in MTU-Intel and the remaining 48% of the shares are owned by Sistema.

MTU-Inform

MTU-Inform was established in 1992 as a joint venture between a number of companies, with MGTS holding a 40% stake. Sistema acquired control of MTU-Inform in 2000. In the restructuring, the Sistema group companies consolidated their 99% stake in MTU-Inform under Comstar UTS.

MTU-Inform holds licenses to provide voice telephony services, as well as data transmission and leased line services and conducts a part of our alternative fixed line business. MTU-Inform also owns a part of the group's fiber optics network. We began to integrate MTU-Inform's operations with those of Comstar UTS and Telmos in 2004 under the Comstar UTS brand. We intend to merge MTU-Inform and Telmos with Comstar UTS in the course of 2006 and 2007.

Telmos

Telmos was established in 1993 as a 50/50 joint venture between AT&T and MGTS. In 1995, Rostelecom participated in a share capital increase and acquired a 20% stake in Telmos, reducing AT&T's and MGTS' stakes to 40% each. In June 2001, AT&T sold its stake to Rostelecom, and Sistema subsequently acquired this stake from Rostelecom. Sistema acquired another 20% stake in Telmos from Rostelecom in February 2005, which was sold to Comstar UTS in September 2005. The remaining 80% stake held by Sistema group companies in Telmos was transferred to Comstar UTS in the restructuring.

Telmos holds licenses to provide voice telephony services, as well as data transmission and leased line services and conducts a part of our alternative fixed line business. Telmos also owns a part of the group's fiber optics network. We began to integrate Telmos' operations with those of Comstar UTS and MTU-Inform in 2004 under the Comstar UTS brand. We intend to merge MTU-Inform and Telmos with Comstar UTS in the course of 2006 and 2007.

Golden Line

Golden Line, a subsidiary of MTU-Intel, was established in 1993 as a 50/50 joint venture between Newbridge Networks and MGTS. Sistema acquired Newbridge Networks' stake in September 2002. In November 2002, the entire 100% stake in Golden Line was transferred within the Sistema group to MTU-Intel. Golden Line currently provides leased line services to corporates based on our digital network in Moscow.

The Restructuring

In the fourth quarter of 2005, Sistema completed a restructuring plan pursuant to which Sistema's fixed line communications operations were consolidated under Comstar UTS. The purpose of the restructuring was, among other things, to eliminate competition within the group, more clearly delineate the group's customer base and increase the number of value-added services we offer. See "—Integration."

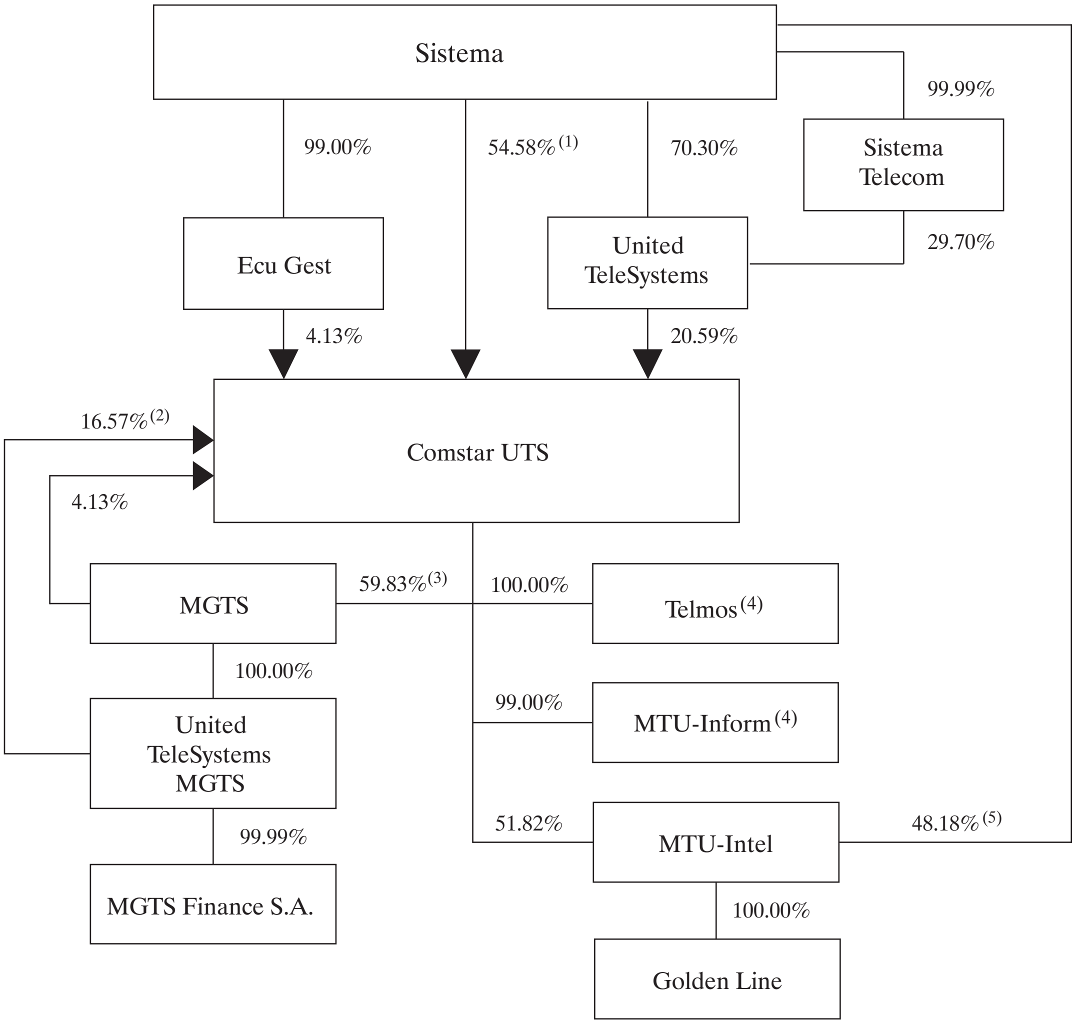
Prior to this restructuring, Sistema directly held its controlling interest in MGTS. Sistema's majority interests in alternative fixed line operators Comstar UTS, Telmos, MTU-Inform and MTU-Intel were held directly by Sistema and indirectly through MGTS and other of Sistema's subsidiaries. In November 2005, as part of the restructuring, Comstar UTS acquired Sistema's controlling interest in MGTS, as well as Sistema's and MGTS' stakes in Telmos, MTU-Inform and MTU-Intel. Comstar UTS paid for these acquisitions with newly issued shares of Comstar UTS. Comstar UTS issued a total of 255,919,860 additional shares, increasing its charter capital to 278,940,860 shares. Of the newly issued shares, Sistema acquired 152,241,100 shares, ZAO United TeleSystems, a subsidiary of Sistema, acquired 57,446,760 shares and ZAO United TeleSystems MGTS, a wholly owned subsidiary of MGTS, acquired 46,232,000 shares. As a result, Sistema and its subsidiaries (other than MGTS and its subsidiaries) owned 79.3% of Comstar UTS, and MGTS and one of its wholly owned subsidiaries owned 20.7% of Comstar UTS. Any of our shares that are owned by our subsidiaries are not considered treasury shares under Russian law (*i.e*., they are considered outstanding shares and unless the context requires otherwise, such shares are considered outstanding for purposes of the ownership percentages presented herein), and our subsidiaries are able to vote such shares and dispose of such shares without any further corporate actions by our shareholders or board of directors. Under US GAAP, these shares are considered treasury shares (*i.e.*, they are considered not outstanding). See also "Captalization."

We retained ZAO KPMG, an independent appraiser, to perform the valuation of the ownership stakes we acquired, as well as to calculate the value of our shares issued in the restructuring, the new shareholder stakes in Comstar UTS and the swap ratio between the Comstar UTS shares and the acquired shares.

As a result of acquiring more than 30% of ordinary shares of MGTS in the restructuring, Comstar UTS was required by Russian law to make an offer to buy out the remaining ordinary shares in MGTS. In accordance with these requirements, on December 14, 2005 Comstar UTS announced an offer to buy ordinary shares of MGTS at a price of 490 rubles (the equivalent of approximately $17.03) per share. The price was determined on the basis of the market price, which as required under Russian law, cannot be less than the weighted average price of the shares for the preceding six months. Shareholders may accept the offer within 30 days of receiving the offer, which was sent by registered mail. As of the date of this prospectus, Comstar UTS has acquired an additional 4.21% of the ordinary shares of MGTS. If, in the process of the current mandatory buy-out offer, we acquire, together with our existing shareholdings, 60% or more of ordinary shares of MGTS, we will be required to make another offer to buy out the remaining ordinary shares of MGTS. We may exceed this 60% threshold, and the making of such an offer would result in requirements for additional capital, which may not be available to us on commercially acceptable terms or at all. See "Risk Factors—Risks Relating to Our Financial Condition."

In December 2005, Sistema Multimedia, a subsidiary of Sistema engaged in the pay TV and content production business, was merged into MTU-Intel. As a result of the merger, Comstar UTS' stake in MTU-Intel decreased to 51.82%, with Sistema owning the remaining stake. See "—History of Our Business—MTU-Intel" and "Capitalization."

A corporate structure chart, illustrating the results of the restructuring as of the date of this prospectus, is set forth below.



(1) Includes shares subject to a share repurchase transaction between Sistema and Deutsche Bank AG. See "Principal and Selling Shareholders."

(2) We intend to transfer this stake to MGTS Finance S.A.

(3) Based on ordinary shares only. We own 49.86% of the total share capital, including ordinary and preferred shares.

(4) We intend to merge MTU-Inform and Telmos with Comstar UTS in the course of 2006 and 2007.

(5) Represents the aggregate shareholding of two subsidiaries of Sistema.

Our Customers and Services

Alternative Fixed Line Business

We provide alternative fixed line communications services in Moscow and the Moscow region to corporate, operator and residential subscribers. Specifically, we offer voice, data and Internet and pay TV services. In addition, we offer voice, data and Internet services to subscribers located in select regions of Russia and the CIS. None of these services is regulated by the Russian government and, consequently, we are permitted to establish our own tariff structures on the market. We believe our alternative fixed line subscribers typically evaluate our service and product offerings based on such factors as price, technology, security, reliability and customer service. Operating revenues from our alternative fixed line business were $281.7 million and $246.3 million for the year ended December 31, 2004 and for the nine months ended September 30, 2005, respectively.

The following table presents certain operating data for our alternative fixed line business as of and for the dates indicated.

Alternative Fixed Line Business	As of and for the years ended December 31,			As of and for the nine months ended September 30,	
	2002[1]	2003	2004	2004	2005
Subscribers[2]					
Residential subscribers	373,246	501,761	451,059	373,172	435,779
Broadband	784	4,357	102,516	37,003	198,654
Dial-up	371,407	493,154	343,691	331,655	232,004
Voice	1,055	4,250	4,852	4,514	5,121
Corporate subscribers[3]	8,931	23,555	27,258	26,164	30,310
Operators	252	250	349	290	392
Total	382,429	525,566	478,666	399,626	466,481
Active telephone lines[2]					
Corporates	39,396	100,694	116,842	116,669	130,655
Operators	384,061	404,262	406,019	405,729	429,682
Mobile operators	289,571	303,571	303,574	303,573	323,571
Fixed line operators	94,490	100,691	102,445	102,156	106,111
Residential	4,669	9,511	7,683	7,566	7,925
Total	428,126	514,467	530,544	529,964	568,262
Installed capacity (telephone lines)	450,000	548,600	588,600	548,600	628,600
ADSL and data transmission channels	10,499	20,403	19,701	17,784	24,092
Operators					
Local minutes	239,960	255,683	5,451,939	2,794,188	2,853,874
DLD/ILD minutes	121,490	210,510	312,683	411,255	456,532
Total	361,450	466,192	5,764,622	3,205,443	3,310,406
Corporate users					
Local minutes (in thousands)	273,670	366,011	617,423	573,446	888,944
DLD/ILD minutes (in thousands)	40,502	99,932	122,905	117,048	154,566
Total	314,172	465,943	740,327	690,853	1,043,509
ARPU (monthly)					
Residential					
ADSL[4]	$ —	$ —	$ 22.8	$ 23.2	$ 19.4
Dial-up	4.4	3.6	5.3	5.1	5.9
Voice	16.6	16.8	8.6	9.3	16.8
ARPL (monthly)					
Corporates—voice	$ 51.8	$ 73.4	$ 52.5	$ 47.9	$ 42.5
Operators—voice	37.7	40.8	34.8	33.9	36.3
ARPC (monthly)					
Corporates—data	$ 236.3	$ 201.8	$ 268.3	$ 225.7	$ 231.2

(1) Data for the year ended December 31, 2002 does not include Comstar UTS as control over Comstar UTS was acquired by Sistema in 2003.

(2) We calculate our subscribers based on the number of active lines in service. A line is considered "active" if the subscriber has used the service within the last 30 days.

(3) Includes state-owned enterprises and government agencies.

(4) ARPU for ADSL in 2004 was calculated on the basis of revenues and total subscribers from September to December following the launch of Stream.

Our subscriber segments and the alternative fixed line communications services we provide to each subscriber segment are further described below.

Corporates

We target corporates covering a range of industries, such as business centers, hotels, financial institutions, professional services firms, consumer goods companies, manufacturers and companies involved in extractive industries, among others. These subscribers vary in size ranging from large multinational and Russian corporations with thousands of employees to small- and medium-sized enterprises with up to several hundred employees. Some of our corporates include: Bank of Moscow, Citibank, Raiffeisen Bank, Reuters, IBM, Intel, Nestle, Pepsi and DaimlerChrysler. We also provide communications services to the public sector, including the Moscow City government, the Central Bank of Russia and the United States Embassy in Moscow. As of September 30, 2005, we had over 30,000 corporates with more than 130,000 active lines in service.

As further described below, we offer voice, data transmission and Internet and various value-added services to our corporate subscribers.

Voice Services

We provide a full range of alternative fixed line voice services to corporates in Moscow, the Moscow region and other select regions of Russia, which include local and DLD/ILD services using our transmission network, leased capacity between major Russian cities, VSAT satellite services or through interconnection with Rostelecom's network. We also provide integrated voice and data services, voice over frame relay and certain ISDN services.

Data Transmission and Internet Services

We offer high quality data transmission services to corporates, which allow for data exchange between their various branches or offices located within Russia or internationally. For data transmission services, our network utilizes various technologies, such as ATM, frame relay, TDM, GE, VPN-MPLS, xDSL, ISDN and Wi-Fi to provide high quality solutions at a relatively low cost. We endeavor to ensure the reliability of network connections by utilizing a full reservation approach to back up all elements of the network. Furthermore, our network is capable of transferring data at speeds of up to 100 Mbps.

In addition, we offer a wide range of Internet services to corporates through the Comstar UTS and Tochka.RU brands, including dial-up and broadband Internet access, VoIP, VPNs and data center services. We believe that we offer the optimal combination of functionality and pricing of Internet services using the following technologies: (1) ISDN lines at speeds of up to 384 Kbps, (2) frame relay (up to 2 Mbps), (3) ADSL (up to 7.5 Mbps), (4) xDSL (up to 1 Mbps), (5) HPNA (up to 10 Mbps), (6) radio Ethernet (up to 5 Mbps), (7) Wi-Fi (up to 11 Mbps) and (8) NGN (up to 100 Mbps). In addition, we provide continuous flexibility to our corporates by allowing them to upgrade their network capacity to handle additional Internet services, such as VPC and VPN. For example, we often integrate data transmission and Internet services for our clients as they expand their operations and need to interconnect and exchange data with newly opened offices and/or branches.

We are the largest dial-up and broadband Internet service provider in Moscow and the Moscow region based on number of subscribers. Broadband Internet access is based on ADSL technology, which allows us to provide Internet services to our subscribers at speeds significantly faster than dial-up. In 2004, we had 56% of the corporate broadband Internet market in Moscow, according to Direct INFO. As of September 30, 2005, we had approximately 14,296 active broadband Internet corporates. We cannot determine the number of corporate dial-up subscribers as these subscribers access the Internet using a pin code and password from "scratch" cards purchased at different vendors throughout Moscow, which we do not track. Most of our corporates are broadband Internet subscribers. However, we continue to provide dial-up access to corporates with the aim of migrating them to one of our broadband Internet packages, although we do not plan to advertise and market dial-up Internet services to potential corporate subscribers in the future. We believe that we are strongly positioned in the Moscow broadband services market due to our favorable brand recognition, high quality of services and access to MGTS' "last mile" network.

We offer a broad range of dial-up and broadband Internet packages that vary in terms of data transfer speeds and pricing, with higher tariffs for faster uploading and downloading capabilities. For example, our subscribers accessing the Internet with a dial-up connection experience data transfer speeds of 56 Kbps and pay tariffs between $0.2 and $0.75 per hour of connection. Those corporates that prefer unlimited dial-up access instead pay monthly tariffs ranging from $10 to $60. Corporates choosing to purchase an ADSL-based broadband Internet package generally experience data transfer speeds between 1.5 Mbps and 7.5 Mbps, and will pay both a connection fee of up to $199 and a monthly subscription fee ranging from $60 to $720. In addition, we offer a premium broadband Internet service over our NGN in which subscribers enjoy data transfer speeds between 128 Kbps and 100 Mbps. The NGN provides subscribers with the benefit of the same uploading and downloading data transfer speeds, whereas Internet subscribers using an ADSL connection upload at speeds that are much slower than they can download. The connection fee for this service ranges from $200 to $1500 and the monthly subscription tariff is between $280 to $1200.

For the provision of dial-up services, we utilize both our own network infrastructure and MGTS' network to access end-customers. Our dial-up network was built on Cisco Systems and US Robotics digital servers, which provide speeds of up to 56 Kbps. We believe the high quality of our services enables us to compete effectively with other dial-up operators.

For the provision of broadband Internet services, we have secured access to MGTS' network allowing data transmission at speeds of up to 7.5 Mbps along installed copper lines using ADSL technology. As of September 30, 2005, all of MGTS' 225 PoPs were DSL-enabled. In addition, we utilize MGTS' PDTN to provide high-speed reliable Internet services and create VPNs for our corporates.

Supporting our Internet services, we also have a modem pool that is among the largest in Russia, with a backbone IP network with 10 Gbps of capacity, channels to the external Internet segment with a capacity of approximately 2 Gbps and a powerful data processing center.

Value-Added Services

We provide corporates with several value-added services, including Logic Line and integrated solutions. The Logic Line service is based on our proprietary IN and is designed to help our corporates manage the reception and servicing of a large volume of incoming calls. The unique multi-channel telephone number assigned to customers will not change even if the customer moves to a different location in Moscow, and does not require the customer to install any equipment. In addition, this service allows all incoming calls to be transferred to other fixed or mobile telephone numbers in Russia or in other countries. The IN identifies a subscriber by phone number, phone card or password, which allows our customers to bill their subscribers for services and, if necessary, block access for subscribers who have a negative balance on their account.

In addition, we serve as general contractor for the provision of a full range of integrated solutions to subscribers wishing to establish a modern integrated communications infrastructure. Each solution is customized for subscriber-specific needs. In developing these customized networks, we are able to offer the following range of services: site survey, cost analysis and optimum project planning, assistance with government-related documentation, supply of equipment and operational, technical and maintenance support on an ongoing basis. Once the infrastructure is established or renovated, as the case may be, we typically provide digital voice communications, voice intelligent services, high-speed Internet services, videoconferencing and other data transmission services. We intend to expand our service offerings to include customer premises management and network-centric IT solutions, such as CPE, LAN, firewall management and data security.

Operators

We offer a range of services to other fixed line communications operators, ISPs and to MTS, Vimpelcom and MegaFon, the three major Russian mobile telecommunications operators, including the following: (1) interconnection and completion services for telephone calls originating in Russia and the CIS, as well as calls terminating in Russia, (2) provision of a portion of our allocation of coveted "495" prefix Moscow telephone numbers to the subscribers of other alternative fixed line communications and mobile operators through agency agreements concluded with such operators, (3) data transmission services, including frame relay, SDH capacity and IP-VPNs, (4) IP transit ports, and (5) installation and maintenance of equipment on customers' premises.

As of September 30, 2005, we had 392 operator customers. Operating revenues from services provided to operators for the nine months ended September 30, 2005 were $83.3 million and accounted for approximately 33.8% of our combined operating revenues from the alternative fixed line business.

Residential

According to official government statistics, there are approximately 17 million individuals residing in Moscow and the Moscow region, areas characterized as having educated populations with higher than average purchasing power and high geographical density compared to other cities and rural populations throughout Russia. We believe that these factors, combined with relatively high disposable income levels, make Moscow and the Moscow region attractive communications markets with high consumer revenue growth potential for our unregulated residential services. According to Rosstat, in 2004, average disposable income was 275% higher in Moscow than the regional average in Russia. In 2004, the average disposable income in Moscow was on average 69% higher than those in Poland, Hungary and Czech Republic, according to Economist Intelligence Unit.

As further described below, we offer residential subscribers voice, Internet and pay TV services.

Voice Services

We provide the same voice services to unregulated residential subscribers as those provided to corporates. For a more detailed discussion of these services, see "—Corporates—Voice Services." Like corporate subscribers, residential subscribers in Moscow and the Moscow region demand a full range of high quality voice services equivalent to those provided in Western Europe. In addition to "basic" voice telephony services, we provide more than 50 additional services, such as call forwarding, call transferring, call waiting, conference, voicemail and Caller ID, among others. In addition, we offer residential consumers the use of the "MAXIcard" calling card, allowing users situated in certain cities in Russia, including Moscow, and over 35 select countries, to call anywhere in the world. Residential voice services are primarily offered by our alternative fixed line business to high value residential subscribers in high-end housing.

Internet Services

We offer dial-up and broadband Internet services to residential subscribers. While we will continue to offer dial-up Internet services, we will ultimately seek to migrate these subscribers to one of our broadband Internet packages. In 2002, we introduced ADSL-based broadband Internet services to residential subscribers. In February 2004, we launched a new residential focused brand, Stream, and in September 2004, we reduced our broadband tariffs by 50% and may continue to do so in order to further increase the number of our broadband subscribers and increase our market share. The new brand, coupled with the tariff reduction, resulted in rapid subscriber increases from 37,003 as of September 30, 2004 to 102,516 as of December 31, 2004, and to 198,654 as of September 30, 2005. The significant reduction in our broadband Internet tariffs did not adversely affect our financial position due to the substantial increase in the volume of our broadband subscribers. We have also introduced a range of tariff plans under the Stream brand aimed at meeting the needs of various groups of residential subscribers, including the unlimited use Stream-NEO tariff plan. We are currently developing collective-access broadband Internet services by building LANs for residential subscribers, which, due to shared build-out costs, could be priced attractively for lower-income subscribers. We are also developing customized services targeted at all segments of the residential Internet market, and intend to invest in broadband projects outside of Moscow and the Moscow region in the future. As of September 30, 2005, we had an approximately 30% share of the broadband Internet market in Moscow, according to Pyramid Research.

Under the Stream brand, we intend to encourage consumer loyalty and reduce churn by offering a wide range of value-added services free of charge or at very reasonable prices for our subscribers. For example, we provide unlimited storage space for viewing and printing digital photos, access to a virtual storage drive capable of storing 100 MB of storage space through our network, discounted access to two of the largest music archives in Russia and e-mail services, among others.

In the beginning of 2005, we began offering individual users access to the Internet from a computer notebook, pocket PC or a smart phone without wires or a modem by establishing Wi-Fi Hot Spots in public places throughout Moscow. In addition, during 2005, we started to install a network of Internet payphones in public places throughout Moscow. The Internet payphones support international and national long-distance calls, Internet services, e-mails, SMS and the ability to send instant photographs taken by a digital camera built into the payphone unit.

Pay TV

In May 2005, we began commercial operation of StreamTV, a digital TV project based on ADSL IP technology, but only began actively marketing the service in September 2005. We launched this product in response to anticipated growth in pay TV penetration in the residential market in Moscow. See "Industry." Digital technology compresses video signals into a smaller amount of bandwidth than those used by analog transmissions, while also enhancing the audio and visual quality of the transmissions. Special auxiliary equipment allows StreamTV subscribers to access 84 channels of digital quality from a home television without satellite dishes or specialized antennas. International and Russian channels are included as part of the base services package, as well as four proprietary Russian language channels for which we produce and license 600 hours of content per year. We also offer a wide range of news, sports, education, fashion and movie channels, among others, designed to appeal to the broadest of interests. StreamTV also features pay-per-view and video-on-demand services, video games and 47 radio channels. As of September 30, 2005, we had 2,611 StreamTV subscribers in Moscow and approximately 6,500 subscribers as of December 31, 2005.

Our pricing structure is designed to appeal to large numbers of consumers with various interests. Our "base" package costs $9.95 per month and offers 44 channels, including four movie channels and two sports channels. The "extended" and "unlimited" packages cost $17.95 and $49.00 per month, respectively, and offer premium content, as well as more channels than the "base" package. For consumers interested in thematic channels, such as sports, news or music, we offer options to purchase channel blocks ranging from $5.90 to $9.95 per month. In addition, we provide our subscribers with the option to purchase access to music, games and a selection of movies broadcast at various times in 15 to 30 minute intervals, each for $1.95 per month. Since its introduction, approximately 50% of subscribers to StreamTV have elected the "extended" package for $17.95 per month. We believe that this trend, along with other services purchased by our subscribers, including pay-per-view films, has resulted in average ARPU for our existing subscribers of between $17 and $18 per month for the nine months ended September 30, 2005.

As of the date of this prospectus, our StreamTV channels were as follows:

Type	Number of Channels	Examples
Broadcast	15	First Channel, Rossiya, NTV, Culture, STS, TVC, TNT, Muz-TV, TV3, DTV, Home Channel, Zvezda, 7TV, RTR-Sport, MTV-Russia
News	5	CNN, BBC World, Bloomberg, RBC, Euronews
Movie	5	TV1000, TV XXI, Teleclub, Russian Illusion, TCM
Music	12	Trace TV, VH1, MCM top, Music Box, Music Box ru, MTV Hits, VH1 Classic, MTV Base, MTV2, Mezzo, A-ONE, Soundtrack Channel
Sport	8	Eurosport, Eurosport2, Eurosport News, ESPN Classic Sport, Extreme Sports, Sailing Channel, Chelsea TV, Manchester United TV
Education	10	Rambler TV, Animal Planet, Discovery Channel, National Geographic, Travel Channel, Discovery Civilization, Discovery Science, Discovery Travel & Living, Viasat Explorer, Viasat History
Family	5	Deutsche Welle, TV5, BBC Prime, Humor TV, Wine TV
Fashion	3	Fashion TV, World Fashion Channel, Style
Children	5	Cartoon Network, Jetix, Nickelodeon, Jetix Play, Detskiy Mir
Own Content	4	Hunting and Fishing, Healthy TV, Drive, RetroTV
Adult	5	Free-X TV Light, Free-X TV, Free-X TV 2, X-Dream TV, Spice Platinum
Other	6	Reality TV, World Made Channel, Spas, Tatarstan-New Age, Belarus TV, Inter+
Total	83	

As we expand organically and through acquisitions into the regions of Russia and other CIS countries, we intend to offer our new subscribers StreamTV services. We also plan to license the use of the StreamTV technology platform and programming to third-party networks that would not otherwise invest in offering pay TV to their subscribers.

Traditional Fixed Line Business

We provide traditional fixed line communications services through our subsidiary, MGTS, which is the incumbent fixed line PSTN operator in Moscow. MGTS owns Moscow's PSTN infrastructure, including switches, a transmission network, underground ducts and owns or holds leases to properties housing its offices and equipment. As of September 30, 2005, MGTS had approximately 4.25 million active lines in service, a cable network of over 94,000 km, a fiber optic network of over 5,300 km and more than 9,000 payphones. Although MGTS' core backbone network is fully digital and is based on state-of-the-art SDH technology, only around 28.5% of our active lines were digital as of September 30, 2005. As a result, those subscribers who connect to our network using an analog ATE are currently not able to receive our value-added services. Residential subscribers accounted for approximately 83% of MGTS' total lines, corporates for 12% and public sector subscribers for 5% as of September 30, 2005.

Operating revenues of our traditional fixed line business for the nine months ended September 30, 2005 were $390.5 million. Of this amount, operating revenues from the provision of voice telephony to residential subscribers and corporates accounted for 66.1%, provision of services to operators accounted for 20.4%, rental of trunks and access nodes accounted for 6.8%, additional telecommunications services accounted for 4.0%, payphones accounted for 0.5% and other services accounted for 2.2%.

MGTS holds licenses and regulatory approvals to provide, among others, the following services:

- local telephony;
- DLD/ILD voice telephony through licensed DLD/ILD operators;
- interconnection to other operators;
- Internet and data transmission, including leased DLD/ILD services;

- inquiry and information, including telephone directories;
- use of payphones; and
- numbering capacity provided to the subscribers of other communications operators through agency agreements concluded with such operators.

As the only licensed PSTN operator in Moscow, MGTS is considered a monopoly under Russian anti-monopoly regulations. Consequently, the Federal Tariff Service regulates MGTS' tariffs for voice telephony services provided to its PSTN subscribers, including monthly subscription fees, installation fees and local call charges. Most of the services provided by MGTS are subject to governmental regulation. Operating revenues from regulated services accounted for approximately 64.0% of service operating revenues of our traditional fixed line business in 2004 and approximately 59.2% in the nine months ended September 30, 2005.

The Federal Tariff Service sets the tariffs MGTS can charge taking into account cost of services, network investment and a certain profit margin, and the current tariffs fully compensate MGTS for the cost of services provided to residential and government subscribers. According to Russian legislation, MGTS is allowed to petition the Federal Tariff Service for tariff increases upon certain conditions, such as inflation or increases in the cost of services. Historically, MGTS has petitioned the relevant Russian government agency for tariff increases once or twice per year. The Federal Tariff Service has permitted MGTS to increase its tariffs several times. Since 2000, residential monthly tariffs have risen at a CAGR of approximately 30%.

MGTS also provides a number of unregulated services. According to Russian legislation, interconnection services, DLD/ILD services provided by licensed non-monopoly operators, public payphones, data transmission services, value-added services and a number of other services were not subject to tariff regulation. Operating revenues from these unregulated services represented approximately 36.0% of service operating revenues of our traditional fixed line business in 2004 and 40.8% for the nine months ended September 30, 2005. Among others, MGTS provides the following unregulated services:

- leased lines and data transmission services;
- numbering capacity provided to the subscribers of other operators through agency agreements concluded with such operators;
- inquiry and information services (including telephone directories); and
- payphones.

MGTS is not licensed to provide DLD/ILD communications services directly to its subscribers but must route such traffic through a licensed DLD/ILD operator. As a result, DLD/ILD traffic originated by MGTS subscribers is carried by Rostelecom, the largest provider of DLD/ILD services in Russia, which bills MGTS subscribers directly. Until recently, MGTS had a revenue sharing agreement with Rostelecom, pursuant to which MGTS was entitled to retain approximately 12% of DLD/ILD revenue generated from subscribers on its network. The portion of DLD/ILD revenue received by MGTS is significantly lower than the revenue share received by other regional PSTN operators for long distance calls originated by their subscribers, which can range from 50% and 70%. Accordingly, in December 2005, MGTS entered into a new revenue sharing agreement with Rostelecom in which MGTS receives predetermined tariffs for calls both initiated and terminated by MGTS' subscribers rather than a percentage of revenues.

The following table presents certain operating data for our traditional fixed line business as of and for the dates indicated.

Traditional Fixed Line Business	As of and for the years ended December 31,			As of and for the nine months ended September 30,	
	2002[1]	2003	2004	2004	2005
Subscribers[2]					
Residential	3,368,482	3,409,841	3,472,661	3,448,361	3,524,112
Corporates[3]	72,435	77,464	76,407	76,586	75,525
Operators	199	204	222	208	198
Total	3,441,116	3,487,509	3,549,290	3,525,155	3,599,835
Active telephone lines[2]					
Residential	3,368,482	3,409,841	3,472,661	3,448,361	3,524,112
Corporates	716,000	717,950	723,611	722,181	725,689
Total	4,084,482	4,127,791	4,196,272	4,170,542	4,249,801
Installed capacity (telephone lines)	4,334,862	4,367,102	4,491,055	4,402,066	4,610,323
Access node/line rented					
Corporates	30,035	30,348	31,154	31,074	31,186
Operators	120,943	131,576	170,736	144,393	182,996
Total	150,978	161,924	201,890	175,467	214,182
Interconnect/Operator					
DLD/ILD minutes (in thousands)	2,282,561	2,619,573	2,739,831	1,946,887	1,983,337
DLD/ILD traffic charges per minute	$ 0.009	$ 0.009	$ 0.010	$ 0.011	$ 0.010
ARPL (monthly)					
Residential—voice	$ 1.86	$ 2.79	$ 3.64	$ 3.42	$ 5.02
Corporates—voice	11.81	12.79	13.48	12.70	13.40
Revenue per access node/line (monthly)					
Corporates	$ 37.41	$ 42.83	$ 51.40	$ 51.77	$ 95.15
Operators	19.22	22.75	34.21	44.26	46.36

(1) Data for the year ended December 31, 2002 does not include Comstar UTS as control over Comstar UTS was acquired by Sistema in 2003.

(2) We calculate our subscribers based on the number of active lines in service. A line is considered "active" if the subscriber has used the service within the last 30 days.

(3) Includes state-owned enterprises and government agencies.

MGTS' subscriber segments and the services provided to each subscriber segment are further described below.

Residential

MGTS provides basic regulated voice services to residential subscribers using its PSTN facilities and copper "last mile" access. MGTS is not permitted to charge residential subscribers for local traffic without approval from the Federal Tariff Service.

The following table illustrates MGTS' regulated tariff development in US dollars in the period from May 1, 1999 to October 1, 2005:

Service	May 1, 1999	Jan 1, 2000	Feb 1, 2001	Nov 1, 2001	Jan 1, 2002	Nov 1, 2002	June 1, 2003	Aug 1, 2003	Oct 1, 2004	Oct 1, 2005
Monthly subscription fee										
Residential subscribers(4)	1.2	1.9	2.1	2.4	2.7	3.5	4.1	4.6	5.8	7.0
Public sector subscribers(1)	2.3	2.0	2.6	2.9	3.3	3.9	4.1	4.6	5.8	7.0
Corporate subscribers(1)	6.8	6.1	5.8	5.6	5.5	5.2	5.4	5.5	6.8	7.4
Local call charges										
Public sector subscribers(2)	0.005	0.004	0.005	0.005	0.005	0.004	0.005	0.005	0.005	0.005
Corporate subscribers(2)	0.017	0.015	0.014	0.013	0.013	0.013	0.013	0.013	0.014	0.014
Installation fee										
Residential subscribers(4)	41.4	37.0	35.2	202.2	199.1	189.0	195.4	198.2	205.3	252.3
Public sector subscribers	136.6	122.2	116.2	303.2	298.6	283.6	293.1	297.2	308.0	378.5
Corporate subscribers	273.2	244.4	232.4	303.2	298.6	283.6	293.1	297.2	308.0	378.5
Exchange rate used (rubles per US dollar)(3)	24.16	27.00	28.40	29.68	30.10	31.70	30.71	30.28	29.22	28.53

(1) Includes 613 "free" minutes per month. As of October 1, 2005, includes 500 "free" minutes per month.

(2) Per minute charge for traffic exceeding the monthly "free" minutes.

(3) As of the date the tariff change became effective.

(4) Includes value-added tax.

Prior to January 1, 2005, MGTS was required to grant discounts ranging from 20% to 100% on installation and monthly fees to certain categories of residential subscribers, such as pensioners and military veterans and was entitled to full reimbursement of these discounts from the federal budget. In 2004, approximately 37.3% of MGTS' residential subscribers received discounts. In 2002, 2003 and 2004, the federal budget reimbursed approximately $8.1 million, $7.2 million and $10.0 million of these discounts, respectively, representing 33.4%, 23.5% and 23.4%, respectively, of the total owed to MGTS in these years. MGTS' right to reimbursement is not reflected in our combined financial statements as accounts receivable or otherwise, due to the uncertainty of collection. According to Russian legislation, effective as of January 1, 2005, substantially all residential subscribers are required to pay the full price for voice telephony services, and those entitled to discounts will receive reimbursement from the government rather than discounts from MGTS.

Corporates

MGTS provides basic regulated voice services to corporates using its PSTN facilities and copper "last mile" access. Corporates are charged on a monthly basis according to the regulated tariffs set forth in the table above under "—Residential."

Operators

MGTS provides interconnection and leased line services, as well as data transmission services to other communications operators.

MGTS provides interconnection and leased line services to alternative fixed line communications operators and mobile operators in Moscow, including Sistema group companies such as Comstar UTS, MTS and other Sistema subsidiaries. MGTS intends to increase its operating revenues in the future by offering additional value-added services over its partially upgraded network at unregulated rates.

MGTS has also established an active presence in the data transmission market. Its PDTN was established in 2001 and it allows MGTS to provide high quality high-speed ADSL-based Internet services on a wholesale basis to other operators. MGTS also provides other ADSL-based services on a wholesale basis to Comstar UTS and our subsidiaries, and we market them on the basis of line lease agreements. Pursuant to these agreements, MGTS receives monthly fees for each corporate and residential ADSL subscriber of Comstar UTS. As of September 30, 2005, we rented ADSL lines from MGTS at a rate of $86.00 and $8.00 per line per month for corporate and residential subscribers, respectively.

Intercompany transactions

Each of our two business segments sells products and services to the other. For example, in 2004 we had intercompany sales of $68.1 million. Of these intercompany sales, $67.4 million were sales from our traditional fixed line business to our alternative fixed line business and included selling modem pool trunks, renting channels, racks and premises, providing interconnection and leasing of the "last mile" infrastructure. The remainder of these intercompany sales were from our alternative fixed line business to our traditional fixed line business and included payments related to renting channels and providing traffic on the network.

The companies within the group have entered into various intercompany transactions, including, *inter alia*, the following agreements:

Use of network resources

In August 2001, MTU-Inform entered into an agreement with MGTS, pursuant to which MGTS provides MTU-Inform approximately 44,200 leased connection points along a digital 30-channel line. For such services, MTU-Inform pays monthly fees to MGTS of approximately $1.7 million (exclusive of VAT). Under a similar agreement entered into in June 2003, MGTS leases approximately 2,040 trunk connection points to Comstar UTS at a unit rate of approximately $42 per month (exclusive of VAT).

In March 1998, Comstar UTS entered into an agreement with MGTS, pursuant to which Comstar UTS pays MGTS approximately $298,000 per month (inclusive of VAT) for the transmission of voice traffic generated by 54,000 of Comstar UTS' subscribers.

Network interconnection

In May 2004, MTU-Inform entered into an agreement with MGTS, pursuant to which MGTS provides MTU-Inform access to its PDTN and the activation of trunk connection points. MTU-Inform pays MGTS a unit rate of approximately $110 (exclusive of VAT) for access to the PDTN for 80,000 lines, and a unit rate of approximately $54.8 (exclusive of VAT) for the activation of approximately 15,600 trunk connection points. The total value of the agreement is approximately $9.6 million (exclusive of VAT).

In May 2002, Telmos entered into a lease agreement with MGTS, pursuant to which MGTS provides Telmos approximately 65,500 telephone numbers, as well as interconnection to its network. Under the agreement, Telmos makes the following payments to MGTS: (1) rent for the use of connection points for approximately 6,600 trunks at a unit rate of approximately $38.5 per trunk (exclusive of VAT) and (2) a fixed fee of 15% for the use of connection points for outgoing trunks.

In August 2002, MTU-Intel entered into an agreement with MGTS to interconnect MTU-Intel's network with MGTS' PDTN, allowing MTU-Intel to offer its subscribers several services, such as IP-telephony, VPN services and support, access to used channels and the activation of MGTS' telematic node ports. For each of these services, MTU-Intel charges its subscribers as follows: (1) fees for telephone numbers used in IP-telephony ($7 per month per number), (2) fees for establishing and supporting a VPN ($300 per month per VPN (exclusive of VAT) to establish a VPN, $100 per month (exclusive of VAT) for maintenance and $500 per month (exclusive of VAT) for support), (3) fees for access to used channels ($8 per month per channel (exclusive of VAT)) and (4) fees for activation of MGTS' telematic node ports ($185 per month per port (exclusive of VAT) and a subscriber fee of $86 per port (exclusive of VAT)). As of September 30, 2005, MTU-Intel had paid approximately $31.3 million (exclusive of VAT) to MGTS pursuant to this agreement.

Lease of telephone line conduits

Pursuant to a conduit lease agreement, Telmos leases from MGTS approximately 1.4 million meters of telephone line conduits at a price of approximately $.05 per meter (exclusive of VAT). In addition, MTU-Inform currently leases telephone line conduits from MGTS, and has paid MGTS approximately $77,000 (exclusive of VAT) under various conduit lease agreements.

Lease of facilities

In August 2002, Telmos entered into an agreement with MGTS, pursuant to which MGTS provides Telmos with the use of equipment and facilities, including: (1) approximately 410 rack units at a rate of

$1,200 per unit per year, (2) approximately 23 wall units at a current rate of $600 per unit per month (exclusive of VAT) and (3) 2 reserve rack units at a rate of $240 per unit per year (exclusive of VAT). Under a similar agreement with MGTS, Comstar UTS leases approximately 1,750 rack units, 2 wall units and 17 reserve units at the same rates. In addition, MTU-Inform leases from MGTS approximately 921 rack units at approximately $210 per unit per month (exclusive of VAT) and 20 reserve rack units at approximately $42 per unit per month (exclusive of VAT).

Establishment and lease of direct lines

In October 1999, Telmos entered into an agreement with MGTS, pursuant to which Telmos leases 1,327 direct lines from MGTS at a rate of approximately $10.5 (exclusive of VAT) and 83 lines at a rate of approximately $52.5 per line per month (exclusive of VAT). Under a similar agreement, MTU-Inform leases 860 direct lines from MGTS at a rate of approximately $10.5 (exclusive of VAT) and 74 lines at a rate of $10.5 per line per month (exclusive of VAT).

Lease of premises

In 1999 and 2000, Telmos entered into several agreements with MGTS, pursuant to which Telmos leases a total of 1,708.1 sq.m. of space from MGTS. In addition to paying a percentage of the utility expenses based on a proportion of the space occupied, Telmos pays annual rent of approximately $819,005 (exclusive of VAT). Under similar agreements, Comstar UTS leases 2,741 sq.m. of space from MGTS and pays annual rent of approximately $241,668 (exclusive of VAT), not including utility expenses.

In addition, in May 2005, MTU-Inform entered into a lease agreement with MGTS, pursuant to which MTU-Inform leases 84.7 sq.m. from MGTS and pays annual rent of approximately $12,240 (exclusive of VAT), not including utility expenses. In addition, MTU-Intel leases a total of 3,615 sq.m. from MGTS and pays annual rent of approximately $388,006 (exclusive of VAT).

Competition

Alternative fixed line business

We compete with a number of alternative operators servicing Moscow, St. Petersburg, Tyumen and other major Russian cities. Intensifying competition in the Moscow alternative fixed line market has resulted in increasing pressure on prices and profitability for all operators. Smaller companies with relatively limited scale and resources generally focus on niche segments of the market while larger companies act as market consolidators. As a result, the Moscow market is presently dominated by two large operators: Comstar UTS and Golden Telecom.

As of September 30, 2005, we and Golden Telecom represent the two largest fixed line alternative operators in Moscow with a combined market share of 56.3% of the total Moscow market in terms of access lines in service, according to Pyramid Research. The remaining 43.7% of the market is shared among various smaller operators.

The following table illustrates the corporate subscriber market shares of the main alternative fixed line operators in Moscow as of September 30, 2005 (excluding incumbent operators):

Company	% of Active Lines in Service
Comstar UTS	41%
Golden Telecom	16%
Other	44%
Total	100%

Source: Pyramid Research.

Golden Telecom is a facilities-based communications operator with a presence in Russia, Ukraine, Kazakhstan and other countries of the CIS. Golden Telecom targets business subscribers and offers fixed line services, voice and call center services, dedicated Internet services and design and installation and management of VPNs. In December 2003, Golden Telecom acquired Russian alternative fixed line operator Combellga, a provider of local, DLD/ILD telephony, Internet services, videoconferencing and telephone card services. Moscow is the primary base of Golden Telecom's operations, although it has accelerated its expansion into large regional cities in Russia, such as St. Petersburg, Nizhny Novgorod, Samara, Kaliningrad and Krasnoyarsk, and into a number of CIS countries, including Ukraine.

Golden Telecom is our principal competitor in our corporate voice and data transmission segments. While Golden Telecom provides Internet dial-up services in Moscow, we do not believe it is a significant competitor of ours in this segment. However, we are aware that new competitors and competitive pressures may emerge as a result of the implementation of new communications regulations in Russia in 2006, as well as the Moscow and regional expansion by our competitors.

We are the largest Internet dial-up service provider in Moscow by number of subscribers. According to Pyramid Research, we had 50.5% of the active dial-up Internet subscribers in Moscow as of September 30, 2005, and Golden Telecom had a 25.6% share of this market. Other ISPs together had less than 25.0% of the market.

The following table illustrates competitive positions in the dial-up Internet market in Moscow, as of September 30, 2005:

Company	% of Dial-up Internet Subscribers
Comstar UTS	50.5%
Golden Telecom	25.6%
Zebra Telecom	8.8%
Zenon NSF	6.6%
Other	8.5%
Total	100%

Source: Pyramid Research.

We are the leader in the broadband Internet market segment in Moscow with 14,296 corporates and 198,654 residential subscribers as of September 30, 2005. According to Pyramid Research, we had a 28.9% market share of the total broadband Internet market in Moscow as of September 30, 2005. The remainder of the broadband Internet market is fragmented among numerous ISPs using different broadband platforms, the most widespread of which is home Ethernet. None of these providers controls more than a 7% share of the market.

The table below demonstrates our competitive position in the Moscow broadband Internet market as of September 30, 2005:

Company	% of Broadband Subscribers
ADSL	
Comstar UTS	28.9%
Other	0.2%
Cable modems	3.5%
Corporate Internet connections (dedicated SDSL)	3.5%
Home networks	63.8%
Total	100%

Source: Pyramid Research.

In the broadband and dial-up Internet market segments, we compete primarily in terms of price. IP operators generally provide long distance and Internet services at relatively lower prices compared to prices offered by us and Golden Telecom due to their ability to bypass our network, as well as Rostelecom's network for interconnection. Under the new regulatory regime, IP operators may be required to obtain licenses to provide voice telephony services and interconnection via our network.

Home networks represent our main competition in the Moscow Internet market. Typically, a home network provider would subscribe to one of our premium broadband Internet packages and then re-wire sections of a building, splitting the traffic capacity among several apartments. The residents in each apartment would then pay monthly fees directly to the home network provider, which effectively operates as an unlicensed wholesaler of our services. We intend to try to address this issue by either inviting larger home networks to become our franchisees and/or by initiating enforcement actions against those operators that continue to operate without the required license.

In addition, further competition may emerge in the residential broadband Internet segment from other communications providers, such as Golden Telecom, which may use newer technologies to provide similar services at the same or lower prices. Golden Telecom, Equant, Corbina Telecom and Comkor, for example, are building their own network infrastructures in Moscow and in select regions of Russia using modern technologies, which may include Wi-Max.

We also compete in the premium segment of the pay TV market through our StreamTV brand, which we began actively marketing in September 2005. Our main competitors are NTV-Plus, a DTH satellite operator, Comkor-TV, a cable operator and Sistema's subsidiary Kosmos TV, an MMDS operator. However, none of these operators provides pay TV services using ADSL technology, which we consider to be one of our competitive advantages. In addition, many local utility companies charge residents a regulated nominal fee to access of up to 16 free-to-air channels via local cable; however, we do not include this segment as part of the pay TV market and, therefore, do not consider these operators to be our competitors.

The pay TV market remains underdeveloped in Russia compared with other rapidly developing service industries like mobile communications. According to Pyramid Research, as of September 30, 2005, approximately 631,000 households in Russia were regular subscribers of cable TV services and approximately 435,000 households had satellite dishes. According to Pyramid Research, 2.25% of Russian households were regular subscribers of cable TV services and/or had satellite dishes, respectively, as of September 30, 2005.

The following table illustrates competitive positions in the pay TV market in Moscow, as of September 30, 2005:

Company	Subscribers	% of Total Subscribers	Operating Revenues	% of Total Operating Revenues
			(in millions)	
NTV-Plus	230,000	64%	$39.2	73.1%
Kosmos TV	77,000	21%	7.0	13.1%
Comkor-TV	50,000	14%	7.4	13.8%
Other (including StreamTV)	5,000	1%	—	—
Total	362,000	100%	$53.6	100%

Source: Pyramid Research.

Traditional fixed line business

As Moscow's only PSTN operator, MGTS faces limited competition in the market for residential local telephony services in Moscow, where it serves more than 90% of all residential subscribers, according to Pyramid Research. MGTS is also a major player in the local telephony market for corporate subscribers, providing services primarily to small- and medium-sized enterprises.

MGTS accounted for 72% of the approximately 6.0 million telephone lines in Moscow in 2004, according to Direct INFO. MGTS' telephone lines accounted for 13.1% of the total installed lines in Russia in 2004, according to Pyramid Research.

Also, according to Direct INFO, MGTS had a 17.6% market share by revenues of the Moscow fixed line communications market in 2004, with a 9% share in the corporate segment by revenues, an 18% market share in the operator segment and a 37% market share in the residential segment.

With 41 telephone lines per 100 residents as of December 31, 2004, according to Pyramid Research, MGTS is the leader among Russian traditional fixed line operators in terms of local area fixed line penetration. MGTS is followed by Northwest Telecom, a Svyazinvest-controlled RTO with

32 telephone lines per 100 residents, according to Svyazinvest data as of December 31, 2004. As of the same date, the local telephone line penetration of Svyazinvest's other RTOs was in the range of 20 to 24 lines per 100 residents, according to Svyazinvest data.

Tariffs

We establish prices for our unregulated services and different subscriber segments based on certain common considerations, policies and goals. For example, we generally seek to establish competitive prices based on market rates for the services we offer and below-market prices when our lower-than-average costs or economies of scale allow us to do so. We also offer subscribers bundled service packages with several services offered together at a discount to the cost of ordering each individual service separately and to promote additional services to our existing subscribers. In addition, we often offer promotions to our various subscriber segments waiving or discounting installation fees in order to attract new subscribers or promote new services.

With regard to corporates, we generally aim to derive the bulk of our operating revenues from monthly payments. Thus, depending on the scale and type of services ordered, we will often discount or waive installation fees.

For services offered to other communications service providers, we aim to generate most our operating revenues from monthly payments and by offering an array of value-added services.

We develop tariffs for service offerings to residential subscribers with the aim of attracting new subscribers, as well as expanding the services used by existing subscribers in order to generate higher ARPU. In particular, we offer several flexible tariff plans customized for various types of residential subscribers, as well as various promotions, such as free installation and bundled service packages offered at a discount.

Sales and Marketing

Alternative fixed line business

Our target customers include corporate, operator and residential subscribers.

Corporate subscribers are the most significant consumers of fixed line communications services in Moscow in terms of revenue. We expect demand will continue to grow in this segment, in large part due to the growth in Internet and data transfer services. To maintain and attract new corporate subscribers, we expect to focus on the following activities:

- launching new services, including IP-VPN and Hybrid-VPN services for companies with multiple branches and our Logic Line product range;
- providing integrated and high quality value-added services;
- expanding our capacity to provide outsourcing services for companies, including, for example, call center and ISP hosting services;
- providing supplementary services to corporates of our traditional fixed line business; and
- investing in individual customer projects to offer customized products to suit particular companies' needs.

We also target operators, and intend to introduce additional service offerings, including IN services, call center outsourcing, provide personal numbers, IP and VPN services, and co-location and peering within Moscow. We also intend to offer NGN services to regional carriers and to optimize inter-carrier accounting in light of changes within the communications industry.

Our third targeted customer group consists of residential subscribers, primarily with respect to voice, Internet and pay TV services. In September 2004, we launched Stream brand, an ADSL service for individual subscribers. In September 2004, we introduced the Stream-NEO tariff plan, through which we offer subscribers unlimited ADSL access for a flat fee. To maintain and expand our individual subscriber customer base, we expect to focus on the following activities:

- promoting broadband Internet to mass market subscribers and migration of dial-up subscribers to ADSL;
- increasing sales to mass market subscribers;

- seeking the increase of MGTS' regulated tariffs to account for inflation, the cost of services and network investments;
- promoting our broadband-based multimedia services, including pay TV, video-on-demand and pay-per-view;
- developing a combined, multi-purpose Internet and voice telephony pre-paid card and expanding our pre-paid card dealer network;
- expanding subscriber access areas through development of wireless technologies, including Wi-Fi Hot Spots;
- expanding our payphone network and installation of web payphones; and
- providing integrated "triple play" services in elite and large-scale housing developments.

To promote our product and service offerings, we use various communication channels for advertising and marketing, including printed mass media, television, Internet, radio, directories, outdoor advertising, advertising in the subway, special promotions, cross promotions and direct marketing. We also sponsor television programs to promote our brands and products. Through these various advertising and marketing channels, we intend to further develop our brand recognition. Our marketing strategy is designed to create a unified brand for each of our various product and service offerings with the aim of becoming a single source for all our subscribers communications needs.

We also actively promote our services to existing subscribers with special bundled product offerings aimed at servicing their communications requirements and enhancing subscriber loyalty. We provide sponsorship support to various cultural, sport and other socially significant events to build positive brand awareness. Our advertising and information materials are aimed primarily at the promotion of the Comstar UTS brand, as well as its specific product and service offerings such as Stream, Tochka.RU, Logic Line, MAXIcard and Wi-Fi. Our advertising and marketing efforts are designed to convey a positive image of us to the market as a leading communications operator focused on customer satisfaction.

Traditional fixed line business

As the incumbent PSTN, MGTS has not invested significantly in sales and marketing. In the future, we anticipate that we will invest more in sales and marketing of our traditional fixed line services. We are currently in the process of developing our sales and marketing activities for MGTS through Comstar UTS, and we believe MGTS will benefit from the expertise in this area of our alternative fixed line business. For example, MGTS recently launched its "009" directory assistance service through a marketing campaign that involved radio, newspaper and billboard advertisements in Moscow.

Customer Care and Billing

Alternative fixed line business

We aim to provide high quality communications services along with high levels of customer service and support. Our subscribers have access to customer service support 24 hours a day, 7 days a week through our 24-hour call center. We also provide customer and engineering support, billing support and support via e-mail and the Internet. In addition, we provide individual toll-free hotlines for certain services.

We actively seek customer feedback in connection with our service offerings and customer service efforts and routinely provide subscribers with questionnaires or other requests for feedback through which they describe their level of satisfaction with our service offerings and quality of service, provide comments and requests, or order additional services.

In September 2005, we implemented the Sales Logix client relationship management system in order to improve customer service quality by increasing efficiency and reducing the processing time for responding to requests. The new system also allows us to provide detailed technical and status information to subscribers relating to their service requests.

Billing for our alternative fixed line services is processed through an automated customer payments and billing system, or ACPBS. Among other things, our ACPBS renders a record of services provided, calculates costs of services rendered to subscribers, generates invoices for subscribers, enables subscribers to access their accounts and personal account maintenance, maintains payment records, provides an interface with our accounting department, allows for the generation of reports using various parameters and is integrated with our pre-paid services systems.

The ACPBS supports payments via banks, cash payments in person at our payment offices, electronic payments and, for certain services, payments through pre-paid scratch cards. Subscribers can receive paper invoices or "paperless" invoices on-line. Subscribers' accounts are maintained in rubles and conventional units. Payments are made in rubles based on the amount of conventional units owed, converted at the exchange rate on the date of payment or at a rate specified by the relevant operator.

The ACPBS hardware platform uses Sun Microsystems servers. The payment system is based on an ORACLE DBMS and possesses significant scalability and portability capabilities.

Traditional fixed line business

MGTS' subscribers may receive technical assistance at one of MGTS' service centers located throughout Moscow. MGTS also provides qualified technicians who will visit a subscriber's home or office to provide technical assistance for MGTS' services. In addition, subscribers may call "009" to reach one of our 24-hour information service centers to obtain information on available services, report problems and order services, among other things. In 2007, we intend to launch a single customer service call center, which will provide customer and engineering support, billing support and support via e-mail and the Internet to MGTS and Comstar UTS subscribers. This service will allow any subscriber to receive information regarding their account using a single phone number or web interface, using IVR and FSMS technologies.

MGTS uses the FORIS Integrated Information and Process Enterprise Management System developed by STROM Telecom. The FORIS system uses a Windows 2000/2003 server platform and the DBMS is MS SQL Server 2000. Among other things, the FORIS system registers and maintains a record of existing and potential subscribers, records services rendered to subscribers and calculates related costs, records and controls receipt of payments, generates invoices and other subscriber mailings, records usage of communications network resources and maintains, organizes and generates reports relating to various statistical, operational and financial data and other information.

Network Infrastructure

Alternative fixed line business

Our alternative fixed line communications segment utilizes the following infrastructure:

- Digital fiber optic network spanning 6,250 km, covering Moscow and certain surrounding areas;
- TDM telephone numbering, including 18 host switches, connected with the traditional fixed line communications network and other large Moscow-based carriers;
- SDH backbone;
- NGN;
- Telematics network (for IP services);
- VoIP-based telephone network; and
- Payphone network, including over 400 payphones and capable of providing roaming with other large carriers.

Our SDH backbone consists of approximately 1,040 multiplexers and is situated on approximately 200 sites throughout Moscow and at the access nodes of our corporates and comprises equipment from five suppliers: ECI, Lucent Technologies, Axxessit, Alcatel and Marconi.

Our local loop consists of access nodes connected to our transport networks, with a star or tree-like cable infrastructure according to access technology. Each subscriber access point contains an access node, subscriber lines and access equipment. Our concentrator equipment comprises:

- PBX: analog and digital lines for the transmission of voice and fax messages;
- Subscriber gateways VoIP: voice analog lines and digital data transmission lines;

- DSL-concentrators; HPNA-, Ethernet-switches, routers: DSLs for broadband Internet services; and
- Passive non-controlled subscriber add-drops: aggregation of upstream and downstream traffic of TV signals and data transmitted by RC HFC technology.

We operate a total of 656 PBX lines, 391 of which belong to our subscribers.

Subscriber lines comprise:

- Broadband access copper twisted pairs not lower than category 3, SCS based on multi-pair cables; Krone and Reichle & De-Massari terminal and distribution units. The total length of lines in 50-pair equivalent is 577 km.
- Multiservice coaxial networks, interactive television distribution networks based on broadband cable made by Cavel, CommScope and Nokia for TV broadcasting and data transmission using RC HFC technology.
- Wireless subscriber line DECT, Wi-Fi extension of fixed subscriber lines.
- Fiber optic subscriber line based on PON (under construction).

The NGN's main component is the transport packet network based on MPLS. When completed in 2007, the NGN will have three layers: primary transport level (P), edge (services) level (PE) and aggregation and access level. We commenced construction of our NGN network in early 2003, and it is currently comprised of two layers: transport and aggregation and access. In the absence of an explicitly shaped primary core, the trunk nodes additionally carry out service functions. The network has a multiply connected cellular structure, with trunks having capacity of 1 Gbps. The network nodes are made of MPLS switches RS8x00 and RS3x00 from the Riverstone company.

Our IP MPLS network allows for interconnecting with Internet providers and delivering Internet traffic to consumers. The core of the IP MPLS network is a transport IP MPLS ring, where the routers are interlinked by GE channels. In addition, for interconnecting purposes, some routers are used that are connected to core routers by GE interfaces.

Traditional fixed line business

Public Switch Telephone Network (PSTN)

Our traditional fixed line communications segment currently operates approximately 700 exchanges for inbound/outbound calls, including 258 stroger exchanges, 350 cross-bar exchanges and 93 digital exchanges.

The analog portion of the network includes 15,439 trunk groups. Among them, 8,331 are basic audio frequency trunk groups, and 7,108 trunk groups use multiplexing. The digital portion of the network is comprised of the SDH backbone. The total length of the fiber optic network is 5,300 km.

The SDH network, which uses Lucent Technologies equipment, is configured as follows: 22 rings STM4/STM16, based on DACS cross-switches, located in the buildings with switches ATC 316 and ATC 201. There are a total of 161 multiplexers in the network, including ISM2000, ADM16/1, ADM16/1c, ADM4/1 and ADM4/1c. The SDH network allows for traffic transmission between exchanges and traffic exchange with interconnected carriers. The ECI SDH network topology (SDM 16, XDM500 and XDM1000) is multi-layered, with each network layer designed to carry a certain type of traffic.

Network management is carried out in two control centers: one active control center and one stand-by control enter. These centers contain an ORION system to monitor and control the fiber optic network and SyncView Manager 3.1.1 to monitor and control timing sources. Subscribers are connected directly on the level of host switches and remote units. To date, the network operates 23 hosts with total capacity of 1,221,400 numbers. Hosts are interconnected to each other by mesh topology via transit nodes with the analog network. We use the following types of host switches: EWSD (Siemens), 5ESS (Lucent Technologies) and MEDIO (STROM Telecom). To provide services with instant dialing (*e.g.,* emergency and information calls), MGTS has two nodes based on Medio IN equipment.

Monitoring of the digital network and management of switching equipment is centralized and carried out from MGTS' control centers.

Public Data Transmission Network (PDTN)

Our PDTN is a hierarchical 3-layer IP/MPLS network. The first level is the transport level for high rate traffic throughput over the PDTN. The second level is used for terminating subscriber sessions, and at the same time, to backhaul traffic from PoPs to the transport level. The third level allows subscribers access to the PDTN.

The first level comprises the core of the PDTN network and contains 12 nodes based on Cisco 7606 (WS-SUP720-3BXL) routers. Topologically, the nodes are linked into a 10-node transport ring with an attached two-node "minor" ring. The transport ring is designed to connect peripheral networks of the PDTN and overlay network equipment and for interconnections with partner providers. The minor transport ring covers the points of connection of Internet channel groups of other operators and content providers. On the transport level, the trunk connections are made by optical mono-mode 10GE interfaces.

The second or termination level of the PDTN is based on Redback SE routers designed to direct traffic to the nearest transport node and to terminate subscribers. Topologically, the termination level is comprised of several Redback SE routers linked together by GE interfaces and forms a string which abuts on both ends with GE interfaces of the transport routers of two different nodes of the transport network. All the routers of the transport level and termination level function in one IP/MPLS network with automatic rerouting.

The third or access level of PDTN is built on the base of IP DSLAM, linked by GE trunk interfaces and GE switches, linked by GE interfaces. The main function performed on the access level is data transmission on the "last mile" network. The network currently uses DSLAM D500 from Nokia and SmartAX MA5300 from Huawei. Both DSLAMs use an optical or electrical GE interface for trunk interfacing.

As access nodes (PoP), the PDTN uses MGTS' switching buildings connected with at least 4,000 subscribers. We currently have over 200 PoPs in service. The coupling of two or more DSLAMs within one PoP is through Catalyst 2970G GE switches or similar switches having a minimum of 12 GE ports. Each PoP is connected to an individual GE port of the nearest Redback SE400 router.

Principal suppliers

In our alternative fixed line communications segment, our principal suppliers are STROM Telecom and Lucent Technologies for switching equipment; ECI Telecom SDH for network equipment; Cisco Systems for Internet and data network equipment; Alcatel for system integration and data network equipment; Tanberg for host stations and related equipment; NDS for crypto-protection conditional access software; and ISPA for broadcasting equipment.

In our traditional fixed line communications segment, our principal suppliers are Siemens and STROM Telecom for switching equipment; ECI Telecom and Lucent Technologies for transport network equipment; and Cisco Systems, Nokia and Huawei for data network equipment.

All of our equipment is supplied directly through authorized dealers or leasing companies.

Capital Expenditures for Network Development

Alternative fixed line business

In addition to general network maintenance, we currently plan to undertake certain investments in our alternative fixed line communications segment's network infrastructure, including, *inter alia*, the following during 2006 and 2007:

- Customize the NGN service platform for our subscribers' special requirements;
- Introduce EPONs in client clusters, DWDM technologies to increase connectivity of NGN core and next generation switches into service;
- Migrate interconnects with PDTN to MPLS interfaces (Inter AS, option b);
- Build wireless broadband access networks in the frequency ranges of 5 and 2.4 GHz and based on Wi-Max in the frequency ranges of 2.5-2.7 GHz;
- Further develop Wi-Fi Hot Spots;

• Migrate traffic from G.703 channel on the interface with SDH and TDM network to STM-1 channels with subsequent dismantling of G.703 channels to allow greater flexibility with resource provisioning and simplify interfacing;

• Construct a new structure for telematics servers;

• Build four additional international nodes, connected with IP by STM-1 / STM-4 / GE channels to set up interfaces with VoIP and VPN and exchange Internet traffic with other operators; and

• Install systems for prompt detection and automatic blockage of different kinds of attacks originating from external and internal networks.

The following table sets forth estimates of our planned cash capital expenditures for our alternative fixed line communications segment for the years ended December 31, 2006 and 2007. These figures are estimates only and we cannot assure you that actual expenditures will equal our estimates as of the date of this prospectus.

Alternative fixed line communications segment capital expenditures (estimated)	**2006**	**2007**
	(in thousands)	
Customer installations	$13,945	$13,869
Network maintenance and development	18,845	16,388
New technology/ projects	32,336	23,391
IT and other	12,143	10,022
Total	$77,269	$63,671

Traditional fixed line business

In addition to general network maintenance, we currently plan to undertake certain investments in our traditional fixed line communications segment's network infrastructure, including, *inter alia*, the following:

In 2006:

• Install two new hosts manufactured by STROM Telecom and continue construction of the NGN with the installation of Softswitch to support new services and an application server;

• Complete modernization of our PDTN nodes in order to increase the throughput to 10 Gbps in each PoP;

• Install additional ADSL switching equipment and additional cross-connect equipment; and

• Install an additional 130,000 ADSL ports, increasing the total number to 500,000.

In 2007:

• Continue construction of NGN;

• Restructure NGN backbone in order to migrate major transport flows onto the core network;

• Connect units of the aggregation and access level at rates of up to 10 Gbps; and

• Increase the number of gateways of MGW-A subscriber access in parallel with network modernization and development.

We intend to replace all remaining analog switches with MGW-A subscriber line gateways with further development proceeding on the basis of packet technology only.

The following table sets forth estimates of our planned cash capital expenditures for our traditional fixed line communications segment for the years ended December 31, 2006 and 2007. These figures are estimates only and we cannot assure you that actual expenditures will equal our estimates as of the date of this prospectus.

Traditional fixed line communications segment capital expenditures (estimated)	2006	2007
	(in thousands)	
Customer installations	$ 49,252	$ 35,257
Network maintenance and development	172,605	15,088
New technology/ projects	28,745	143,996
IT and other	46,434	37,147
Total	$297,036	$231,489

Integration

The purpose of restructuring our alternative and traditional fixed line businesses was to streamline and optimize our fixed line operations, eliminate competition and redundant service offerings, increase efficiency and benefit from shared resources, operational synergies and economies of scale.

By integrating our two business segments, we expect to: (1) optimize our utilization of MGTS' extensive "last mile" infrastructure, covering nearly all of the end-users in Moscow, with substantial capacity to provide interconnection services to other operators, (2) benefit from the broad range of high quality product and service offerings, technological innovations, marketing and customer care capabilities of the group, as well as our large number of corporate and residential subscribers and (3) benefit from certain purchasing efficiencies when developing our network infrastructure.

We intend to decrease internal competition and streamline our operations by:

- continuing to use MGTS to provide basic communications services to public sector, corporate, operator and residential subscribers, such as local and DLD/ILD voice services via agency agreements and interconnection services;
- increasing the volume of interconnection services provided to companies within the group (through the leasing of wholesale ADSL lines to our alternative fixed line business), as well as other independent operators;
- integrating gradually the development and management of the network under MGTS to take advantage of its technological expertise. In particular, we plan to eliminate duplicative investments in the construction of and technologies incorporated into the NGN;
- using Comstar UTS as the primary provider of premium services to corporate and residential subscribers, such as broadband and dial-up Internet services, pay TV and video-on-demand services, and other value-added corporate services, including the provision of VPN and integrated solutions, as well as proprietary media content; and
- integrating marketing and customer care service and support under Comstar UTS to utilize its understanding of customer needs and marketing expertise.

Through our integration plan, we aim to further benefit from the individual strengths and core competencies of each company within the group by introducing a strategy for eliminating redundant product and service offerings, increasing efficiencies and reducing overlaps in future investment projects. In furtherance of this plan, we intend to:

- delineate more clearly our target customer base to better serve our existing subscribers and offer additional value-added services;
- introduce coordinated and bundled offerings, such as "triple play" services, as well as market additional products and services to MGTS' small- and medium-sized corporates;
- seek opportunities to cross sell products and services within the group, as well as with Sistema and its affiliated companies;
- eliminate internal competition in the corporate and residential segments and coordinate our efforts to reduce churn among our subscribers;
- expand regionally using our sales, marketing and acquisition expertise and MGTS' technological expertise;

- coordinate our customer care, sales and marketing efforts, including call centers, billing and joint advertising campaigns;
- improve recognition of our specific brands, such as Stream, Tochka.RU and Logic Line by promoting quality, innovation and customer care through advertising and marketing;
- reduce network upgrade and maintenance costs by streamlining operations and eliminating duplicative investments in IP, data centers and call centers;
- optimize personnel levels and research and development expenses;
- achieve procurement and direct network cost benefits through coordinated purchasing from suppliers; and
- integrate corporate functions, such as human resources, public relations, legal and strategy, to reduce employee headcount.

In order to improve the quality of and provide additional product and service offerings to our subscribers, we intend to invest in the integration of our network in the near future. Specifically, during 2006 and 2007, we plan to carry out the first stage of the network integration and development, consisting of the following: (1) integrate the NGN, under our alternative fixed line business, with MGTS' IP/MPLS network, (2) continue to develop Wi-Fi broadband Internet services on both our alternative and traditional fixed line networks and (3) continue with the reconstruction of the analog portion of our traditional fixed line network, which is expected to be completed during 2009.

Furthermore, in 2007 to 2009, we expect to complete the second stage of the network integration and development, including integration of the packet networks of our alternative and traditional fixed line businesses into a unified network. We intend to carry out the expansion and reconstruction of the networks using NGN packet switching technologies. By the end of 2009, we expect that a majority of our alternative and traditional fixed line operations will be based on a unified NGN network.

Intellectual Property

We own numerous trademarks in Russia, including MGTS, Comstar UTS, Stream, Tochka.RU and Logic Line, among others. We use these brands to market our corporate, operator and residential services.

Licenses

The following table presents information regarding our principal communications licenses:

Licensee	License Region(s)	License number	Expiry Date
	International, national, intra-zonal and local communications services[1]		
Telmos	Moscow, Moscow Region, St. Petersburg, The Republic of Buryatia, Kabardino-Balkaria, Komi, Khanty-Mansiysky Autonomous Region, Krasnodar, Primorsky, Stavropol, Khabarovsk Territories, Irkutsk Region, Kaluga Region, Rostov Region, Tyumen Region, Sverdlovsk Region	No. 9803	April 17, 2008
Golden Line	Moscow	No. 17895	April 19, 2011
Comstar UTS	Moscow, Moscow Region, St. Petersburg, Khanty-Mansiysky Autonomous Region, Krasnodar, Stavropol, Khabarovsk Territories, Samara Region, Nizhniy Novgorod Region, Tyumen Region, Rostov Region, The Republic of Khakasia, The Udmurt Republic	No. 12789	March 30, 2007
Comstar UTS	Kaliningrad Region	No. 22552	March 30, 2007
MTU-Intel	Moscow, Moscow Region	No. 26501	June 15, 2013
MTU-Inform	Moscow Region	No. 29365	December 11, 2006
MGTS	Moscow	No. 30000	December 11, 2013
MGTS	Moscow	No. 26481	July 10, 2008
MGTS	Moscow	No. 33531	July 28, 2010
	Telematic Services		
Telmos	Moscow, Moscow Region	No. 22383	June 6, 2007
MTU-Inform	Moscow, Moscow Region	No. 27260	July 31, 2008
Comstar UTS	Moscow, The Republic of Khakasia, Stavropol, Khabarovsk, Krasnodar Territories, Samara Region, Nizhniy Novgorod Region, Tyumen Region, Rostov Region	No. 12553	March 30, 2007
Comstar UTS	The Udmurt Republic	No. 13238	November 11, 2007
Comstar UTS	Kaluga Region, Moscow Region	No. 16466	October 26, 2005[2]
Comstar UTS	Yaroslavl Region	No. 28221	March 30, 2007
Comstar UTS	Kaliningrad Region	No. 22555	March 30, 2007
Golden Line	Moscow	No. 18468	June 21, 2006
MTU-Intel	Moscow, Moscow Region	No. 34784	September 14, 2010
MGTS	Moscow	No. 29335	December 11, 2006

Licensee	License Region(s)	License number	Expiry Date
	Leased Communications Circuits		
Telmos	Moscow, Moscow Region	No. 24255	November 28, 2007
MTU-Inform	Moscow, Moscow Region	No. 18936	July 25, 2006
Comstar UTS	Moscow, St. Petersburg, The Republic of Khakasia, Stavropol, Krasnodar, Khabarovsk Territories	No. 12551	April 28, 2007
Comstar UTS	Kaliningrad Region	No. 22553	April 28, 2007
Golden Line	Moscow, Moscow Region	No. 28980	January 1, 2009
MTU-Intel	Moscow, Moscow Region	No. 23335	August 29, 2007
MGTS	Moscow	No. 29336	December 11, 2013
	Data Transmission Services		
Golden Line	Moscow	No. 20549	December 27, 2006
Telmos	Moscow, Moscow Region	No. 22382	June 6, 2007
MTU-Inform	Moscow, Moscow Region	No. 23312	August 23, 2007
Comstar UTS	Moscow Region, Kaluga Region	No. 16432	October 26, 2005(2)
Comstar UTS	Kaliningrad Region	No. 22554	March 30, 2007
Comstar UTS	Moscow, Stavropol, Khabarovsk, Krasnodar Territories, Samara, Nizhny Novgorod, Tyumen, Rostov Region	No. 12552	March 30, 2007
Comstar UTS	Yaroslavl Region	No. 28222	March 30, 2007
MTU-Intel	Moscow, Moscow Region	No. 34119	August 25, 2010
MGTS	Moscow	No. 29334	December 11, 2008
	Video and Audio Conferencing Services		
Comstar UTS (video conferencing)	Moscow, Krasnodar Region	No. 13363	February 10, 2007
Comstar UTS (audio conferencing)	Moscow, Krasnodar Region	No. 13362	February 10, 2007
	TV and Audio Programs over Cable Television		
MTU-Inform	Moscow	No. 20186	November 22, 2006
MTU-Inform	Moscow Region (Odintsovsky district), Marfino Village	No. 28966	November 22, 2006
	Voice Communication Services in Data Transmission Networks		
Comstar UTS	Ivanovo Region	No. 36017	October 10, 2010

(1) These licenses, despite their title, do not permit us to provide DLD/ILD telephony service.

(2) We have applied for an extension of the term of this license.

Real estate

We own and lease buildings, land and office, storage and equipment space throughout Moscow. The companies within the group, excluding MGTS, own approximately 13,000 sq.m. of office space in Moscow, including approximately 7,730 sq.m. of office space at our headquarters located at 27/2 Smolenskaya-Sennaya Square in downtown Moscow. Such companies also leased a total of approximately 2,830 sq.m. of land, 10,435 sq.m. of office space, 114 sq.m. of equipment space, 103 sq.m. of storage space and 80 parking spaces in Moscow as of September 30, 2005.

We also own, through MGTS, 360 buildings in Moscow and in the Moscow region totaling approximately 1.1 million sq.m. of floor space as of December 31, 2005. Of these buildings, 220 are used to house technical equipment, 88 to house personnel from administrative and maintenance departments, 47 are used for employee social amenities, such as sanatoriums for rest and relaxation treatment and summer camps. The remaining five buildings are for professional training and educational purposes. MGTS leases two buildings from Petrodvor for MGTS' headquarters.

MGTS leased out approximately 46,985 sq.m. of space, and had operating revenues of $5.3 million in 2004 from its property leasing activity.

MGTS also rented approximately 41,100 sq.m. from third parties. Of this rented space, approximately 32,700 sq.m. is comprised of space occupied by MGTS' technical equipment on the premises of certain large customers, including federal and local governmental entities.

Litigation

Other than as set forth in this "Litigation" subsection, there are no governmental, legal or arbitration proceedings against us or our subsidiaries (including any such proceedings which are pending or threatened of which we are aware), during the 12 months preceding the date of this prospectus which may have, or have had in the recent past, significant effects on our financial position or profitability.

In February 2003, MGTS filed a claim against Mospromstroi seeking compensation in the amount of approximately $8.4 million for damages caused by a fire at an ATE. On November 10, 2005, MGTS motioned the Moscow Arbitration Court to increase the damages to a total of approximately $11.1 million. The case is scheduled to be heard on February 20, 2006.

During the first half of 2005, MGTS filed seven claims in the Moscow Arbitration Court against the Ministry of Labor and Social Development of the Russian Federation for the recovery of losses it incurred in connection with the provision of communications services in 2003 to 2004 to Russian veterans at a reduced rate. Pursuant to the Federal Law on Veterans, MGTS is seeking full reimbursement from federal funds totaling approximately $15.8 million. In the second half of 2005, the Arbitration Court ruled in favor of MGTS for the full amount. Although writs of execution were obtained with respect to all seven claims, as of the date of this prospectus, MGTS had not yet received any payments.

Insurance

We carry all risks insurance covering our major buildings, facilities, machinery, equipment, communication transmission equipment, vehicles and certain other property. We carry car fleet insurance against theft, damage, fire and accident for our most expensive vehicles, as well as third-party liability car insurance. Our primary insurance provider is ROSNO, a subsidiary of Sistema.

We maintain insurance against some, but not all, potential risks and losses affecting our operations. We cannot assure you that our insurance will be adequate to cover all of our losses or liabilities. We also can provide no assurance that insurance will continue to be available to us on commercially reasonable terms. At present, we have no coverage for business interruption or loss of key management personnel. In the event that a significant event were to affect one of our facilities or networks, we could experience substantial property loss and significant disruptions in the provision of our fixed line services, for which we would not be compensated. See "Risk Factors—Risks Relating to Our Business—We do not carry the types of insurance coverage customary in more economically developed countries for a business of our size and nature, and a significant event could result in substantial property loss and inability to rebuild in a timely manner or at all."

Employees

The following table sets forth the average number of employees as of December 31, 2002, 2003, 2004 and 2005.

Year ended December 31,	Alternative fixed line communications segment	% increase/(decrease) over prior year	Traditional fixed line communications segment	% increase/(decrease) over prior year
2002	1,135	56%	20,433	0.0%
2003	1,435	26%	20,304	(0.6)%
2004	1,523	6%	19,587	(3.5)%
2005	1,798	18%	17,462	(10.8)%

We and our subsidiaries make mandatory contributions to the governmental pension scheme in the Russian Federation. In addition, MGTS has historically provided certain benefits to employees upon their retirement, and afterwards. We estimate that as of September 30, 2005, our commitments in respect of such future benefit payments to retirees amounted to $20.0 million.

Regulation

In the Russian Federation, the federal government regulates communications services. The principal law regulating communications in the Russian Federation is the Communications Law, which provides, among other elements, for the following:

- licensing of communications services;
- requirements for obtaining a radio frequency allocation;
- equipment certification;
- equal rights for individuals and legal entities, including foreign individuals and legal entities, to offer communications services;
- fair competition;
- freedom of pricing other than pricing by companies with monopoly power; and
- liability for violations of Russian legislation on communications.

The Communications Law came into force on January 1, 2004 and replaced the law of 1995 regulating the same subject matter. The Communications Law creates a framework in which government authorities are required to enact specific regulations. Regulations enacted under the legislative framework in place prior to enactment of the Communications Law continue to be applicable to the extent they do not conflict with the Communications Law and the new regulations adopted under this law. The lack of interpretive guidance from the regulatory authorities regarding the new regulations and the uncertainty surrounding their compatibility with the regulations still in effect impedes our ability to assess effectively the impact of the new regulations under the Communications Law on our business.

The Communications Law, which confers broad powers to the federal government to regulate the communications industry, including the allocation of frequencies, the establishment of fees for frequency use and the allocation and revocation of numbering capacity, significantly modifies the system of government regulation of the provision of communications services in Russia. In particular, while under the previous law the Ministry of Information Technologies and Communications issued licenses for the provision of wireless communications services at its own discretion, under the new law, licenses to provide communications services in territories where frequency and numbering capacity are limited may be issued only on the basis of a tender. In addition, the new law provides for the establishment of a "universal services reserve fund" to be funded by a levy imposed on all communications service providers, including us. See "Risk Factors—Risks Relating to the Russian Federation—Legal Risks and Uncertainties—The implementation of the new Communications Law in Russia imposed an additional financial burden on us and may restrict our operations, which could materially adversely affect our financial condition and results of operations." The Communications Law also attempts to simplify the succession of licenses to merged or otherwise reorganized companies by instituting a license re-issuance procedure, whereas under the previous law, merged or reorganized companies were required to apply to the Ministry of Information Technologies and Communications for the issuance of a new license in such circumstances.

Another federal law which currently applies to only one of our subsidiaries, MGTS, is the Federal Law on Natural Monopolies, enacted in August 1995. The Federal Law on Natural Monopolies establishes the legal basis for federal regulation of natural monopolies, including those engaged in the communications market, and provides for governmental control over tariffs and certain activities of natural monopolies, or regulated entities. This law greatly impacts communications providers that are included in the register of the natural monopolies, including their freedom to set tariffs. The Federal Law on Natural Monopolies outlines types of transactions into which a regulated entity may enter only with a prior approval of FAS and sets forth the general principle that regulated entities may not refuse to provide regulated services to certain types of consumers. Regulated entities are subject to continuous reporting requirements, including submitting plans for capital investments.

Regulatory authorities

The Russian communications industry is regulated by several governmental agencies. These agencies, whose functions are not always clearly defined, form a complex, multi-tier system of regulation that resulted, in part, from the implementation of the Communications Law, as well as from the March 2004 large-scale restructuring of the Russian government. The system of regulation is still evolving and further changes are expected.

The Ministry of Information Technologies and Communications is the federal executive body that develops and supervises the implementation of governmental policy in the area of communications and coordinates and controls the activities of its subordinate agencies. The Ministry may issue regulations in the area of communications if authorized to do so by federal legislation (including presidential and governmental decrees).

The following bodies, each of which is subordinate to the Ministry of Information Technologies and Communications, also regulate the communications industry.

The Federal Service for Supervision in the Area of Communications is a federal executive body that supervises and controls certain areas of communications and information technologies, including:

- the issuance of licenses and permissions in the area of communications and information technologies;
- the registration of radio-electronic and high-frequency equipment;
- the technical supervision of networks and network equipment throughout Russia;
- the monitoring of compliance by network operators with applicable regulations, terms of their licenses and terms of the use of frequencies allocated to them; and
- the enforcement of equipment certification requirements.

The Federal Agency of Communications is a federal executive body that implements governmental policy, manages federal property and provides public services in the area of communications, including:

- the allocation of radio frequencies based on decisions taken by the State Radio Frequencies Commission and registration of such allocations;
- the allocation of numerical resources;
- the certification of equipment for compliance with technical requirements;
- the examination of electromagnetic compatibility of equipment with existing civil radioelectronic equipment; and
- the organization of tenders with respect to licenses in the sphere of communications.

The State Radio Frequencies Commission is an inter-agency coordination body acting under the Ministry of Information Technologies and Communications which is responsible for the regulation of radio frequency spectrum and develops a long-term policy for frequency allocation in the Russian Federation.

Other regulatory authorities. In addition, FAS supervises competition regulations and enforces the Federal Law on the Natural Monopolies and the regulations enacted thereunder. The Federal Tariff

Service regulates certain tariffs in the sphere of telecommunications, including the tariffs on the local, intra-zone and DLD calls by subscribers of PSTNs and installation and subscription fees. The Federal Service for Supervision in the Area of Consumer Rights Protection and Human Well-Being is responsible for the enforcement of sanitary regulations, including some authority over the location of communications equipment, and supervises the compliance of companies with the regulations relating to the protection of consumer rights. The Federal Registration Service is responsible for registering certain telecommunications infrastructure which is considered real property in accordance with Government Decree No. 68 dated February 11, 2005.

Licensing of telecommunications services

Our telecommunications licenses were issued based on the Regulations on Licensing in the Field of Telecommunications in the Russian Federation, enacted in June 1994, as amended. Under this regulation, licenses for telecommunications services were issued and renewed for periods ranging from three to fifteen years. Under the Communications Law, effective January 1, 2004, licenses may be issued and renewed for periods ranging from three to twenty-five years. Several different licenses to conduct different communication services may be issued to one entity. Provided the licensee has conducted its activities in accordance with the applicable law and terms of the license, renewals may be obtained upon application to the Federal Service for Supervision in the Area of Communications. Officials of the Federal Service for Supervision in the Area of Communications have broad discretion with respect to both issuance and renewal procedures.

A company must complete a multi-stage process before the commercial launch of its communications network. In particular, for fixed line operators, the Federal Service for Supervision in the Area of Communications examines the compliance of the fixed line network with the regulatory standards and requirements before the issuance of the permission for network operations.

Under the 1995 Communications Law and related licensing regulations the transfer of a license, including assignment or pledge of a license as collateral, was prohibited except for transfer of licenses for the provision of wireless telecommunications services awarded through a competitive tender. Effective January 1, 2004, the prohibitions on the transfer of licenses were relaxed and in particular in case of mergers licenses may be re-issued upon application by a transferee as a new license holder following the transfer. Additionally, the Ministry of Information Technologies and Communications has declared that agreements on the provision of telecommunications services must be concluded and performed by the license holder.

If the terms of a license are not fulfilled or the service provider violates applicable legislation, the license may be suspended or terminated. Licenses may be suspended for various reasons, including:

- failure to comply with Russian law or the terms and conditions of the license;
- failure to provide services for over three months from the start-of-service date set forth in the license; and
- annulment of a frequency allocation if it results in the inability to render communications services.

In addition, licenses may be terminated for various reasons by the court, including:

- failure to remedy in a timely manner a violation that led to the suspension of the license;
- provision of inaccurate information in documents on the basis of which a license was issued; and
- failure to fulfill obligations undertaken in the process of a tender or auction.

The license may also be terminated in a number of cases, including liquidation of a license holder or failure to pay a license fee on time.

The following one-time license fees are payable in respect of each region covered by the license: 15,000 rubles, for services involving use of a frequency spectrum, lease of communication channels running beyond one region of Russia as well as in number of other cases specified by law; and 1,000 rubles in other cases. The license fee for a license received through a tender or auction is determined by the terms of such tender or auction.

Licenses generally contain a number of other detailed conditions, including a date by which service must begin, technical standards and a schedule of the number of subscribers and percentage coverage of the licensed territory that must be achieved by specified dates. We have either commenced service by the applicable deadline or received an extension of the applicable deadline for all of our licenses.

The Communications Law empowers the Russian government to determine and annually review the list of licensing requirements applicable to various communication services being licensed. The most recent list of licensing requirements was enacted by Government Decree No. 87 dated February 18, 2005. This Decree, together with Government Decree No. 161 dated March 28, 2005 approving the Network Interconnection and Interaction Rules, significantly modified the licensing regime for communication services in Russia. Specifically, the new rules require a local operator to organize interconnection points in each municipality where such operator works and is licensed to provide communication services to end-users and interconnect other local operators. A zone operator is required to organize interconnection points in each town of the region where such operator works and is licensed to provide intra-zone interconnection services for local operators and other zone operators. A DLD/ILD operator is required to organize interconnection points in each of the 88 Russian regions and is licensed to interconnect zone operators and other DLD/ILD operators. The license requirements in our current licenses may not comply with the requirements set forth in the new regulations effective from January 1, 2006. Although such non-compliance does not invalidate our licenses, the Federal Service for Supervision in the Area of Communications issued a letter dated October 10, 2005, requiring communication operators to apply for amendments of all their licenses granted prior to January 1, 2004. We have not been able to have all our licenses issued prior to January 1, 2004 amended prior to January 1, 2006, but we believe that the requirement will not be actively enforced in the first half of 2006, by which time we are likely to have all our licenses issued prior to January 1, 2004, updated in accordance with the new license requirements. See "Risk Factors—Risks Relating to the Russian Federation—Legal Risks and Uncertanties—The implementation of the new Communications Law in Russia imposed an additional financial burden on us and may restrict our operations, which could materially adversely affect our financial condition and results of operations."

Equipment certification

A government decree adopted on December 31, 2004 sets forth the types of communications equipment that is subject to mandatory certification. Communications equipment must be certified, or its compliance with the established requirements must be declared and proved, to be used in the interconnected communications network of the Russian Federation, which includes all fixed line and wireless networks open to the public. All networks of our subsidiaries must be certified. A government decree on Regulation of Use of Equipment in the Interconnected Telecommunications Network, enacted on August 5, 1999, gives the Ministry of Information Technologies and Communications and FAS the right to restrict the use of certain equipment, including equipment manufactured outside Russia, and to set the technical requirements for the equipment used in the interconnected telecommunications network. The Federal Agency of Communications issues certificates of compliance with technical requirements to equipment suppliers based on the Agency's internal review. In addition, a presidential decree requires that licenses and equipment certifications be obtained from the Federal Security Service to design, produce, sell, use or import encryption devices. Some commonly used digital cellular telephones are designed with encryption capabilities and must be certified by the Federal Security Service.

Furthermore, certain high-frequency equipment, a list of which was approved by Government Resolution No. 539 of October 12, 2004, manufactured or used in the Russian Federation requires special permission from the Federal Service for Supervision in the Area of Communications. These permissions are specific to the entity that receives them and do not allow the use of the equipment by other parties. Failure to receive such certification could result in the mandatory cessation of the use of such equipment.

A Ministry of Information Technologies and Communications decree enacted on January 14, 1997 also directs PSTN operators to give preference to Russian producers when purchasing switching equipment.

Competition, interconnection and pricing

The Communications Law requires federal regulatory agencies to encourage competition in the provision of communication services and prohibits the abuse of a dominant position to limit competition. The Communications Law provides that communications tariffs may be regulated in cases provided for by legislation. Presidential Decree No. 221, enacted on February 28, 1995, on Measures for Streamlining State Regulation of Prices (Tariffs), allow for regulation of tariffs and other commercial activities of communications companies that are "natural monopolies." Government Decree No. 637, dated October 24, 2005, authorized the Federal Tariff Service to set the following tariffs for the natural monopolies in the communication market:

- provision of access to a local telephone network;
- permanent use of a subscriber's line; and
- local, intra-zone and DLD calls.

Operators have the technical capacity to provide for the billing based on the time of calls and, therefore, are required to offer tariff plans based on the (1) per-second charges, (2) unlimited subscription model and (3) mixed model contemplating a basic subscription fee covering certain traffic and per-second charges for calls exceeding such traffic.

Decree No. 637 declares the intention of the Russian government to eliminate the practice of cross-subsidies in the sphere of regulated services by increasing the tariffs up to the level that allows operators to compensate their economically sound costs and a fixed profit rate by 2008. Starting in 2008, the tariffs will be regulated by setting certain marginal prices.

In accordance with the Federal Law on the Natural Monopolies, FAS maintains a Register of Natural Monopolies. A communications operator may be included in this register if: (1) there is no other operator providing similar services and (2) the operator is properly licensed. At present, only one of our subsidiaries, MGTS, is included in the Register of Natural Monopolies and is subject to these regulations.

FAS also has certain oversight authority with regard to rates between certain regional telephone operators, long distance provider Rostelecom and mobile operators. In addition, Russian legislation requires that operators of PSTNs may not refuse to provide connections or discriminate against one operator in favor of another. However, a regional fixed line operator may charge different interconnection rates to different mobile operators. Notwithstanding the above, fixed line operators not included in the Register of Natural Monopolies, as well as mobile operators, are free to set their own tariffs.

The Communications Law provides for a special regulation of PSTN operators occupying a "substantial position," *i.e.*, operators which together with their affiliates have, in the Russian Federation generally or in a geographically defined specific numerical zone, 25% or more of installed capacity or capacity to carry out transmission of not less than 25% of traffic. In particular, the Communications Law and implementing rules adopted by Government Decrees No. 161, dated March 28, 2005 and No. 627, dated October 19, 2005, both effective from January 1, 2006, provide for government regulation of interconnection tariffs established by such operators. Currently, only one of our subsidiaries, MGTS, is considered by the Russian government to occupy a "substantial position" and therefore, is subject to these regulations. In addition, such operators will be required to develop standard interconnection contracts and publish them as a public offer for all operators who intend to use such interconnection services.

Tariffs for Internet services, data transmission and other value-added services are not currently regulated by the Russian government and it is not expected that such tariffs will be regulated in the future.

Internet and data transmission services regulation

In general, provision of Internet and data transmission services is subject to the same regulations as the provision of other communications services, including the licensing and equipment certification requirements.

The Federal Law on Information, Information Technologies and Protection of Information, and the Federal Law on Participation in the International Information Exchange are framework laws in the

Internet and data transmission market. Most of the provisions of these laws require further implementation through regulations enacted by governmental bodies. Among other elements, these laws provide for the following:

- an obligation that the owner of a communications network protect the copyright and other rights of the author of the information transmitted through the network in accordance with the laws of the Russian Federation;
- a prohibition against providing international access to certain information, including confidential information, access to which is restricted under the laws of the Russian Federation;
- licensing of services related to, and certification of equipment used for, work with confidential and other restricted information;
- licensing of international information exchange activities related to the creation or use of governmental information resources;
- the authority of FAS to prevent monopolistic and anti-competitive activities in connection with international information exchange;
- liability for the distribution of corrupt or untrue foreign documentary information received by means of international exchange; and
- the authority of regulatory bodies to suspend international information exchange for up to two months in the event of any regulatory violations related to such exchange.

Numbering capacity

Historically, telephone numbering in Moscow has been based on the three-digit area code, or prefix, plus a seven-digit local code system, allowing for a theoretical total capacity of 9,999,999 telephone numbers to be allocated within any given area. In practice, a significant amount of numbers are reserved for emergency services, toll-free numbers, long distance dialing codes and other government needs, thus limiting the actual capacity. Mobile operators in Russia initially began offering mobile services in Moscow using direct Moscow numbers rented from both incumbent and alternative operators. As a result, the Moscow "495" code has become a premium feature, primarily appealing to businesses and heavy users of mobile telephony services. Despite the introduction of prefixes allocated to mobile operators, mobile numbers with the Moscow "495" code remain a premium product, and with the growth of mobile penetration in Moscow, the demand for these numbers has increased significantly. The principal means of obtaining new numbers used to be to lease them from operators with spare capacity at premium prices. However, the Russian government recently took the view that numbering capacity assigned to one operator could not be rented to other operators. Accordingly, we have entered into a new arrangement whereby we make our numbers available directly to the subscribers of mobile operators via agency contracts between the subscribers and the mobile operators acting on our behalf.

To resolve the shortage of available numbering capacity, Moscow will be divided into two area codes, "495" (north) and "499" (south). However, this plan requires significant investment by MGTS, and may take years before it is completed. As long as "495" numbers remain in high demand, providing numbering capacity to the subscribers of other operators will remain a major source of revenue for operators with spare capacity.

The Communications Law regulates issues related to the numbering capacity which previously were determined at the discretion of the Ministry of Information Technologies and Communications. In particular, the Communications Law and its implementing regulation adopted by Government Decree No. 350, dated July 13, 2004, grant the Federal Agency of Communications the right to change or withdraw the numbering capacity and sets forth various reasons for which numbering capacity withdrawals are allowed, including termination of the license, non-use of the numbering capacity during two years since the allocation of numbering capacity and non-payment on time for allocation of the numbering capacity.

Universal Services Reserve Fund

The Communications Law provides for the establishment of a "universal services reserve fund" for the purpose of supporting communications companies operating in less developed regions of Russia through the financing, construction and maintenance of communications networks in low-profit and unprofitable sectors. This reserve fund is aimed at eliminating the practice of cross-subsidies by compensating operators for certain mandatory, loss-making local services in rural and sparsely populated areas. The universal services reserve fund concept has been used in some developed countries and in Eastern Europe. It will be funded by a levy imposed on all communication services operators, including us. The Russian government set the levy at 1.2% of the difference between an operator's total revenues and revenues generated by interconnection and traffic transmission services. The levy is payable on a quarterly basis starting from the second quarter of 2005. The Russian government may, in its discretion, change the rate of the levy or the basis for its calculation. See "Risk Factors—Risks Relating to the Russian Federation—Legal Risks and Uncertainties—The implementation of the new Communications Law in Russia imposed an additional financial burden on us and may restrict our operations, which could materially adversely affect our financial condition and results of operations."

MANAGEMENT

Our directors and executive officers and their respective ages and positions are as follows:

Name	Age	Position
Sergei D. Shchebetov	39	Chairman
Semyon V. Rabovsky	51	Director and Chief Executive Officer, Director of MGTS
Alexei V. Goltsov	40	Director, Director and Chief Executive Officer of MGTS
Vladimir S. Lagutin	58	Director, Chairman of the Board of MGTS
Alexei N. Buyanov	36	Director
Levan S. Vasadze	35	Director
Rashit M. Zamaldinov	51	Director
Said S. Alimbekov	57	First Deputy Chief Executive Officer—Technology
Vsevolod V. Rozanov	34	Chief Financial Officer, Director of MGTS
Evgenii V. Yurchenko	37	Deputy Chief Executive Officer—M&A
Tatyana N. Kostrova	45	Deputy Chief Executive Officer—Sales
Vyacheslav V. Shorin	33	Head of Legal Department
Dmitry V. Dronov	34	Head of Business Development
Grigoriy G. Novitsky	40	Chief Executive Officer of MTU-Intel

Sergei D. Shchebetov has served as the Chairman of our Board Directors since January 2006. Mr. Shchebetov serves as the chief executive officer of Sistema Telecom, a subsidiary of Sistema which oversees all of Sistema's telecommunications business, and also serves on the boards of directors of three Sistema-affiliated companies (Concern RTI-Systems, Sistema Mass-media and Sistema-Hals). From 2001 to 2005, he served as the head of the corporate development department of Sistema. From 1999 to 2001, Mr. Shchebetov served as the development director of Integrum-Techno, an IT company, and, from 1997 to 1999, he served as the vice president of the corporate finance department of ATON Capital Group, an investment company.

Semyon V. Rabovsky has served as our Director since January 2006 and as our Chief Executive Officer since November 2003. Mr. Rabovsky also serves on the board of directors of MGTS and Metrocom. He also currently serves on the boards of directors of two Sistema-affiliated companies (Sistema Telecom and Intellect Telecom) and on the board of directors of Moscow Telecommunication Corporation. From 1997 to 2003, he served as the first deputy general director of MGTS. Prior to 1997, Mr. Rabovsky held several management positions at MGTS. He was awarded with Moscow's 850th Anniversary commemorative medal and has received numerous corporate and institutional awards. Mr. Rabovsky received the "Master of Communications" honorary degree and the "Honored Communications Worker of the Russian Federation" award. Mr. Rabovsky is a professor and has a doctorate in sociology.

Alexei V. Goltsov has served as our Director since January 2006 and the Chief Executive Officer of MGTS since February 2005. Mr. Goltsov also serves on the board of directors of MGTS, as well as Sistema Telecom. From 1998 to 2005, Mr. Goltsov held several management positions at MGTS including the deputy chief executive officer of MGTS for network development and upgrade and the deputy head of the telecommunications technical operations department.

Vladimir S. Lagutin has served as our Director since January 2006, and previously served as the Chairman of our Board of Directors. Mr. Lagutin also serves as the chairman of the board of directors of MGTS. In addition, he serves as the chairman of the board of directors of MTS, a subsidiary of Sistema, and serves on the boards of directors of Sistema and its subsidiaries, Sistema Telecom and Concern Sitronics. From 1995 to 2003, Mr. Lagutin served as the general director of MGTS. From July 2003 to January 2006, he served as the chief executive officer of Sistema Telecom.

Alexei N. Buyanov has served as our Director since January 2006. Mr. Buyanov serves as senior vice president and chief financial officer of Sistema. From 1998 to 2002, he served as a vice president of MTS and, from 1996 to 1998, he served as a vice president of Sistema-Invest CJSC. In addition, Mr. Buyanov serves on the board of directors of 11 Sistema-affiliated companies (Ecu Gest, Invest-Svyaz-Holding, MTS, ROSNO, Alliance-ROSNO Asset Management, Sistemny Project, Sistema Finance, Sistema Capital, East-West United Bank, Sistema Telecom and the Moscow Bank of Reconstruction and Development).

Levan S. Vasadze has served as our Director since January 2006. Mr. Vasadze serves as the first vice president and chief strategy officer of Sistema. In addition, he serves as the chairman of the board of directors of two Sistema-affiliated companies, ROSNO and Sky-Link. From 1998 to 2000, Mr. Vasadze served as the vice president of Sistema. From 1997 to 1999, he served as the managing director of ATON, an investment company. He also serves on the boards of directors of three other Sistema-affiliated companies (Sistema Telecom, Concern Sitronics and Sistema International Investment Group).

Rashit M. Zamaldinov has served as our Director since January 2006. Mr. Zamaldinov has served as the deputy general director of Sistema Telecom since July 2003. From 1999 to 2003, he served as the deputy general director and the head of the automated systems and technologies department at MGTS.

Said S. Alimbekov has served as our First Deputy Chief Executive Officer—Technology since August 2004. From 2002 to 2005, Mr. Alimbekov served as the chairman of the board of directors of Golden Line, and from 1999 until August 2004, Mr. Alimbekov served as the general director of MTU-Inform. From 1998 to 1999, he held several management positions at MGTS, including head of the central operations and maintenance center, chief engineer, deputy general director of technical operations, deputy general director of strategy and development and deputy general director for capital construction.

Vsevolod V. Rozanov has served as our Chief Financial Officer since August 2004. Mr. Rozanov also serves on the board of directors of MGTS. From April 2002 until August 2004, he served as deputy general director for economics and finance of MTU-Inform. From 1994 until 2001, Mr. Rozanov held various consulting positions at Bain & Co.

Evgenii V. Yurchenko has served as our Deputy Chief Executive Officer—M&A since March 2005. From November 2002 until March 2005, Mr. Yurchenko served as the deputy general director of Svyazinvest. From November 1998 until November 2002, he served as vice president of Menatep St. Petersburg, a Russian commercial bank.

Tatyana N. Kostrova has served as our Deputy Chief Executive Officer—Sales since April 2004. From November 1993 until August 2004, she held various management positions at CJSC Comstar, the predecessor company to Comstar UTS, including deputy general director of strategic planning, deputy general director on commercial affairs and general director.

Vyacheslav V. Shorin has served as our Head of Legal Department since August 2004. From November 2000 until July 2004, Mr. Shorin served as the head of legal department of MTU-Inform and, from May 2000 to October 2000, as a legal advisor to MTU-Inform. Prior to May 2000, he held several positions with various prosecutors' offices in Moscow.

Dmitry V. Dronov has served as our Head of Business Development since August 2004. From 1999 until 2004, Mr. Dronov served as the head of the marketing department of MTU-Inform. Prior to 1999, he held various marketing positions at MTU-Inform.

Grigoriy G. Novitsky has served as the Chief Executive Officer of MTU-Intel since July 2005. From 1999 to 2005, Mr. Novitsky served as the chief executive officer of Novitel, and as an executive director of Novitel from 1997 to 1999. Novitel is a subsidiary of MTS. In addition, Mr. Novitsky is the brother of Evgeny Novitsky, who is the chairman of the board of directors of Sistema.

All of our directors were elected on January 18, 2006, and their terms expire on the date of our next annual General Meeting of Shareholders, which will take place between March 1, 2006 and June 30, 2006. The business address of each of our directors and executive officers is 27, Smolenskaya-Sennaya Square., Building 2, Moscow 119121, Russian Federation.

Remuneration of Directors

The aggregate amount of remuneration paid by us to our directors and executive officers as a group for services in all capacities provided to us during the year ended December 31, 2005 was approximately $3.1 million in salary. Directors are also provided with medical insurance and company cars upon request. Employment contracts with our directors do not provide for special benefits upon termination of employment.

Stock Bonus and Option Plans

We will establish a share bonus plan and share option plan for our officers, directors and key employees. When we establish such plans, we will set aside our shares in an amount not exceeding 3% of our outstanding shares.

Loans to Directors and Executive Officers

As of the date of this prospectus, there were no outstanding loans granted by us to our directors and executive officers and no guarantees provided for their benefit.

Board Practices

Our Board of Directors has seven members elected by a majority vote of shareholders at each annual General Meeting of Shareholders through cumulative voting. Directors may be re-elected an unlimited number of times. The Board of Directors is responsible for our overall management, except matters reserved for our shareholders. See "Description of Share Capital and Certain Requirements of Russian Legislation—General Meetings of Shareholders" for more information regarding the competence of our General Meeting of Shareholders.

Review Commission

The review commission verifies the accuracy of our financial reporting under Russian law and generally supervises our financial activity. The review commission consists of three members, who are elected by the General Meeting of Shareholders at each annual General Meeting of Shareholders. Members of our Board of Directors may not simultaneously serve as members of the review commission. Members of the review commission need not be employees of Comstar UTS.

Corporate Governance

We comply with the corporate governance requirements applicable to Russian public companies listed on Russian stock exchanges. Our shares have been listed on the Moscow Stock Exchange since December 26, 2005 and, as a result, we are required to comply with a number of corporate governance requirements within one year from the listing date. Such requirements, *inter alia*, include the: (1) obligation to have at least one independent director, (2) formation of an audit committee, (3) adoption of a bylaw on insider trading and (4) implementation of internal control procedures. We expect to be in full compliance with these requirements in the first half of 2006. In addition, we intend to adopt the code of corporate conduct, as recommended by the FSFM.

Interests of Directors and Officers

Certain of our directors and executive officers serve as directors and executive officers of our affiliates (including Sistema, our controlling shareholder, and other companies within the Sistema group), as set out above. We engage in transactions with some of these affiliates, including transactions in the ordinary course of business, and some of them may compete with us in the future, including in the telecommunications industry. See "Related Party Transactions." As a result, potential conflicts of interest between these directors' and officers' duties to us and their private interests or other duties could arise. Under Russian legislation, certain transactions defined as "interested party transactions" require approval by our disinterested directors or shareholders. See "Description of Share Capital and Certain Requirements of Russian Legislation—Interested Party Transactions."

Currently, none of our directors or executive officers owns any of our shares or has options with respect to our shares.

Litigation Statement about Directors and Officers

At the date of this prospectus, none of our directors or executive officers for at least the previous five years:

- has any convictions in relation to fraudulent offenses; nor
- has held an executive function in the form of a senior manager or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; nor

- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

RELATED PARTY TRANSACTIONS

The following is a summary of the major transactions involving related parties for the years ended December 31, 2002, 2003 and 2004 and for the nine months ended September 30, 2005 and up to the date of this prospectus. In the years ended December 31, 2002, 2003, 2004 and the nine months ended September 30, 2005, the aggregate operating revenues from related party transactions comprised 10.0%, 6.4%, 5.8% and 4.3%, respectively, of our combined operating revenues for those periods. We believe that the terms of the majority of these transactions were determined by reference to market prices and terms. For further details of these transactions, see Note 23 to our combined financial statements. For additional information on the related parties described in this section, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Mobile TeleSystems (MTS)

We have interconnection arrangements and line rental agreements with MTS, a subsidiary of Sistema. MTS also rents buildings for administrative, sales and marketing offices from us, as well as premises for its switching and base station equipment. Under these agreements, we received from MTS $33.0 million, $37.2 million, $36.3 million and $27.5 million during the years ended December 31, 2002, 2003 and 2004 and the nine months ended September 30, 2005, respectively. During the years ended December 31, 2002, 2003 and 2004 and the nine months ended September 30, 2005, MTS purchased telephone numbering capacity from us for the amounts of $1.6 million, $0.5 million, $4.2 million and nil, respectively. In the year ended December 31, 2002, we sold a building to MTS for $2.0 million.

Comstar UTS

Certain companies within our group sold telecommunications services to Comstar UTS in the amount of $9.2 million in the year ended December 31, 2002. Starting from January 1, 2003, the results of Comstar UTS' operations are included in our combined financial statements.

ROSNO

We purchase insurance services from ROSNO, a subsidiary of Sistema. During the years ended December 31, 2002, 2003 and 2004 and the nine months ended September 30, 2005, insurance premiums paid to ROSNO amounted to $4.8 million, $5.8 million, $7.4 million and $4.9 million, respectively. In addition, we received indemnity payments from ROSNO for the same periods in the amounts of $nil, $3.1 million, $0.2 million and $0.9 million, respectively.

STROM Telecom and MediaTel

We purchase telecommunications equipment and software from STROM Telecom, a subsidiary of Sistema, and MediaTel, a wholly owned subsidiary of Concern Sitronics, which is a subsidiary of Sistema. During the years ended December 31, 2002, 2003 and 2004 and the nine months ended September 30, 2005, these purchases amounted to $8.1 million, $10.6 million, $13.2 million and $13.1 million, respectively.

Moscow Bank of Reconstruction and Development (MBRD)

We hold cash and cash equivalents (promissory notes and time deposits with maturities of three months or less at the time of purchase) at MBRD, a subsidiary of Sistema. As of December 31, 2002, 2003 and 2004 and September 30, 2005, these balances aggregated to $19.0 million, $31.9 million, $45.5 million and $68.1 million, respectively. See Note 5 to our combined financial statements.

We hold promissory notes issued by MBRD and time deposits at MBRD with maturities in excess of three months. As of December 31, 2002, 2003 and 2004 and September 30, 2005, the amount of these notes and deposits was $0.3 million, $46.3 million, $36.5 million and $87.3 million, respectively. See Notes 6 and 12 to our combined financial statements. During the years ended December 31, 2002, 2003 and 2004 and the nine months ended September 30, 2005, we received interest income on MBRD promissory notes in the amounts of $0.3 million, $2.1 million, $3.1 million and $1.1 million, respectively.

In addition, we receive loans from MBRD. As of December 31, 2002, 2003 and 2004 and September 30, 2005, the amount of these loans was $nil, $nil, $5.0 million and $11.3 million, respectively. We paid a total interest amount on these loans of $nil, $nil, $0.2 million and $0.2 million for the same periods.

In July 2004, MTU-Inform issued guarantees to MBRD on behalf of Sky-Link for a total amount of $22.5 million, all of which expired prior to December 31, 2005.

Sistema Telecom, Sky-Link, P-Com and others

We hold promissory notes issued by subsidiaries and affiliates of Sistema, in addition to promissory notes issued by MBRD. As of December 31, 2002, 2003 and 2004 and September 30, 2005, the amount of these promissory notes was $6.5 million, $14.4 million, $71.5 million and $69.9 million, respectively. See Notes 6 and 12 to our combined financial statements. Interest income on these promissory notes for the years ended December 31, 2002, 2003 and 2004 and the nine months ended September 30, 2005 was $nil, $nil, $1.0 million and $2.2 million, respectively.

RA Maxima

We purchase advertising services from RA Maxima, a subsidiary of Sistema. During the nine months ended September 30, 2005, we purchased advertising services in the amount $2.1 million.

MTT

In December 2005, MGTS entered into an agreement with MTT, an affiliate of Sistema, pursuant to which MTGS agreed to provide MTT with connection to its network, traffic transmission and subscriber database support. In addition, MTT agreed to provide MGTS with DLD/ILD connection pursuant to the agreement.

Invest-Svyaz-Holding

We enter into agreements with Invest-Svyaz-Holding, a subsidiary of Sistema, for the leasing of network equipment and billing systems.

The net book value of assets leased under these capital lease transactions was $3.3 million, $28.5 million and $27.1 million as of December 31, 2003 and 2004 and September 30, 2005, respectively. Payments to Invest-Svyaz-Holding amounted to $nil, $8.9 million and $4.7 million for the years ended December 31, 2003 and 2004 and the nine months ended September 30, 2005, respectively, under these leases. Future minimum lease payments to Invest-Svyaz-Holding will be approximately $9.5 million, $8.1 million, $5.5 million and $0.6 million for the years ended September 30, 2006, 2007, 2008 and 2009. For more information, see Note 23 to our combined financial statements.

In 2004, MGTS became a guarantor under a credit facility provided to Invest-Svyaz-Holding by Commerzbank (Eurasia). The credit line for the total amount of $17.0 million matures in 2006. MGTS' guarantee amounted to $8.5 million as of September 30, 2005. Invest-Svyaz-Holding uses this facility primarily to finance its leases to MGTS.

Sistema-Hals

As part of MGTS' long-term investment program, in September to December 2004 MGTS entered into a series of agreements with Sistema-Hals, a subsidiary of Sistema, on project development and reconstruction of buildings of ATEs. The main part of the work pursuant to these agreements is to be performed in 2006 to 2008. As of September 30, 2005, we did not have any financial obligations to Sistema-Hals except for the agent fee in the amount of $0.5 million.

In December 2004, MGTS became a guarantor under a credit facility provided to Sistema-Hals by WestLB Vostok Bank. The loan of $10.4 million matures in December 2006. MGTS' guarantee amounted to $8.0 million as of September 30, 2005.

Svyazinvest

Svyazinvest is a significant minority shareholder of MGTS and is considered a related party of MGTS.

Pursuant to agreements entered into with Rostelecom, a subsidiary of Svyazinvest, MGTS received $21.2 million, $24.7 million, $30.6 million and $21.9 million for the years ended December 31, 2002, 2003 and 2004 and the nine months ended September 30, 2005, respectively. MGTS also purchases communication services from Rostelecom. These amounted to $1.3 million and $0.7 million in the year ended December 31, 2004 and the nine months ended September 30, 2005.

MGTS routes DLD/ILD traffic originated by its subscribers through Rostelecom.

Pursuant to agreements entered into with Central Telegraph, a subsidiary of Svyazinvest, MGTS received $9.5 million, $8.2 million, $14.3 million and $6.9 million in the years ended December 31, 2002, 2003 and 2004 and the nine months ended September 30, 2005, respectively. MGTS also purchases communications equipment from Central Telegraph. In the years ended December 31, 2002, 2003 and 2004 and the nine months ended September 30, 2005, these purchases amounted to $3.2 million, $3.7 million, $6.4 million and $nil, respectively.

Acquisitions and Disposals

In June 2004, MTU-Inform sold 100% of the shares of MTU-Inform Plus to Sistema Mass-media and Sistema-Inventur, subsidiaries of Sistema, for $0.2 million. Subsequent to the sale, the name of MTU-Inform Plus was changed to Sistema Multimedia. In December 2005, Sistema Multimedia was merged into MTU-Intel. As a result of the merger, two Sistema subsidiaries acquired in the aggregate a 48.18% stake in MTU-Intel. See "Business—History of Our Businesses—MTU-Intel."

In August 2004, we sold our 83.25% stake in P-Com to Sky-Link, an affiliate of Sistema, for $16.0 million. As a result of this transaction, the group recognized a loss from disposal of discontinued operations, net of income tax charges, of $3.8 million in the year ended December 31, 2004. Our combined financial statements reflect P-Com as a discontinued operation for the years ended December 31, 2002, 2003 and 2004.

In October 2004, MGTS sold its 23.5% stake in MCC to Sky-Link, an affiliate of Sistema, for $0.7 million. As a result of this transaction, the group recognized a loss from disposal of investments in affiliates of $6.6 million in the nine months ended September 30, 2004.

In September 2005, Comstar UTS purchased a 20% stake in Telmos from Sistema for a cash consideration of $12.8 million.

In December 2005, MGTS sold its 51% stake in Mediatel to Concern Sitronics, a subsidiary of Sistema, for cash consideration of $1.9 million.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth information regarding the ownership of our shares as of the date of the prospectus and as adjusted to reflect the offering:

Owner	Shares Owned Before the Offering		Shares Offered	Shares Owned After the Offering	
	Number	Percent		Number	Percent
Sistema[1]	121,711,100	43.63%	—	121,711,100	29.12%
United TeleSystems[2]	57,446,760	20.59%	—	57,446,760	13.75%
United TeleSystems MGTS[3]	46,232,000	16.57%	—	46,232,000	11.06%
Deutsche Bank AG[4]	30,530,000	10.95%	—	30,530,000	7.30%
MGTS[5]	11,510,500	4.13%	—	11,510,500	2.75%
ECU GEST HOLDING S.A.[6]	11,510,500	4.13%	7,500,000	4,010,500	0.96%
Other	—	—	—	7,500,000	1.79%
GDR Holders	—	—	—	139,000,000	33.26%
Total	278,940,860	100.00%	7,500,000	417,940,860	100.00%

(1) Messrs. Vladimir Evtushenkov, Alexander Leiviman and Evgeny Novitsky beneficially own 62.13%, 3.58% and 3.19%, respectively, of Sistema. Mr. Evtushenkov is the President of Sistema and a member of its Board of Directors. Mr. Leiviman is a member of the Board of Directors of Sistema. Mr. Novitsky is the Chairman of the Board of Directors of Sistema.

(2) A subsidiary of Sistema.

(3) A wholly owned subsidiary of MGTS.

(4) These shares are subject to a repurchase arrangement with Sistema, as described below.

(5) We own 59.83% of the ordinary shares of MGTS.

(6) Sistema owns a 99% stake in Ecu Gest and the remaining 1% is owned by Mr. Evtushenkov. The offices of Ecu Gest are located at 41 rue des Glacis, L-1628 Luxembourg.

On December 20, 2005, Sistema entered into a share repurchase transaction with Deutsche Bank AG (acting through its London Branch), which is one of the Underwriters of the offering, pursuant to which Sistema sold 30,530,000 shares of Comstar UTS to Deutsche Bank AG in accordance with the terms of The Bond Market Association/International Securities Market Association (TBMA/ISMA) Global Master Repurchase Agreement (November 2000 version) and related confirmation. The purchase price of the shares was $132.0 million and following the transaction, Sistema owned directly and indirectly 89.06% of Comstar UTS. Pursuant to the terms of the agreement, the shares will be repurchased by Sistema no later than February 22, 2006.

None of our shareholders has voting rights different from any other holders of our shares. We are not aware of any arrangements that may result in a change of control of Comstar UTS.

Changes in Shareholders' Equity

The following table sets forth in Russian rubles, as of the date of this prospectus, the changes in our share capital that have occurred within the past three financial years.

Year	Description	Number of shares issued	Nominal value per share	Increase in total issued share capital (in RUR millions)	Total issued share capital at end of period (in RUR millions)	Total number of issued shares at end of period
2004	Share split	—	1	—	23,021,000	23,021,000
2005	Share issuance	255,919,860	1	255,919,860	278,940,860	278,940,860

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LEGISLATION

We describe below our registered shares, the material provisions of our charter in effect on the date of this prospectus and certain requirements of Russian legislation. References in this section to "we," "us" and "our" refer to Comstar UTS only.

GDR holders will be able to exercise their rights with respect to the shares underlying the GDRs only in accordance with the provisions of the Deposit Agreements and the relevant requirements of Russian law. See "Description of the Global Depositary Receipts" for more information.

Our Purpose

Our objects and purposes are set out in Section 2.2 of our charter. Our primary purpose as set out therein is to engage in communication, data transfer and information services and to profit from these and other related entrepreneurial activities.

Description of Share Capital

General

Pursuant to the Joint Stock Companies Law, we have the right to issue registered ordinary shares, preferred shares and other securities provided for by the legislation of the Russian Federation with respect to securities. Our share capital consists of 278,940,860 ordinary shares, each with a nominal value of one ruble, which are fully paid, issued and outstanding. In addition, we are authorized by our charter to issue an additional 19,744,080,140 ordinary shares. Under Russian legislation, charter capital refers to the aggregate nominal value of the issued and outstanding shares. No preferred shares are authorized or outstanding. Preferred shares may only be issued if amendments have been made to our charter pursuant to a resolution of the general meeting of shareholders.

In December 2005, our shareholders approved the issuance of 150,000,000 ordinary shares.

The Joint Stock Companies Law requires us to dispose of any of our shares that we acquire within one year of their acquisition or, failing that, reduce our charter capital. We refer to such shares as treasury shares for purposes hereof. Russian legislation does not allow for the voting of such treasury shares. Currently, neither we nor any of our subsidiaries have treasury shares. Any of our shares that are owned by our subsidiaries are not considered treasury shares under Russian law (*i.e*., they are considered outstanding shares and unless the context requires otherwise, such shares are considered outstanding for purposes of the ownership percentages presented herein), and our subsidiaries are able to vote such shares and dispose of such shares without any further corporate actions by our shareholders or board of directors. Our subsidiary, MGTS, owns directly and indirectly a 20.7% stake in us. Under US GAAP, these shares are considered treasury shares (*i.e.*, they are considered not outstanding). See "Capitalization."

Currently, we have fewer than 1,000 holders of voting shares, which determines the applicability of certain provisions of the Joint Stock Companies Law, as described below. We expect that immediately following this offering we will continue to have fewer than 1,000 holders of voting shares, in particular due to the status of the Depositary as the holder of all of the shares underlying the GDRs.

Rights Attaching to Shares

Holders of our shares have the right to vote at all shareholders' meetings. As required by the Joint Stock Companies Law and our charter, all of our shares have the same nominal value and grant to their holders identical rights. Each fully paid share, except for treasury shares, gives its holder the right to:

- freely transfer the shares without our consent and the consent of other shareholders;
- receive dividends;
- participate in shareholders' meetings and vote on all matters within shareholders competence;
- transfer voting rights to its representative on the basis of a power of attorney;
- exercise its pre-emptive right in certain circumstances, as determined by the Joint Stock Companies Law;

- participate in the election and dismissal of members of the board of directors and the review commission;
- if holding, alone or with other holders, 2% or more of the voting stock, within 30 days after the end of our fiscal year, make proposals for the agenda of the annual shareholders' meeting and nominate candidates to the board of directors, collective and sole executive bodies, the review commission and the counting commission;
- if holding, alone or with other holders, 10% or more of the voting stock, demand from the board of directors the calling of an extraordinary shareholders' meeting or an unscheduled audit by the review commission or by an external auditor;
- demand, under the following circumstances, the repurchase by us of all or some of the shares owned by it, as long as such holder voted against or did not participate in the voting on the decision approving the following:
  - any reorganization;
  - the conclusion of a major transaction, as defined under Russian law; and
  - any amendment of our charter or approval of a restated version of our charter in a manner that restricts the holder's rights;
- upon liquidation, receive a proportionate amount of our property after our obligations are fulfilled;
- have access to certain company documents, receive copies for a reasonable fee and, if holding alone or with other holders, 25% or more of the voting stock, have free access to accounting documents and minutes of the management board meetings; and
- exercise other rights of a shareholder provided by our charter, Russian legislation and decisions of shareholders' meetings approved in accordance with its competence.

Pre-emptive Rights

The Joint Stock Companies Law provides existing shareholders with a pre-emptive right to purchase shares or securities convertible into shares during an open subscription in an amount proportionate to their existing shareholdings. In addition, the Joint Stock Companies Law provides shareholders with a pre-emptive right to purchase shares or securities convertible into shares in an amount proportionate to their existing shareholdings during a closed subscription if the shareholders voted against or did not participate in the voting on the decision approving such subscription. The pre-emptive right does not apply to a closed subscription to existing shareholders, provided that such shareholders may each acquire a whole number of shares or securities convertible into shares being placed in an amount proportionate to their existing shareholdings. We must provide shareholders with written notice of the proposed sale of shares at least 45 or, in certain defined circumstances, 20 days prior to the offering, during which time shareholders may exercise their pre-emptive rights.

Dividends

The Joint Stock Companies Law and our charter set forth the procedure for determining the quarterly and annual dividends that we may distribute to our shareholders. According to our charter, we may declare dividends based on our first quarter, six month, nine month or annual results. Dividends are recommended to a shareholders' meeting by a majority vote of the board of directors, and approved by the shareholders' meeting by a majority vote. A decision on quarterly, six month and nine month dividends must be taken within three months of the end of the respective quarter at a shareholders' meeting, and a decision on annual dividends must be taken at the annual general shareholders' meeting. The dividend approved at the shareholders' meeting may not be more than the amount recommended by the board of directors. Dividends are distributed to holders of our shares as of the record date for the shareholders' meeting approving the dividends. See "—General Meetings of Shareholders—Notice and Participation." Dividends are not paid on treasury shares.

The Joint Stock Companies Law allows dividends to be declared only out of net profits calculated under Russian accounting standards and as long as the following conditions have been met:

- the charter capital of the company has been paid in full;

- the value of the company's net assets on the date of adoption of decision to pay dividends is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company's charter capital, the company's reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred shares of the company;
- the company has repurchased all shares from shareholders having the right to demand repurchase; and
- the company is not, and would not become, insolvent as the result of the proposed dividend payment.

Distributions to Shareholders on Liquidation

Under Russian legislation, liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. The Joint Stock Companies Law and our charter allow us to be liquidated:

- by a three-quarters majority vote of a shareholders' meeting; or
- by a court order.

Following a decision to liquidate the company, the right to manage our affairs would pass to a liquidation commission appointed by a shareholders' meeting. In the case of an involuntary liquidation, the court may vest the duty to liquidate the company to its shareholders. Creditors may file claims within a period to be determined by the liquidation commission, but such period must not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code gives creditors the following order of priority during liquidation:

(1) individuals owed compensation for injuries, deaths or moral damages;

(2) employees;

(3) federal and local governmental entities claiming taxes and similar payments to the federal and local budgets and to non-budgetary funds; and

(4) other creditors in accordance with Russian legislation.

Claims of creditors in obligations secured by a pledge of the company's property ("secured claims") are satisfied out of the proceeds of sale of the pledged property, prior to claims of any other creditors, except for the creditors of priorities of (1) and (2) above, provided that claims of such creditors arose before the pledge agreements in respect of the company's property were made. To the extent that the proceeds of sale of the pledged property are not sufficient to satisfy secured claims, the latter are satisfied simultaneously with claims of the fourth-priority creditors as described immediately above.

The Federal Law on Insolvency (Bankruptcy), however, provides for a different order of priority for creditors' claims in the event of bankruptcy.

The remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase;
- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares determined by the company's charter, if any; and
- payments to holders of ordinary and preferred shares.

Liability of Shareholders

The Civil Code and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of a joint stock company and bear only the risk of loss of their investment. This may not be the case, however, when one person or entity is capable of determining decisions made by another person or entity. The person or entity capable of determining such decisions is called an "effective parent." The person or entity whose decisions are capable of being so determined is called an "effective subsidiary." The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between such persons; and
- the effective parent gives binding instructions to the effective subsidiary.

Thus, a shareholder of an effective parent is not itself liable for the debts of the effective parent's effective subsidiary, unless that shareholder is itself an effective parent of the effective parent. Accordingly, you will not be personally liable for our debts or those of our effective subsidiaries unless you control our business, and the conditions set forth above are met.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the fault of an effective parent only when the effective parent has used the right to give binding instructions, knowing that the consequence of carrying out this action would be insolvency of this effective subsidiary. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises, such as through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that caused the effective subsidiary to take any action or fail to take any action knowing that such action or failure to take action would result in losses.

Charter Capital Increase

We may increase our charter capital by:

- issuing new shares, or
- increasing the nominal value of previously issued shares.

A decision on any issuance of shares or securities convertible into shares by closed subscription, or an issuance by open subscription of ordinary shares or securities convertible into ordinary shares constituting 25% or more of the number of issued ordinary shares, requires a three-quarters majority vote of a shareholders' meeting. In addition, a decision to increase the charter capital by increasing the nominal value of issued shares requires a majority vote of a shareholders' meeting. In addition, the issuance of shares above the number of authorized and non-issued shares provided in our charter necessitates a charter amendment, which requires a three-quarters majority vote of a shareholders' meeting.

The Joint Stock Companies Law requires that the value of newly issued shares be determined by the board of directors based on their market value but not less than their nominal value, except in limited circumstances where (1) existing shareholders exercise a pre-emptive right to purchase shares at not less than 90% of the price paid by third parties or (2) fees of up to 10% are paid to intermediaries, in which case the fees paid may be deducted from the price. The price may not be set at less than the nominal value of the shares. The board of directors shall value any in-kind contributions for new shares, based on the appraisal report of an independent appraiser.

Russian securities regulations set out detailed procedures for the issuance and registration of shares of a joint stock company. These procedures require:

- prior registration of a share issuance with the FSFM;
- public disclosure of information relating to the share issuance; and
- following the placement of the shares, registration and public disclosure of the results of the placement of shares. See "Registration of Placement Report."

Charter Capital Decrease; Share Buy-backs

The Joint Stock Companies Law does not allow a company to reduce its charter capital below the minimum charter capital required by law, which is 100,000 rubles for an open joint stock company. Our charter requires that any decision to reduce our charter capital, whether through a repurchase and cancellation of shares or a reduction of the nominal value of the shares, be made by a majority vote of a shareholders' meeting. Additionally, within 30 days of a decision to reduce our charter capital, we must issue written notice to our creditors and publish this decision. Our creditors would then have the right to demand, within 30 days of publication or receipt of our notice, early termination or discharge of relevant obligations by us, as well as compensation for damages.

The Joint Stock Companies Law and our charter allow our shareholders or our board of directors to authorize the repurchase of up to 10% of our shares in exchange for cash. The repurchased shares must be resold at market price within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease the charter capital. The shares repurchased pursuant to a decision of our shareholders' meeting to decrease the overall number of shares are cancelled at their redemption. Russian legislation does not permit the voting of repurchased shares.

The Joint Stock Companies Law allows us to repurchase our shares only if, at the time of repurchase:

- our charter capital is paid in full;
- we are not and would not become, as a result of the repurchase, insolvent;
- the value of our net assets at the time of repurchase of our shares is not less (and would not become less, as a result of the proposed repurchase) than the sum of our charter capital, the reserve fund and the difference between the liquidation value and par value of our issued and outstanding preferred shares; and
- we have repurchased all shares from shareholders having the right to demand repurchase of their shares in accordance with the Russian law, as described immediately below.

Our subsidiaries are not restricted from purchasing our shares, and our subsidiaries can vote these shares.

The Joint Stock Companies Law and our charter provide that our shareholders may demand repurchase of all or some of their shares so long as the shareholder demanding repurchase voted against or did not participate in the voting on the decision approving any of the following actions:

- reorganization;
- conclusion of a major transaction, as defined under Russian law; or
- amendment of our charter or approval of a restated version of our charter in a manner which restricts shareholder's rights.

We may spend up to 10% of our net assets calculated under Russian accounting standards on the date of the adoption of the decision which gives rise to a share redemption demanded by the shareholders. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10% of our net assets, we will repurchase shares from each such shareholder on a pro-rata basis.

Registration and Transfer of Shares

Russian legislation requires that a joint stock company maintain a register of its shareholders. Ownership of our registered shares is evidenced solely by entries made in such register. Any of our shareholders may obtain an extract from our register certifying the number of shares that such shareholder holds. OJSC Reestr, located at 13 Myasnitskaya Street, Building 13, Moscow 101990, Russian Federation, maintains our shareholder register.

The purchase, sale or other transfer of shares is accomplished through the registration of the transfer in the shareholder register, or the registration of the transfer with a depositary if shares are held by a depositary. The registrar or depositary may not require any documents in addition to those required by Russian legislation in order to transfer shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, is not allowed, except in certain cases provided for by specific Russian legislation, and may be challenged in court.

Reserve Fund

Russian legislation requires that each joint stock company establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and repurchase the company's shares in cases when other funds are not available. Our charter provides for a reserve fund of 5% of our charter capital, funded through mandatory annual transfers of at least 5% of our net profits until the reserve fund has reached the 5% requirement.

Disclosure of Information

Russian securities regulations require us to make the following public disclosures and filings on a periodical basis:

- filing quarterly reports with the FSFM containing information about us, our shareholders and depositary, the structure of our management bodies, the members of the board of directors, our branches and representative offices, our shares, bank accounts and auditors, important developments during the reporting quarter and other information about our financial and business activity;
- filing with the FSFM and publishing in the FSFM's periodical print publication, as well as in other media, any information concerning material facts and changes in our financial and business activity, including our reorganization, certain changes in the amount of our assets, decisions on share issuances, certain changes in ownership and shareholding, as well as shareholder and board of directors' resolutions;
- disclosing information on various stages of share placement, issuance and registration through publication of certain data as required by the securities regulations;
- disclosing our annual report and annual financial statements prepared in accordance with Russian accounting standards;
- filing with the FSFM on a quarterly basis a list of our affiliated persons and disclosing the same on our website, on the same basis; and
- other information as required by applicable Russian securities legislation.

General Meetings of Shareholders

Procedure

The powers of a shareholders' meeting are set forth in the Joint Stock Companies Law and in our charter. A shareholders' meeting may not decide on issues that are not included in the list of its competence by the Joint Stock Companies Law. Among the issues which the shareholders have the power to decide are:

- charter amendments;
- reorganization or liquidation;
- determination of the number, nominal value and category (type) of authorized shares and rights granted by such shares;
- changes in the company's charter capital;
- determination of the number, appointment and early removal of the members of the company's board of directors, review commission and counting commission;
- payment of compensation and fees to the members of the board of directors and the review commission;
- appointment of the company's independent auditor;
- determination of the procedure for conducting the general shareholders' meetings;
- approval of the annual report and annual financial statements, including the balance sheet and the profit and loss statement;
- approval of certain interested party transactions and major transactions;
- distribution of profits and losses, including approval of dividends;
- decision on our participation in holding companies, commercial or industrial groups, or other associations of commercial entities;

- approval of certain internal documents;
- redemption by the company of issued shares in cases provided for by the Joint Stock Companies Law;
- split and consolidation of shares; and
- other issues, as provided for by the Joint Stock Companies Law and our charter.

Voting at a shareholders' meeting is generally based on the principle of one vote per ordinary share, with the exception of the election of the board of directors, which is done through cumulative voting. Decisions are generally passed by a majority vote of the voting shares present at a shareholders' meeting. However, Russian law requires a three-quarters majority vote of the voting shares present at a shareholders' meeting to approve the following:

- charter amendments;
- reorganization or liquidation;
- major transactions involving assets in excess of 50% of the balance sheet value of the company's assets;
- determination of the number, nominal value and category (type) of authorized shares and the rights granted by such shares;
- repurchase by the company of its issued shares;
- any issuance of shares or securities convertible into shares by closed subscription; or
- issuance by open subscription of ordinary shares or securities convertible into ordinary shares, in each case, constituting 25% or more of the number of issued and outstanding ordinary shares.

The quorum requirement for our shareholders' meeting is met if shareholders (or their representatives) accounting for more than 50% of the issued voting shares are present. If the 50% quorum requirement is not met, another shareholders' meeting with the same agenda may (and, in the case of an annual shareholders' meeting, must) be scheduled and the quorum requirement is satisfied if shareholders (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

The annual shareholders' meeting must be convened by the board of directors between March 1 and June 30 of each year, and the agenda must include the following items:

- election of members of the board of directors;
- approval of the annual report and annual financial statements, including the balance sheet and profit and loss statement;
- approval of distribution of profits and losses, including approval of annual dividends, if any;
- appointment of an independent auditor; and
- appointment of the members of the review commission.

A shareholder or group of shareholders owning in the aggregate at least 2% of the issued voting shares may introduce proposals for the agenda of the annual shareholders' meeting and may nominate candidates for the board of directors, collective and sole executive bodies, the review commission and counting commission. Any agenda proposals or nominations must be provided to the company no later than 30 calendar days after the preceding financial year end.

Extraordinary shareholders' meetings may be called by the board of directors on its own initiative, or at the request of the review commission, the independent auditor or a shareholder or group of shareholders owning in the aggregate at least 10% of the issued voting shares as of the date of the request.

A general meeting of shareholders may be held in the form of a meeting or by absentee ballot. The form of a meeting contemplates the adoption of resolutions by the general meeting of shareholders through the attendance of the shareholders or their authorized representatives for the purpose of discussing and voting on issues of the agenda, provided that if a ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the company without personally attending the meeting. A general meeting of the shareholders by absentee ballot contemplates the determination of shareholders' opinions regarding issues on the agenda by means of a written poll.

The following issues cannot be decided by a shareholders' meeting by absentee ballot:

- election of the members of the board of directors;
- election of the review commission;
- approval of a company's independent auditor; and
- approval of the annual report, the annual financial statements, including balance sheet, profit and loss statement, and any distributions of profits and losses, including approval of annual dividends, if any.

Notice and Participation

All shareholders entitled to participate in our general shareholders' meeting must be notified of the meeting, whether the meeting is to be held in the form of a meeting or by absentee ballot, no less than 30 days prior to the date of the meeting, and such notification shall specify the agenda for the meeting. However, if it is an extraordinary shareholders' meeting to elect the board of directors, shareholders must be notified at least 50 days prior to the date of the meeting. Only those items that were set out in the agenda to shareholders may be voted upon at a general shareholders' meeting.

The list of persons entitled to participate in a general shareholders' meeting is to be compiled on the basis of data in our shareholder register on the date established by the board of directors, which date may neither be earlier than the date of adoption of the board resolution to hold a general shareholders' meeting nor more than 50 days before the date of the meeting (or, in the case of an extraordinary shareholders' meeting to elect the board of directors, not more than 65 days before the date of the meeting).

The right to participate in a general meeting of shareholders may be exercised by a shareholder as follows:

- by personally participating in the discussion of agenda items and voting thereon;
- by sending an authorized representative to participate in the discussion of agenda items and to vote thereon;
- by absentee ballot; or
- by delegating the right to fill out the absentee ballot to an authorized representative.

Board of Directors

Our charter provides that our entire board of directors is up for election at each annual general shareholders' meeting and that our board of directors is elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of voting shares held by such shareholder multiplied by the number of persons to be elected to our board of directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the directors may be removed as a group at any time without cause by a majority vote of a shareholders' meeting.

The Joint Stock Companies Law requires at least a five-member board of directors for all joint stock companies, at least a seven-member board of directors for a joint stock company with more than 1,000 holders of voting shares, and at least a nine-member board of directors for a joint stock company with more than 10,000 holders of voting shares. Only natural persons (as opposed to legal entities) are entitled to sit on the board. Members of the board of directors are not required to be shareholders of the company. The actual number of directors is determined by the company's charter, which provides that the number of board members shall be determined by a decision of a shareholders' meeting. Our board of directors currently consists of seven members.

The Joint Stock Companies Law generally prohibits the board of directors from acting on issues that fall within the exclusive competence of the general shareholders' meeting. Our board of directors has the power to perform the general management of the company, and to decide, among others, the following issues:

- determining our business priorities, as well as approving major investment projects, financial and business plans, budgets and investment programs;
- convening annual and extraordinary shareholders' meetings, except in certain circumstances specified in the Joint Stock Companies Law;
- approval of the agenda of the shareholders' meeting and determination of the record date for shareholders entitled to participate in a shareholders' meeting;
- placement of our bonds and other securities, in cases specified in the Joint Stock Companies Law;
- increasing our charter capital in certain circumstance specified in our charter;
- introducing certain changes to our charter;
- determination of the price of our property and of our securities to be placed or repurchased, as provided for by the Joint Stock Companies Law;
- repurchase of our shares, bonds and other securities in certain cases provided for by the Joint Stock Companies Law;
- appointment and early removal of our general director and the members of a collective executive body;
- recommendation to our shareholders' meeting on the amount of a dividend and the payment procedure;
- recommendation to our shareholders' meeting on the amount of remuneration and compensation to be paid to the members of our review commission and on the fees payable for the services of an independent auditor;
- approval of the fees payable for the services of an independent auditor;
- the use of our reserve fund and other funds;
- the creation and liquidation of branches and representative offices;
- approval of our internal documents, except for those documents whose approval fall within the competence of our shareholders or general director;
- approval of major and interested party transactions in the cases provided for by the Joint Stock Companies Law;
- approval of our share registrar and the terms of the agreement with it;
- approval of decisions on share issuances and of the prospectuses relating to such share issuances, as well as of reports on the results of such share issuances;
- appointment and termination of the powers of our corporate secretary;
- approval of a corporate governance code and primary standards of corporate behavior with respect to confidentiality and information resources management;
- creation of committees, commissions and other internal structural bodies under our board of directors; and
- other issues, as provided for by the Joint Stock Companies Law and our charter.

Our charter generally requires a majority vote of the directors present for an action to pass, with the exception of certain issues that require the vote of a three-quarters majority of our directors and actions for which Russian legislation requires a unanimous vote or a majority vote of the disinterested and independent directors, as described herein. A board meeting is considered duly assembled and legally competent to act when at least half of the number of elected directors are present.

Interested Party Transactions

Under the Joint Stock Companies Law, certain transactions defined as "interested party transactions" require approval by disinterested directors or shareholders of the company. "Interested party transactions" include transactions involving a member of the board of directors or member of any executive body of the company (including the company's chief executive officer and/or the company's managing organization), any person that owns, together with any affiliates, at least 20% of a company's issued voting stock or any person who is able to direct the actions of the company, if that person, and/or that person's spouse, parents, children, adoptive parents or children, brothers or sisters or affiliates, is/are:

- a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- the owner of at least 20% of the issued shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- a member of the board of directors or a member of any management body of a company that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary, or a member of the board of directors or of any management body of a management organization of such a company.

The Joint Stock Companies Law requires that an interested party transaction by a company with more than 1,000 shareholders be approved by a majority vote of the independent directors of the company who are not interested in the transaction. For purposes of this rule, an "independent director" is a person who is not, and within the year preceding the decision to approve the transaction was not, the general director, a member of any executive body or an affiliate of the company, or a member of the board of directors or of any management body of the company's management organization. Additionally, such person's spouse, parents, children, adoptive parents or children, brothers or sisters may not, and within the year preceding the decision to approve the transaction may not, occupy positions in the executive bodies of the company or positions on the board of directors or of any management body of the company's management organization. For companies with 1,000 or fewer shareholders, an interested party transaction must be approved by a majority vote of the directors who are not interested in the transaction if the number of these directors is sufficient to constitute a quorum.

Approval by a majority of shareholders who are not interested in the transaction is required if:

- the value of such transaction or a number of interrelated transactions is 2% or more of the balance sheet value of the company's assets determined under Russian accounting standards;
- the transaction or a number of interrelated transactions involves the issuance, by subscription, of voting shares or securities convertible into voting shares, or secondary market sale of such securities, in an amount exceeding 2% of the company's issued voting stock;
- the number of directors who are not interested in the transaction is not sufficient to constitute a quorum; or
- all the members of the board of directors of the company are interested parties, or none of them is an independent director.

Approval by a majority of shareholders who are not interested in the transaction may not be required, until the next annual shareholders' meeting, for an interested party transaction if such transaction is substantially similar to transactions concluded by the company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction.

The approval of interested party transactions is not required in the following instances:

- the company has only one shareholder that simultaneously performs the functions of the executive body of the company;
- all shareholders of the company are deemed interested in such transactions;
- the transactions arise from the shareholders executing their pre-emptive rights to purchase newly issued shares of the company;

- the transactions arise from the repurchase, whether mandatory or not, by the company of its issued shares; or
- the company is merging with another company, and the latter owns more than three-fourths of the voting capital stock of the company.

Major Transactions

The Joint Stock Companies Law defines a "major transaction" as a transaction, or a number of interrelated transactions, involving the acquisition or disposal, or a possibility of disposal (whether directly or indirectly), of property having a value of 25% or more of the balance sheet value of the assets of a company as determined under Russian accounting standards, with the exception of transactions conducted in the ordinary course of business or transactions involving the placement of ordinary shares or securities convertible into ordinary shares. Major transactions involving assets having a value ranging from 25% to 50% of the balance sheet value of the assets of a company require unanimous approval by all members of the board of directors or, failing to receive such approval, a simple majority votes of a shareholders' meeting. Major transactions involving assets having a value in excess of 50% of the balance sheet value of the assets of a company require a three-quarters majority vote of a shareholders' meeting.

Change in Control

Anti-takeover Protection

At present, Russian legislation requires that any person that intends, either individually or together with its affiliates, to acquire 30% or more (including, for such purposes, the shares already owned by this person or its affiliates) of the ordinary shares of a company having more than 1,000 holders of ordinary shares must give at least 30, but no more than 90, days' prior written notice to the company. Additionally, the Joint Stock Companies Law provides that a person that has acquired either individually, or together with its affiliates, 30% or more (including, for such purposes, the shares already owned by this person or its affiliates) of the ordinary shares of a company with more than 1,000 holders of ordinary shares, within 30 days of acquiring the shares, must offer to buy all of the ordinary shares and securities that are convertible into ordinary shares at a market price which shall not be lower than the weighted average price of the ordinary shares over the six month period before the date of acquisition. These requirements also apply to any acquisitions of each subsequent 5% or more of the issued ordinary shares of a company by a person already holding (together with its affiliates) over 30% of the issued ordinary shares of such company. If the acquirer fails to observe these requirements, its voting power will be limited to only those shares purchased in compliance with these requirements. The requirement to make a buy-out offer of securities may be waived in a company's charter or by a resolution adopted by a majority vote of a shareholders' meeting, excluding the votes of the acquirer (and its affiliates) unless such company is listed on a Russian stock exchange. Our charter does not contain a waiver of this requirement.

Effective July 1, 2006, the above requirements of Russian legislation will be modified, the principal modifications being as follows:

- A person intending to acquire more than 30% of an open joint stock company's ordinary shares and voting preferred shares (including, for such purposes, the shares already owned by such person and its affiliates), will be entitled to make a public tender offer to other holders of such shares or securities convertible into such shares.
- A person that has acquired more than 30% of an open joint-stock company's ordinary shares and voting preferred shares (including, for such purposes, the shares already owned by such person and its affiliates) will, except in certain limited circumstances, be required to make, within 35 days of acquiring such shares, a public tender offer for other shares of the same class and for securities convertible into such shares, at the price determined based on the weighted average market price of the shares over the six month period before the filing of the offer with the FSFM as described below, if the shares are publicly traded, or on the price supplied by an independent appraiser if the shares have no or insufficient trading history. The public tender offer price may not be less than the highest price at which the offeror or its affiliated persons purchased or undertook to purchase the relevant securities over the six month period before the offer was sent to the company. From the moment of acquisition of more than 30% (or 50% and

75% in cases referred to in the next sentence) of the shares until the date the offer was sent to the company, the person making the offer and its affiliates will be able to register for quorum purposes and vote only 30% of the company's ordinary shares and voting preferred shares (regardless of the size of their actual holdings). These rules also apply to acquisitions resulting in a person or a group of persons owning more than 50% and 75% of a company's outstanding ordinary shares and voting preferred shares.

- A person that as a result of an offer described in either of the preceding paragraphs becomes (individually or with its affiliates) the owner of more than 95% of the company's ordinary shares and voting preferred shares, must buy out the remaining shares of the company as well as other securities convertible into such shares upon request of the holders of such shares or other securities, and may require such holders to sell such shares and other securities, at the price determined in the manner described in the preceding paragraph but not less than the highest price of the preceding acquisitions by the offeror.
- An offer of the kind described in either of the preceding three paragraphs must be accompanied by a bank guarantee of payment. If the company is publicly traded, prior notice of the offers must be filed with the FSFM; otherwise, such offers must be filed with the FSFM no later than the date of the offer. The FSFM may require revisions to be made to the terms of the offer (including the price) in order to bring them into compliance with the rules.
- Once such an offer has been made, competing offers for the same securities can be made by third parties and, in certain circumstances, acceptance of the initial offer may be withdrawn by the security holders who choose to accept such competing offer. From the making of a public tender offer until 20 days after its expiry (which period may in certain cases exceed 100 days) the company's shareholders meeting will have the sole power to make decisions on charter capital increase, issuance of securities, approval of major, interested party and certain other transactions, and on certain other significant matters.

The above rules may be supplemented through FSFM rulemaking, which may result in a wider, narrower or more specific interpretation of these rules.

Under Russian law, the Depositary may be considered the owner of the shares underlying the GDRs, and upon completion of the offering, we expect that the GDR program will contain approximately 33% of our share capital. Accordingly, the Depositary may be, or may become, subject to the above rules at any time prior to July 1, 2006 if there are more than 1,000 holders of our ordinary shares, or at any time after July 1, 2006 regardless of the number of holders of our ordinary shares. Under such circumstances, the Depositary may, pursuant to the Deposit Agreements, take such steps as are, in its opinion, necessary or desirable to remedy the consequences and to comply with applicable law, directives or regulations, including without limitation causing pro rata cancellation of GDRs and withdrawal of the shares from our GDR program to the extent necessary or desirable to so comply. The Depositary may also close its books to the issuance of GDRs against new deposits of shares under such circumstances. For additional information, see "Description of the Global Depositary Receipts—Issuance of GDRs Upon Deposit of Shares."

Approval of the Russian Federal Anti-Monopoly Service

Pursuant to Russian anti-monopoly legislation, transactions exceeding a certain amount, involving companies with a combined value of the assets under Russian accounting standards that exceeds a certain threshold or companies registered as having more than a 35% share of a certain commodity market, and which would result in a shareholder (or a group of affiliated shareholders) holding more than 20% of the voting capital stock of such company, or in a transfer between such companies of assets or rights to assets, the value of which exceeds a certain amount, must be approved in advance by FAS.

Under Russian law, the Depositary may be considered the owner of the shares underlying the GDRs, and upon completion of the offering, we expect that the GDR program will contain approximately 33% of our share capital. However, the Depositary has received a general interpretation from FAS that the Depositary need not obtain the approval referred to in the preceding paragraph in connection with depositary receipt programs such as ours. If FAS rescinds or disregards this interpretation and determines that the Depositary should have obtained such approval but did not, the Depositary may have to obtain such approval.

Disclosure of Ownership

At present, under Russian law, a holder of our ordinary shares is required to disclose information concerning its holdings in the following cases:

- the holder acquires 20% or more of our ordinary shares;
- the holder increases its percentage holding of our ordinary shares by 5% (or an integral multiple thereof) in excess of 20% thereof; and
- the holder decreases its percentage holding of our ordinary shares to a level in excess of 5% (or an integral multiple thereof) in excess of (but not lower than) 20% thereof.

Effective July 1, 2006, a holder of our ordinary shares will be required to publicly disclose an acquisition of 5% or more of the outstanding ordinary shares of the company, as well any change in the amount of ordinary shares held by such holder, if as a result of such change the percentage of ordinary shares held by the holder becomes greater or lesser than 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the outstanding ordinary shares of the company.

Exchange Controls

The Federal Law on Currency Regulation and Currency Control which came into effect on June 18, 2004, empowers the government and the Central Bank of Russia to regulate and restrict certain foreign currency operations, including certain types of payments in foreign currency, operations involving foreign securities (including GDRs) and domestic securities (including our shares), as well as certain types of settlements in rubles between residents and non-residents of Russia. The new regulatory regime remains generally restrictive.

Capital Import and Export Restrictions

Pursuant to the Federal Law on Currency Regulation and Currency Control, the government and the Central Bank of Russia have the power to restrict, in particular, the following operations:

- investments (not involving the acquisition of securities) by Russian residents into participatory interests in joint ventures with foreign investors or acquired from foreign investors;
- acquisition of Russian securities by foreign investors and foreign securities by Russian investors;
- grants or receipts of loans and credits between residents and non-residents of Russia;
- payments for export-import transactions with settlement over 180 days (and, in limited cases, from three to five years) following completion; and
- the opening by Russian residents of bank accounts outside Russia and the transfers by Russian residents to such accounts of their funds from domestic accounts.

Restrictions that may be introduced include:

- the requirement for Russian residents to register their accounts in foreign banks with Russian tax authorities prior to the opening of such accounts (the "prior registration requirement");
- the requirement to perform the operations listed above through special banking accounts with authorized Russian banks (the "requirement to use a special account"); and
- the requirement to deposit in a special non-interest bearing account with an authorized Russian bank (the "reservation requirement") a monetary sum of:
    - up to 100% of the amount of the foreign currency operation in question for a period of time not exceeding 60 days; or
    - up to 20% of the amount of the foreign currency operation in question for a period of time not exceeding one year.

As of the date hereof, the prior registration requirement has been introduced in respect of the Russian ruble and foreign currency accounts in banks located in countries which are not members of the Organization for Economic Cooperation and Development (OECD) and the Financial Action Task Force on Money Laundering (FATF) established by the G-7, and in respect of ruble accounts in banks located in countries which are members of OECD or FATF.

As of the date hereof, the requirement to use a special account has been introduced in respect of acquisitions of Russian securities by foreign investors and foreign securities payable in a foreign currency by Russian investors and in respect of the grant or receipt of loans and credits between residents and non-residents of Russia. In particular, the following operations are subject to the requirement to use special accounts:

- the receipt by residents of Russia from non-residents of foreign currency and ruble loans and credits with maturities of three years or less;
- the acquisition of foreign securities (such as GDRs) by Russian investors; and
- the acquisition of Russian securities (such as our shares) by foreign investors.

As of the date hereof, the reservation requirement has been introduced, in particular, in respect of:

- investments by Russian residents into participatory interests in joint ventures with foreign investors or acquired from foreign investors in the amount of 25% of the sum of the performed currency transaction for 15 days;
- the receipt by Russian residents of foreign currency and ruble loans and credits with maturities of three years or less, in the amount of 2% of the loan/credit for one year;
- the acquisition of foreign securities (such as GDRs) by Russian investors, in the amount of 25% of the sum payable for the securities for 15 days;
- pre-payment by Russian residents for the import of works, services and rights to intellectual property to be transferred by non-residents more than 180 days following the pre-payment, in the amount of 10% of the sum of pre-payment, excluding the value of the consideration received from non-residents, for a period of time not exceeding 15 days; and
- transfer of funds by Russian companies and individual entrepreneurs from their accounts in Russian banks to their accounts in foreign banks, in the amount of 25% of the sum of the transfer for 15 days (except for transfers to support foreign representative offices of Russian companies).

Up to $150,000 worth of foreign securities in one calendar year may be purchased/sold by Russian individuals from/to non-residents without any of the above restrictions.

While at present restrictions imposed on foreign currency operations are limited in scope, the statutory powers of the government and the Central Bank of Russia enable them to:

- increase the reservation requirements by an increase in the amount and/or the period of reservation; and/or
- extend the reservation requirements and other restrictions to other types of foreign currency operations envisaged by the Federal Law on Currency Regulation and Currency Control.

Additionally, Russian companies must repatriate 100% of their receivables from the export of goods and services (with a limited number of exceptions concerning, in particular, certain types of secured financing) and convert 10% of export receivables in foreign currency into rubles within seven days of the date on which they were received (also with a limited number of exemptions). Furthermore, certain types of cross-border operations may be performed only in rubles, including, for example, transactions with domestic securities (such as our shares) between residents and non-residents of Russia. These requirements increase balances in our ruble-denominated accounts and, consequently, our exposure to currency devaluation risk.

Restrictions on the Remittance of Dividends, Interest or Other Payments to Non-residents

The Federal Law on Foreign Investments in the Russian Federation of July 9, 1999, specifically guarantees foreign investors the right to repatriate their earnings from Russian investments. However, the evolving Russian exchange control regime may materially affect your ability to do so.

Currently, ruble dividends on ordinary shares may be converted into US dollars without restriction. However, the ability to convert rubles into US dollars is also subject to the availability of US dollars in Russia's currency markets. Although there is an existing market within Russia for the conversion of rubles into US dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of rubles into foreign currencies outside of Russia and no viable market in which to hedge ruble and ruble-denominated investments.

Notification of Foreign Ownership

Foreign persons registered as individual entrepreneurs in Russia who acquire shares in a Russian joint stock company and foreign companies, regardless of whether they are registered with the Russian tax authorities, that acquire shares in a Russian joint stock company need to notify the Russian tax authorities within one month following such acquisition. However, the procedure of notifying the Russian tax authorities by foreign companies that are not registered with such tax authorities at the time of their share acquisitions is still unclear.

DESCRIPTION OF THE GLOBAL DEPOSITARY RECEIPTS

Deutsche Bank Trust Company Americas has agreed to act as the depositary for the GDRs. The Depositary's principal New York offices are located at 60 Wall Street, New York, New York 10005, United States and its principal London offices are located at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom. In this summary we use the term "GDRs" to refer to the Rule 144A GDRs and to the Regulation S GDRs. GDRs are represented by certificates that are ordinarily known as "Global Depositary Receipt Certificates" or "GDR Certificates." The GDRs we are selling in the United States are referred to and will be issued as Rule 144A GDRs and the GDRs we are selling outside the United States are referred to and will be issued as the Regulation S GDRs. GDRs represent ownership interests in securities, cash or other property on deposit with the Depositary.

The Depositary has appointed Deutsche Bank Ltd. as the custodian for the safekeeping of the securities, cash or other property on deposit, or the Custodian. The Custodian's principal office is at 4 Shepkina Street, Moscow 129090, Russian Federation.

There are two separate deposit agreements, one for the Rule 144A GDRs, or the Rule 144A Deposit Agreement, and one for the Regulation S GDRs, or the Regulation S Deposit Agreement and together with the Rule 144A Deposit Agreement, the Deposit Agreements, each of which is governed by New York law. Copies of the Deposit Agreements are available for inspection by any holder of the GDRs at the principal offices of the Depositary during business hours, provided that the inspection shall not be for the purpose of communicating with GDR holders in the interests of a business of object other than our business or a matter related to the Deposit Agreements or the GDRs. This is a summary description of the material terms of the GDRs and of your material rights as an owner of the GDRs. Please remember that summaries by their nature lack the precision of the information summarized and that the rights and obligations of an owner of GDRs will be determined by reference to the terms of the applicable Deposit Agreement and not by this summary.

One GDR represents the right to receive one share on deposit with the Custodian. Each GDR will also represent the right to receive cash or any other property received by the Depositary or the Custodian on behalf of the owner of the GDR but that has not been distributed to the owners of GDRs because of legal restrictions or practical considerations.

If you become an owner of GDRs, you will become a party to the applicable Deposit Agreement and therefore will be bound by its terms and by the terms of the GDR Certificate that represents your GDRs. The applicable Deposit Agreement and the GDR Certificate specify our rights and obligations as well as your rights and obligations as owner of GDRs and those of the Depositary. As a GDR owner you appoint the Depositary as your attorney-in-fact, with full power to delegate, to act on your behalf and to take any and all actions contemplated in the applicable Deposit Agreement, to adopt any and all procedures necessary to comply with applicable laws and to take such action as the Depositary in its sole discretion may deem necessary or appropriate to carry out the purposes of the applicable Deposit Agreement.

Presently, you may hold your GDRs only through a brokerage or safekeeping account. As such, you must rely on the procedures of your broker or bank to assert your rights as GDR owner. Please consult with your broker or bank to determine what those procedures are. When we refer to "you," we assume the reader owns GDRs and will own GDRs at the relevant time. When we refer to a "holder" we assume the person owns GDRs and such person's agent (*i.e.*, broker, custodian, bank or trust company) is the holder of the applicable GDR.

No temporary Master GDRs or other temporary documents of title have been or will be issued in connection with this offering.

Registration of Placement Report

Prior to the receipt by the Depositary of written notice from us that the placement report with respect to the newly issued shares being offered by us has been registered, the GDRs shall be deemed to be issued on a provisional basis and you will not be able to withdraw the shares underlying your GDRs and will not be able to instruct the Depositary to exercise voting rights with respect to the shares that underlie your GDRs. Also, following the Closing Date, no additional shares will be accepted for deposit and no additional GDRs in respect of such shares will be issued until the Depositary has been notified of the registration of the placement report. See "Risk Factors—Risks

Relating to the GDRs, the Shares and the Trading Market—GDR holders will not be able to withdraw the shares underlying the GDRs prior to the registration of a placement report for the newly issued shares, and the failure to register this placement report could result in the newly issued shares underlying the GDRs being cancelled, reliance by GDR holders on us and the Underwriters to return the offering proceeds and a small public float based solely on the shares sold by the Selling Shareholder" and "Registration of Placement Report."

Distinctions Between Rule 144A GDRs and Regulation S GDRs

The Rule 144A GDRs and the Regulation S GDRs are similar in many ways but are different primarily on account of the requirements of the US securities laws. The Rule 144A GDRs are "restricted securities" under the US securities laws and as such are subject to limitations on their issuance, transfer and cancellation. The Regulation S GDRs are not *per se* "restricted securities" under the US securities laws, but we have imposed certain limitations on the issuance of Regulation S GDRs in an effort to prevent the transfer of Regulation S GDRs in violation of the US securities laws.

The differences between the Regulation S GDRs and the Rule 144A GDRs and the restrictions imposed on the Rule 144A GDRs and the Regulation S GDRs cover primarily the following:

- The restrictions on the transfers, deposits and withdrawals of the shares represented by the GDRs. See "—Transfer Restrictions."
- The eligibility for book-entry transfer. See "—Settlement and Safekeeping."
- Special restrictions on deposits and withdrawals apply to our affiliates. See "—Ownership of GDRs by Our Affiliates" below.

These distinctions and the requirements of the US securities laws may require us and the Depositary to treat the Regulation S GDRs and the Rule 144A GDRs differently at any time in the future. There can be no guarantee that holders of Rule 144A GDRs will receive the same entitlements as holders of Regulation S GDRs and vice versa.

Settlement and Safekeeping

Rule 144A GDRs

The Depositary will make arrangements with DTC to act as securities depository for the Rule 144A GDRs. All Rule 144A GDRs issued in the offering will be registered in the name of Cede & Co. (DTC's nominee). One Master Rule 144A GDR Certificate will represent all Rule 144A GDRs that will be issued to and registered in the name of Cede & Co. Transfers of ownership interests in Rule 144A GDRs are to be accomplished by entries made on the books of DTC and participants in DTC acting on behalf of Rule 144A GDR owners. Owners of Rule 144A GDRs will not receive certificates representing their ownership interests in the Rule 144A GDRs, except in the event that a successor securities depository cannot be appointed.

DTC may discontinue providing its services as securities depository with respect to the Rule 144A GDRs at any time by giving reasonable notice to the Depositary. Under such circumstances and in the event a successor securities depository cannot be appointed, individual Rule 144A GDR Certificates representing the applicable number of Rule 144A GDRs held by each owner of Rule 144A GDRs will be printed and delivered to the relevant Rule 144A GDR owners.

Regulation S GDRs

The Depositary will make arrangements with Euroclear and Clearstream to act as securities depositories for the Regulation S GDRs. All Regulation S GDRs issued in the offering will be registered in the name of BT Globenet Nominees Limited, as nominee for Deutsche Bank AG, London Branch, the common depositary for Euroclear and Clearstream. One Master Regulation S GDR will represent all Regulation S GDRs issued to and registered in the name of BT Globenet Nominees Limited, as nominee for Deutsche Bank AG, London Branch. Euroclear and Clearstream will hold the Regulation S GDRs on behalf of their participants (any such participant of Euroclear or Clearstream, a "Participant"), and transfers will be permitted only within Euroclear and Clearstream in accordance with the rules and operating procedures of the relevant system. Transfers of ownership interests in Regulation S GDRs are to be accomplished by entries made on the books of Euroclear and Clearstream and of participants in Euroclear and Clearstream, acting in each case on behalf of

Regulation S GDR owners. Owners of Regulation S GDRs will not receive certificates representing their ownership interests in the Regulation S GDRs, except in the event that use of the Euroclear and Clearstream book-entry system for the Regulation S GDRs is discontinued.

If at any time Euroclear or Clearstream, as the case may be, ceases to make its respective book-entry settlement systems available for the Regulation S GDRs, we and the Depositary will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement arrangements cannot be made, the Depositary will make available Regulation S GDRs in physical certificated form.

Transfer Restrictions

The GDRs may be reoffered, resold, pledged or otherwise transferred only in compliance with the US securities laws and are subject to the following restrictions:

Restrictions upon the Transfer of GDRs

Rule 144A GDRs	Regulation S GDRs
The Rule 144A GDRs may be reoffered, resold, pledged or otherwise transferred only: (1) outside the United States in accordance with Regulation S; or (2) to a QIB in a transaction meeting the requirements of Rule 144A; or (3) pursuant to Rule 144 under the Securities Act, if available; or (4) pursuant to an effective registration statement under the Securities Act.	No additional restrictions.

Please also see "—Ownership of GDRs by Our Affiliates" below.

Restrictions upon Deposit of Shares

Rule 144A GDRs

Shares will be accepted for deposit under the Rule 144A Deposit Agreement only if delivered by, or on behalf of, a person that is:

(1) not Comstar UTS or an affiliate of Comstar UTS or a person acting on behalf of Comstar UTS or an affiliate of Comstar UTS;

and

(2) a QIB or a person outside the United States that is not a US person (as defined in Regulation S).

Regulation S GDRs

Shares will be accepted for deposit under the Regulation S Deposit Agreement only if delivered by, or on behalf of, a person that is:

(1) not Comstar UTS or an affiliate of Comstar UTS or a person acting on behalf of Comstar UTS or an affiliate of Comstar UTS;

and

(2) not in the business of buying or selling securities, or if such person is in the business of buying or selling securities, such person did not acquire the shares to be deposited from Comstar UTS or an affiliate of Comstar UTS in the initial distribution of Regulation S GDRs, shares and Rule 144A GDRs;

and

(3) is a person outside the United States that is not a US person (as defined in Regulation S). Shares withdrawn from deposit under the Rule 144A Deposit Agreement will not be accepted for deposit pursuant to the Regulation S Deposit Agreement unless such shares are not and may not be deemed to be "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act.

Please also see "—Ownership of GDRs by Our Affiliates" below.

Restrictions upon the Withdrawal of Shares

Rule 144A GDRs	Regulation S GDRs
So long as the placement report has been registered with the FSFM as described under "—Registration of Placement Report", shares may be withdrawn from the Rule 144A Deposit Agreement only by: (1) a person other than a US person (as defined in Regulation S) outside the United States who will be the beneficial owner of the shares upon withdrawal; or (2) a QIB who (a) has sold the Rule 144A GDRs to another QIB in a transaction meeting the requirements of Rule 144A, or to a person other than a US person (as defined in Regulation S) outside the United States in accordance with Regulation S, or (b) will be the beneficial owner of the shares and agrees to observe the transfer restrictions applicable to Rule 144A GDRs in respect of the shares so withdrawn.	So long as the placement report has been registered with the FSFM as described under "—Registration of Placement Report", shares may be withdrawn from the Regulation S Deposit Agreement by the holders of Regulation S GDRs.

Please also see "—Ownership of GDRs by Our Affiliates" below.

General Restrictions

The Deposit Agreements permit us to restrict transfers of the shares where such transfer might result in ownership of shares exceeding the limits applicable to the shares under applicable law or our charter. We may also restrict transfers of the GDRs where such transfer may result in the total number of shares represented by the GDRs owned by a single holder or beneficial owner to exceed any such limits. We may, in our sole discretion, but subject to applicable law, instruct the Depositary to take action with respect to the ownership interest of any holder or beneficial owner in excess of the limits set forth in the preceding sentence, including but not limited to, the imposition of restrictions on the transfer of GDRs, the removal or limitation of voting rights or the mandatory sale or disposition on behalf of a holder or beneficial owner of the shares represented by the GDRs held by such holder or beneficial owner in excess of such limitations, if and to the extent such disposition is permitted by applicable law and our charter. The Depositary shall have no liability for actions taken in accordance with such instructions.

The registration of any transfer of GDR Certificates in particular instances may be refused, or the registration of transfers generally may be suspended, during any period when the transfer books of the Depositary, us, the registrar or the Russian share registrar are closed, or if any such action is deemed necessary or advisable by us or the Depositary, in good faith, at any time or from time to time because of any requirement of law, any government or governmental body or commission or any securities exchange on which the GDRs or shares are listed, or under any provision of the Deposit Agreements or provisions of, or governing, the shares, or any meeting of our shareholders or for any other reason.

The Depositary may close the transfer books with respect to GDR Certificates, at any time or from time to time, when deemed necessary or advisable by it in good faith in connection with the performance of its duties hereunder, or at our reasonable request.

Dividends and Distributions

As a holder, you generally have the right to receive the distributions we make on the securities deposited with the Custodian. Your receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders will receive such distributions under the terms of the Deposit Agreements in proportion to the number of GDRs held as of a specified GDR record date, which the Depositary will use reasonable efforts to establish as close as possible to the record date set by us for the shares.

Distributions of Cash

Whenever we make a cash distribution in respect of securities on deposit with the Custodian, we will deposit the funds with the Custodian. Upon receipt of confirmation from the Custodian of the deposit of the requisite funds, the Depositary will arrange for the funds to be converted into US dollars and for the distribution of the US dollars to the holders, if in the reasonable judgment of the Depositary it is practicable and lawful. See "—Foreign Currency Conversion" below for actions the Depositary is entitled to take if conversion, transfer and distribution cannot be so made by the Depositary.

The amounts distributed to holders will be net of the fees, charges, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. The Depositary will apply the same method for distributing the proceeds of the sale of any property (such as undistributed rights) held by the Custodian in respect of the securities on deposit.

Distributions of Shares

Whenever we make a free distribution of shares in respect of the shares on deposit with the Custodian, we will deposit the applicable number of shares with the Custodian. Upon receipt of confirmation of such deposit from the Custodian, the Depositary will either distribute to holders additional GDRs representing the shares deposited or modify, to the extent permissible by law, the GDR-to-shares ratio, in which case each GDR you hold will represent rights and interests in the additional shares so deposited. Only whole new GDRs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new GDRs or the modification of the GDR-to-shares ratio upon a distribution of shares will be made net of the fees, charges, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. In order to pay such taxes or governmental charges, the Depositary may sell all or a portion of the new shares so distributed.

No such distribution of new GDRs will be made if it would violate applicable laws (*e. g.*, the US securities laws). If the Depositary does not distribute new GDRs as described above, it may sell the shares received and will distribute the proceeds of the sale as in the case of a distribution of cash. The Depositary will hold and/or distribute any unsold balance of such property in accordance with the provisions of the applicable Deposit Agreement.

Distribution of Rights

Whenever we intend to distribute rights to purchase additional shares, we will give timely prior notice to the Depositary and state whether or not we wish such rights to be made available to you. If we wish such rights to be made available to you, we will assist the Depositary in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional GDRs to holders.

The Depositary will establish procedures to distribute rights to purchase additional GDRs to holders and to enable such holders to exercise such rights only if the Depositary has received our request to make such distribution in a timely manner, and the Depositary shall have determined that it is lawful and reasonably practicable to make the rights available to holders of GDRs, and we have provided all of the documentation contemplated in the applicable Deposit Agreement (such as opinions addressing the lawfulness of the transaction). You will have to pay fees, charges, expenses, and any taxes and other governmental charges to subscribe for the new GDRs upon the exercise of your rights. The Depositary is not obligated to establish procedures to facilitate the distribution and exercise by holders of rights to purchase new shares other than in the form of GDRs.

The Depositary will not distribute the rights to you if:

- we do not request that the rights be distributed to you in a timely manner, or we request that the rights not be distributed to you;
- we fail to deliver satisfactory documents to the Depositary (such as legal opinions addressing the lawfulness of the transaction);
- any rights made available are not exercised and appear to be about to lapse; or
- it determines that it is not reasonably practicable to distribute the rights.

The Depositary will sell the rights that are not exercised or not distributed if it determines that such sale is lawful and reasonably practicable in a riskless principal capacity, at such place and upon terms (including public and private sale) as it may deem practicable. The proceeds of such sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell the rights, it will allow the rights to lapse.

The Depositary shall not be responsible for (1) any failure to determine whether it may be lawful or practicable to make such rights available to holders in general or to you in particular, (2) any foreign exchange exposure or loss incurred in connection with any sale or exercise or (3) the content of any materials forwarded to the holders on behalf of the Company in connection with the rights distribution. There can be no assurance that holders in general or you in particular will be given the opportunity to exercise rights on the same terms and conditions as the holders of shares or to exercise such rights.

Elective Distributions

Whenever we intend to distribute a dividend payable at the election of shareholders either in cash or in additional shares, we will give timely prior notice thereof to the Depositary and will indicate whether we wish the elective distribution to be made available to you. In such case, we will assist the Depositary in determining whether such distribution is lawful and reasonably practicable.

The Depositary will make the election available to you only if it has received timely prior notice from us, if it is reasonably practicable and if we have provided all of the documentation contemplated in the applicable Deposit Agreement (such as legal opinions addressing the lawfulness of the transaction). In such case, the Depositary will establish procedures to enable you to elect to receive either cash or additional GDRs, in each case as described in the Deposit Agreements.

If the election is not made available to you, you will, to the extent permitted by law, receive either cash or additional GDRs, depending on what a shareholder in Russia would receive upon failing to make an election, as more fully described in the corresponding Deposit Agreement.

The Depositary is not obligated to make available to holders a method to receive the elective dividend in the shares rather than in the form of GDRs. There can be no assurance that holders of GDRs or beneficial interests therein generally, or you in particular, will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of the shares.

Other Distributions

Whenever we intend to distribute property other than cash, shares or rights to purchase additional shares, we will timely notify the Depositary in advance and will indicate whether we wish such distribution to be made to you. If so, we will assist the Depositary in determining whether such distribution to holders is lawful and reasonably practicable.

If the Depositary has received timely prior notice from us, it is reasonably practicable to distribute such property to you and if we have provided all of the documentation contemplated in the Deposit Agreements (such as legal opinions addressing the lawfulness of the transaction), the Depositary will distribute the property to the holders in a manner it deems practicable.

The distribution will be made net of fees, charges, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. In order to pay such taxes and governmental charges, the Depositary may sell all or a portion of the property received.

The Depositary will *not* distribute the property to you and will sell the property if:

- we do not request that the property be distributed to you or we do not make such request in a timely manner or we ask that the property not be distributed to you;
- we fail to deliver satisfactory documents to the Depositary; or
- the Depositary determines that all or a portion of the distribution to you is not lawful or reasonably practicable.

The proceeds of any such sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell such property, the Depositary may dispose of such property in any way it deems reasonably practicable under the circumstances.

Redemption

Whenever we decide to redeem any of the securities on deposit with the Custodian, we will give timely prior notice to the Depositary. If the Depositary has received timely prior notice from us, determined that such redemption is practicable and received from us all of the documentation contemplated in the Deposit Agreements (such as legal opinions addressing the lawfulness of the transaction), the Depositary will mail notice of the redemption to the holders.

The Depositary will instruct the Custodian to surrender the shares being redeemed against payment of the applicable redemption price. The Depositary will convert the redemption funds received into US dollars upon the terms of the Deposit Agreements and will establish procedures to enable holders to receive the net proceeds from the redemption upon surrender of their GDRs to the Depositary. See "—Foreign Currency Conversion" below for actions the Depositary is entitled to take if conversion, transfer and distribution of funds by the Depositary is not practicable or lawful. You will have to pay fees and charges of, and the expenses incurred by, the Depositary, and any taxes and other governmental charges upon the redemption of your GDRs. If less than all GDRs are being redeemed, the GDRs to be redeemed will be selected by lot or on a *pro rata* basis, as the Depositary may determine.

Changes Affecting Shares

The shares held on deposit for your GDRs are subject to change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of such shares or a recapitalization, reorganization, merger, consolidation or sale of assets affecting us.

If any such change were to occur, any securities which shall be received by the Depositary or the Custodian in exchange for, or in conversion, replacement or otherwise in respect of, such shares shall, to the extent permitted by law, be treated as new shares under the Deposit Agreements, and the GDR Certificates shall, subject to the terms of the Deposit Agreements and applicable law, evidence the GDRs representing the right to receive such replacement securities. The Depositary in such circumstances may with our approval, and shall if we so request and provide to the Depositary at our expense a reasonably satisfactory opinion of counsel that such action is not in violation of applicable laws or regulations, execute and deliver additional GDR Certificates to you or make appropriate adjustments in its records, or call for the exchange of your existing GDRs for new GDRs. If the Depositary may not lawfully distribute such securities to you, the Depositary may with our approval sell such securities and distribute the net proceeds to you as in the case of a cash distribution, and shall do so if we so request and provide to the Depositary at our expense a reasonably satisfactory opinion of counsel that such action is not in violation of applicable laws or regulations. You will have to pay fees and charges of, and the expenses incurred by, the Depositary, and any taxes and other governmental charges upon the sale of such securities.

The Depositary shall not be responsible for (1) any failure to determine that it is lawful or practicable to make such securities available to holders of GDRs in general or to you in particular, (2) any foreign exchange exposure or loss incurred in connection with such sale or (3) any liability to the purchaser of such securities.

Issuance of GDRs Upon Deposit of Shares

Subject to limitations set forth in the Deposit Agreements and the GDRs, the Depositary may create GDRs on your behalf if you or your broker deposit shares with the Custodian. The Depositary will deliver these GDRs to the person you indicate only after you pay any applicable issuance fees and any charges and taxes payable for the transfer of the shares to the Custodian and you provide the applicable deposit certification. Your ability to deposit shares and receive GDRs may be limited by US and Russian legal considerations applicable at the time of deposit. You may also not be able to deposit shares and receive GDRs where to do so would require us to produce a further prospectus or a supplemental prospectus. See "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—Following the offering you may not be able to deposit shares in the GDR program in order to receive GDRs."

If at any time the Depositary believes that the shares deposited with it against issuance of GDRs, together with any of our other securities which have been deposited with the Depositary against issuance of other depositary receipts, represent such percentage as exceeds any threshold for making any filing, application, notification or registration or obtaining any approval, license or permit under any applicable law, directive or regulation, the Depositary may take such steps as are, in its opinion, necessary or desirable to remedy the consequences of such thresholds being exceeded and to comply with any such law, directive or regulation, including without limitation causing pro rata cancellation of GDRs and withdrawal of shares or other deposited securities to the extent necessary or desirable to so comply.

In particular, the Depositary shall be entitled to close its books to the issuance of GDRs against new deposits of shares at any time under the following circumstances:

- In the absence of an approval or waiver from FAS, the Depositary believes that the shares deposited with it against issuance of GDRs, together with any of our other securities which have been deposited with the Depositary against issuance of other depositary receipts, represent in the aggregate more than 19.99% of either our outstanding equity securities of all classes or types or the voting rights of all holders of our securities. In connection with the offering, we expect that the GDR program will contain approximately 33% of our share capital. However, the Depositary has received a general interpretation from FAS that the Depositary need not obtain the approval in connection with depositary receipt programs such as ours. If FAS rescinds or disregards this interpretation and determines that the Depositary should have obtained such approval but did not, the Depositary may have to obtain such approval. See "Description of Share Capital and Certain Requirements of Russian Legislation—Change in Control—Approval of the Russian Federal Anti-Monopoly Service."
- If we have more than 1,000 shareholders owning our shares and the Depositary believes that the shares deposited with it against issuance of GDRs, together with any of our other securities which have been deposited with the Depositary against issuance of other depositary receipts, represent in the aggregate 29.99% of our outstanding shares. While we expect that immediately following the offering, we will have less than 1,000 shareholders, the expected size of the offering will result in more than 29.99% of our shares to be deposited with the Depositary against issuance of GDRs. After July 1, 2006, however, exceeding the 29.99% threshold may place the Depositary in violation of applicable legal requirements regardless of the number of holders of our ordinary shares, in which case the Depositary may have to avail itself of its right to effect pro rata cancellations, or take other actions to remedy the consequences of exceeding the threshold and to comply with law. See "Description of Share Capital and Certain Requirements of Russian Legislation—Change in Control—Anti-Takeover Protection" for additional information about how amendments to Russian legislation coming into effect on July 1, 2006 may impact the Depositary and our GDR programs in this regard.

In considering whether any threshold has been reached or exceeded, the Depositary may, in addition to shares deposited with it against the issuance of GDRs and other of our securities deposited with it against issuance of other depositary receipts, take into consideration shares or our other securities held by it and its affiliates for its or their proprietary accounts or as to which it or they exercise voting or investment power.

The Depositary may also close its books to the deposit of shares if at any time the aggregate number of GDRs in issue would, if additional GDRs were to be issued against the deposit of additional shares, exceed the number of GDRs for which a listing and admission to trading has been obtained, and may keep its books closed to the deposit of shares unless and until we shall have produced a prospectus in accordance with the Prospectus Rules under the UK Financial Services & Markets Act 2000, as amended, and obtained a block listing on the Official List of the UK Financial Services

Authority and admission to trading on the Regulated Market of the London Stock Exchange of such number of additional GDRs as the Depositary may, in its reasonable discretion, request after consultation with us.

The Depositary will also refuse to accept certain shares for deposit under the Rule 144A Deposit Agreement if notified in writing that the shares are listed on a US securities exchange or quoted on a US automated inter-dealer quotation system, unless (1) the person making such deposit shall certify that neither the shares nor the other deposited securities were, when issued, of the same class (within the meaning of Rule 144A), as the securities so listed or quoted and (2) such shares are accompanied by evidence satisfactory to the Depositary that such shares are eligible for resale pursuant to Rule 144A.

The Depositary shall also, upon instruction from us, limit at any time the number of shares accepted for deposit under the terms of the Deposit Agreements so as to enable us to comply with any ownership restrictions referred to in the Deposit Agreements or under applicable laws or our charter.

The issuance of GDRs may be delayed until the Depositary or the Custodian receives confirmation that all required approvals have been given and that the shares have been duly transferred to the Custodian. The Depositary will only issue GDRs in whole numbers.

When you make a deposit of shares, you will be responsible for transferring good and valid title to the Depositary, as evidenced by documents satisfactory to the Depositary or the Custodian. As such, you will be deemed to represent and warrant that:

- the shares are duly authorized, validly issued, fully paid, non-assessable and legally obtained;
- all pre-emptive (and similar) rights, if any, with respect to such shares have been validly waived or exercised;
- you are duly authorized to deposit the shares;
- the shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim;
- in the case of a deposit of shares under the Regulation S Deposit Agreement, the shares are not, and the Regulation S GDRs issuable upon such deposit will not be, "Restricted Securities" (as defined in the Regulation S Deposit Agreement), except in the case of deposits of a kind described in "—Ownership of GDRs by Our Affiliates" below;
- the shares presented for deposit have not been stripped of any rights or entitlements;
- the shares are not subject to any unfulfilled requirements of Russian law;
- except as provided in the Deposit Agreements and summarized under "—Ownership of GDRs by Our Affiliates" below, you are not, and you shall not become while holding GDRs, one of our affiliates; and
- the deposit of the shares complies with the restrictions in transfer set forth in the legend on the GDRs.

If any of the representations or warranties are incorrect in any way, we and the Depositary may, at your cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

When you deposit shares to receive Rule 144A GDRs, you will be required to provide the Depositary with a deposit certification stating, inter alia, that:

- you acknowledge that the shares and the Rule 144A GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States;
- you are not an affiliate of Comstar UTS and you are not acting on behalf of Comstar UTS or one of its affiliates;
- you are (1) a QIB or (2) a person (other than a US person, as defined in Regulation S) outside the United States and acquired or have agreed to acquire and will acquire the shares to be deposited outside the United States; and

- you agree, as the owner of the Rule 144A GDRs, to offer, sell, pledge and otherwise transfer the Rule 144A GDRs or the shares represented by the Rule 144A GDRs in accordance with the applicable US state securities laws and only:
  - to a QIB in a transaction meeting the requirements of Rule 144A; or
  - outside the United States to a person (other than a US person, as defined in Regulation S) outside the United States in accordance with Regulation S; or
  - in accordance with Rule 144 under the Securities Act, if available; or
  - pursuant to an effective registration statement under the Securities Act.

A copy of the form of deposit certification for Rule 144A GDRs is attached to the Rule 144A Deposit Agreement and may be obtained from the Depositary upon request.

When you deposit shares to receive Regulation S GDRs, you will be required to provide the Depositary with a deposit certification stating, inter alia, that:

- you acknowledge that the shares and the Regulation S GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States;
- you are not an affiliate of Comstar UTS and you are not acting on behalf of Comstar UTS or one of its affiliates;
- you are, or at the time the shares are deposited you will be, the beneficial owner of the shares and GDRs to be issued upon deposit of such shares;
- you are a person (other than a US person, as defined in Regulation S) outside the United States and acquired or have agreed to acquire and will acquire the shares to be deposited outside the United States; and
- you are not in the business of buying and selling securities or, if you are in such business, you did not acquire the shares presented for deposit from us or any of our affiliates.

A copy of the form of deposit certification for Regulation S GDRs is attached to the Regulation S Deposit Agreement and may be obtained from the Depositary upon request.

For information concerning deposit certifications to be made by our affiliates, see "—Ownership of GDRs by Our Affiliates" below.

Withdrawal of Shares Upon Cancellation of GDRs

The GDRs representing shares offered and sold pursuant to the terms of this prospectus have been issued by the Depositary on a provisional basis until we notify the Depositary in writing that the FSFM has registered the placement report in respect of the newly issued shares we are offering in the form of GDRs. Until such time, the GDRs representing such shares will not be eligible for cancellation and withdrawal of underlying shares will not be permitted and the Depositary will refuse to honor any GDR cancellation requests. See "—Registration of Placement Report."

Subject always to the withdrawal of deposited property being permitted under applicable laws and the terms of the applicable Deposit Agreement, as a holder you will be entitled to present your GDRs to the Depositary for cancellation and then receive the corresponding number of underlying shares at the Custodian's offices. Your ability to withdraw the shares may be limited by US and Russian law considerations applicable at the time of withdrawal.

In order to withdraw the shares represented by your GDRs, you will be required to pay to the Depositary the fees for cancellation of GDRs and any charges and taxes payable upon the transfer of the shares being withdrawn and you will be required to provide to the Depositary the applicable withdrawal certification. You assume the risk for delivery of all funds and securities upon withdrawal. Once cancelled, the GDRs will not have any rights under the corresponding Deposit Agreement.

If you hold a GDR registered in your name, the Depositary may ask you to provide proof of identity and genuineness of any signature and such other documents as the Depositary may deem appropriate before it will cancel your GDRs. The withdrawal of the shares represented by your GDRs may be delayed until the Depositary receives satisfactory evidence of compliance with all applicable laws and regulations. Please keep in mind that if GDRs representing fractional securities are presented for cancellation, the Depositary shall be entitled to sell such fractional securities and remit the proceeds of such sale to you net of fees, expenses, charges and taxes.

When you request the withdrawal of the shares represented by your Rule 144A GDRs, you will be required to represent and warrant that the withdrawal of the shares complies with the restrictions on transfer set forth in the legend on the GDRs and provide the Depositary with a withdrawal certification stating, *inter alia*, that:

(A) you acknowledge that the shares represented by your Rule 144A GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and

(B) you certify that:

  (1) you are a QIB, acting for your own account or for the account of one or more other QIBs, who is the beneficial owner of the Rule 144A GDRs presented for cancellation; and either:

  - you have sold or agreed to sell the shares to a person (other than a US person, as defined in Regulation S) outside the United States in accordance with Regulation S;
  - you have sold or agreed to sell the shares to a QIB in a transaction meeting the requirements of Rule 144A; or
  - you will be the beneficial owner of the shares upon withdrawal and:
    - you (or the person on whose behalf you are acting) will sell the shares only to another QIB in a transaction meeting the requirements of Rule 144A; to a person (other than a US person, as defined in Regulation S) outside the United States in accordance with Regulation S; in accordance with Rule 144, if available; or pursuant to an effective registration statement under the US Securities Act; and
    - you will not deposit the shares in any depositary receipts facility that is not a "restricted" depositary receipts facility; or

  (2) you are a person (other than a US person, as defined in Regulation S) located outside the United States and acquired or agreed to acquire the shares outside the United States and will be the beneficial owner of the shares upon withdrawal.

Holders of Regulation S GDRs are not required to provide the Depositary with a withdrawal certification under the Regulation S Deposit Agreement, except in the case of an exchange of Rule 144A GDRs for sale of Regulation S GDRs by one of our affiliates. See "—Ownership of GDRs by Our Affiliates" below.

Proofs, Certificates and Other Information

You may be required (1) to provide to the Depositary and the Custodian proof of citizenship or residence, taxpayer status, payment of all applicable taxes or other governmental charges, exchange control approvals, legal or beneficial ownership of GDRs, compliance with all applicable laws and the terms of the Deposit Agreements and (2) to execute certifications and to make representations and warranties and to provide such other information and documentation as the Depositary or the Custodian may deem necessary or proper or as we may reasonably require by written request to the Depositary consistent with its obligations under the Deposit Agreements. The Depositary and the Registrar (as defined in the Deposit Agreements) may withhold the execution or delivery or registration of transfer or cancellation of any GDR Certificate, or the distribution or sale of any dividend or distribution of rights, until such proof or other information is filed or such certifications are executed, or such representations are made, or such other documentation or information is provided, in each case, to the Depositary's, the Registrar's and our reasonable satisfaction.

Ownership of GDRs by Our Affiliates

We permit our affiliates to deposit shares against the issuance of Rule 144A GDRs, so long as they satisfy the requirements, including delivery of the requisite certifications to the Depositary, as required by the Rule 144A Deposit Agreement. We also permit our affiliates to exchange their

Rule 144A GDRs for Regulation S GDRs solely to allow them to sell their GDRs in transactions meeting the requirements of Regulation S, so long as each exchanging affiliate delivers the requisite certifications to the Depositary and otherwise satisfies the requirements of the Deposit Agreements. We do not otherwise permit our affiliates to deposit shares against the issuance of Regulation S GDRs unless they certify to the Depositary that they have sold or irrevocably agreed to sell the Regulation S GDRs to be issued in respect of the shares so deposited in a transaction meeting the requirements of Regulation S, and deliver the other requisite certifications to the Depositary.

The requirements for such deposits and exchanges of GDRs by our affiliates are more fully described in the Deposit Agreements.

Voting Rights

As a holder, you generally have the right under the Deposit Agreements to instruct the Depositary to exercise the voting rights for the shares represented by your GDRs other than when such GDRs shall be deemed to be issued on a provisional basis. See "—Registration of Placement Report." The voting rights of holders of shares are described in "Description of Share Capital and Certain Requirements of Russian Legislation."

Upon our timely written request, and provided no US, English or Russian legal prohibitions (including, without limitation, the listing rules and the prospectus rules of the UK Financial Services Authority, the admission and disclosure standards of the London Stock Exchange and the rules of Russian stock exchanges on which the shares are listed) exist, the Depositary will distribute to you any notice of shareholders' meetings or solicitation of consents or proxies from holders of shares received from us together with information explaining how to instruct the Depositary to exercise the voting rights of the shares represented by the GDRs.

If the Depositary timely receives voting instructions from a holder of GDRs in the manner specified by the Depositary, it will endeavor, insofar as practicable and permitted under applicable law, the provisions of the applicable Deposit Agreement, our charter and the terms of our shares, to vote or cause the Custodian to vote the shares represented by the holder's GDRs in accordance with such voting instructions. Russian securities regulations expressly permit a Depositary to split the vote of shares registered in its name in accordance with the instructions from GDR holders. However, because the Depositary does not have express statutory authority to split the vote with respect to the shares in accordance with instructions from GDR holders, and given the untested nature of such securities regulations, the Depositary may refrain from voting at all unless all GDR holders have instructed it to vote the shares in the same manner. Consequently, you may have significant difficulty in exercising voting rights with respect to the underlying shares. See "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—Your voting rights with respect to the shares represented by the GDRs are limited by the terms of the Deposit Agreements for the GDRs and relevant requirements of Russian law."

Neither the Depositary nor the Custodian will, under any circumstances, exercise any discretion as to voting, vote any number of shares other than an integral number thereof or vote shares in a manner that would be inconsistent with any applicable law, and neither the Depositary nor the Custodian will vote, or attempt to exercise the right to vote, the shares except pursuant to and in accordance with instructions from holders of the GDRs. If the Depositary timely receives voting instructions from a holder of GDRs which fail to specify the manner in which the Depositary is to vote the shares represented by such holder's GDRs, the Depositary will deem the holder to have instructed the Depositary not to vote the shares with respect to the items for which no instruction was given. The shares represented by GDRs for which no specific voting instructions are received by the Depositary from the GDR holder will not be voted.

Notwithstanding anything else contained in the Deposit Agreements, the Depositary shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of the shares if the taking of such action would violate US, English or Russian legal prohibitions (including, without limitation, the listing rules and the prospectus rules of the UK Financial Services Authority, the admission and disclosure standards of the London Stock Exchange and the rules of Russian stock exchanges on which the shares are listed). We have agreed in the Deposit Agreements that we shall not establish internal procedures that would prevent the Depositary from complying with, or that are inconsistent with, the terms and conditions of the sections of the Deposit Agreements which deal with voting.

The ability of the Depositary to carry out voting instructions may be limited by practical, legal and regulatory limitations and the terms of the securities on deposit. We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the Depositary in a timely manner. Securities for which no voting instructions have been received from GDR holders will not be voted. See "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—Your voting rights with respect to the shares represented by the GDRs are limited by the terms of the Deposit Agreements for the GDRs and relevant requirements of Russian law."

Fees and Charges

The holders, the beneficial owners and the persons depositing shares or surrendering GDRs for cancellation agree to pay the following fees of the Depositary:

(1) for the issue of GDRs (other than upon the issue of GDRs pursuant to the initial offering) or the cancellation of GDRs upon the withdrawal of deposited securities: $0.05 or less per GDR issued or cancelled (except for issuances and cancellations covered by paragraph (9) below);

(2) for the issue of GDR Certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR Certificates: a sum per GDR Certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

(3) for issuing GDR Certificates in definitive registered form (other than pursuant to paragraph (2) above): a sum per GDR Certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs (including, but not limited to, printing costs) and expenses involved;

(4) for receiving and paying any cash dividend or other cash distribution on or in respect of the deposited securities: a fee of $0.02 or less per GDR Certificate for each such dividend or distribution;

(5) in respect of any issue of rights or distribution of shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution (except where converted to cash): $0.05 or less per outstanding GDR for each such issue of rights, dividend or distribution;

(6) for the operation and maintenance costs associated with the administration of the GDRs: an annual fee of $0.02 or less per GDR; provided however, that if the Depositary imposes a fee under this paragraph (6), then the total of fees assessed under this paragraph (6), combined with the total of fees assessed under paragraph (4) above, shall not exceed $0.02 per GDR in any calendar year;

(7) for the expenses incurred by the Depositary, the Custodian or their respective agents in connection with inspections of the relevant share register maintained by the local registrar, if applicable: an annual fee of $0.01 or less per GDR (such fee to be assessed against holders of record as at the date or dates set by the Depositary as it sees fit and collected at the sole discretion of the Depositary by billing such holders for such fee or by deducting such fee from one or more cash dividends or other cash distributions);

(8) for the issue of GDRs pursuant to a change for any reason in the number of shares represented by each GDR, regardless of whether or not there has been a deposit of shares to the Custodian or the Depositary for such issuance: a fee of $0.05 or less per GDR (or portion thereof); and

(9) for transferring interests from and between the Regulation S GDRs and the Rule 144A GDRs: a fee of up to $0.05 per GDR.

As a GDR holder you will also be responsible to pay the following charges incurred by the Depositary:

- taxes (including applicable interest and penalties) and governmental charges;
- fees for the transfer and registration of shares charged by the share registrar (*i.e.*, upon deposit and withdrawal of shares);

- fees and expenses incurred for converting foreign currency into US dollars and compliance with exchange control regulations;
- expenses for fax transmissions and for delivery of securities; and
- fees and expenses incurred in connection with the delivery or servicing of shares on deposit.

We have agreed to pay certain other charges and expenses of the Depositary. Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the Depositary. You will receive prior notice of such changes.

Amendments and Termination

We may agree with the Depositary to modify the Deposit Agreements at any time without your prior consent. We undertake to give holders 30 days' prior notice of any modifications that would materially prejudice any of their substantial rights under the Deposit Agreements or that shall impose or increase fees or charges (other than charges in connection with foreign exchange control regulations and taxes and other governmental charges, delivery expenses and other such expenses). We will not consider being materially prejudicial to your substantial rights, among other things, any amendments or supplements that are reasonably necessary for the GDRs to be settled solely in book-entry form, in each case without imposing or increasing the fees and charges you are required to pay. In addition, we may not be able to provide you with prior notice of any amendments or supplements that are required to accommodate compliance with applicable provisions of law.

You will be bound by the modifications to the Deposit Agreements if you continue to hold your GDRs after the modifications to the applicable Deposit Agreements become effective.

The Deposit Agreements cannot be amended to prevent you from withdrawing the shares represented by your GDRs. Notwithstanding any such restriction on amendments or supplements to the Deposit Agreements, we and the Depositary may at any time amend or supplement the Deposit Agreements or the GDR Certificates in order to comply with mandatory provisions of applicable laws, rules or regulations, and such amendments or supplements may become effective before notice thereof is given to holders or within any other period required to comply with such laws, rules or regulations.

We have the right to direct the Depositary to terminate the Deposit Agreements. Similarly, the Depositary may in certain circumstances on its own initiative terminate the Deposit Agreements. In addition, the Depositary may resign, with such resignation to take effect upon the earlier of 90 days notice or the acceptance of appointment by a successor depositary, or we may remove the Depositary, with such removal to take effect upon the later of 90 days notice or the acceptance of appointment by a successor depositary, and if in either such case no successor depositary shall have accepted appointment by us, then the Depositary may terminate the Deposit Agreements. In either case, the Depositary must give notice to the holders of the GDRs at least 30 days before termination.

Upon termination, the following will occur under the Deposit Agreements:

- for a period of six months after termination, you will be able to request the cancellation of your GDRs and the withdrawal of the shares represented by your GDRs and the delivery of all other property held by the Depositary in respect of those shares on the same terms as prior to the termination, including the payment of any applicable taxes or governmental charges. During such six months' period the Depositary will continue to collect all distributions received on the shares on deposit (*i.e.*, dividends) but will not distribute any such property to you until you request the cancellation of your GDRs.
- after the expiration of such six-month period, the Depositary may sell the securities held on deposit. The Depositary will hold uninvested, the net proceeds from such sale and any other funds then held for the pro rata benefit of the holders of GDRs in an unsegregated, non-interest bearing account, without liability for interest. At that point, the Depositary will have no further obligations to holders other than to account for the funds then held for the pro rata benefit of the holders of GDRs still outstanding, net of fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements.

Books of Depositary

The Depositary will maintain GDR holder records at its principal office in New York and, if no book-entry settlement system is available for the relevant GDRs, at its principal office in London as well. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the GDRs and the Deposit Agreements.

The Depositary will maintain facilities in New York and London to record and process the issuance, cancellation, combination, split-up and transfer of GDRs, provided that the transfer of GDRs will only be effected by the Registrar (including the Depositary in its capacity as Registrar). These facilities may be closed from time to time, to the extent not prohibited by law.

Transmission of Notices to Shareholders

We will promptly transmit to the Depositary those communications that we make generally available to our shareholders. If those communications were not originally in English, we will translate them. Upon our request and at our expense, the Depositary will arrange for the mailing of copies of such communications to all GDR holders and will make a copy of such communications available for inspection at its principal offices in New York and London.

Limitations on Obligations and Liabilities

The Deposit Agreements limit our obligations and the Depositary's obligations to you. Please note the following:

- We and the Depositary are obligated only to take the actions specifically stated in the Deposit Agreements without negligence or bad faith.
- Neither we nor the Depositary, nor any of our or their respective controlling persons or agents, shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any shares or in respect of the GDR Certificates, which in our or their respective opinion may involve us or them (as the case may be) in expense or liability, unless an indemnity satisfactory to us or them (as the case may be) against all expense (including fees and disbursements of counsel) and liability be furnished as often as may be required (and no Custodian shall be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depositary).
- The Depositary and its agents disclaim any liability for any failure to carry out any voting instructions to vote any deposited securities, for any manner in which a vote is cast or for the effect of any vote, provided it acts without negligence and in good faith and in accordance with the terms of the Deposit Agreements.
- The Depositary disclaims any liability for any failure to determine the lawfulness or practicality of any action, for the content of any information submitted by us to it for distribution to you or for the accuracy of any translation thereof for any investment risks associated with acquiring an interest in the deposited securities, for the validity or worth of the deposited securities, for any tax consequences that result from the ownership of the deposited securities or the GDRs, for the credit-worthiness of any third party, for allowing any rights to lapse under the terms of the Deposit Agreements or for the failure or timeliness of any of our notices.
- The Depositary and the Custodian disclaim any liability with respect to Russia's system of share registration and custody, including any liability in respect of the unavailability of the deposited securities (or any distribution in respect thereof).
- The Depositary disclaims any liability for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with any matter arising wholly after the removal or resignation of the Depositary, provided that in connection with the issue out of which such potential liability arises the Depositary performed its obligations while it acted as Depositary without negligence or bad faith.
- We, the Depositary and our or the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing will not be obligated to do or perform any act that is inconsistent with the provisions of the Deposit Agreements.

- We, the Depositary and our and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing disclaim any liability if we or the Depositary are prevented or forbidden from or delayed in doing or performing any act or thing required by the terms of the Deposit Agreements by reason of any provision of any present or future law or regulation of any applicable jurisdiction, or of any other governmental authority or regulatory authority or stock exchange, or on account of the possible criminal or civil penalties or restraint, or any present or future provision of our charter, any provision of or governing any deposited securities or by reason of any act of God or war or other circumstances beyond our control (including, without limitation, nationalization, expropriation, currency restrictions, work stoppage, strikes, civil unrest, acts of terrorism, revolutions, rebellions, explosions and computer failure).
- We, the Depositary and our and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreements or in our charter or in any provisions of or governing the deposited securities.
- We, the Depositary and our and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing further disclaim any liability for any action or inaction in reliance in good faith on the advice or information received from legal counsel, accountants, any person presenting shares for deposit, any holder of GDRs, any beneficial owner or authorized representative thereof or any other person believed in good faith to be competent to give such advice or information.
- We, the Depositary and our and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing also disclaim liability for the inability by a holder or any beneficial owner to benefit from any distribution, offering, right or other benefit which is made available to holders of shares but is not, under the terms of the Deposit Agreements, made available to holders of the GDRs.
- We, the Depositary and our respective controlling persons and agents and the Custodian may rely and shall be protected in acting upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.
- We, the Depositary and our and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing also disclaim any liability for indirect, special, consequential or punitive damages for any breach of the terms of the applicable Deposit Agreement.
- The Depositary disclaims liability for any actions taken in accordance with our instructions to take action with respect to the ownership interest of any holder or beneficial owner in excess of the limits applicable to the shares under applicable law or our charter.

Indemnification

The Depositary has agreed to indemnify us and our directors, officers, employees, agents and affiliates against, and hold each of us harmless from, any direct loss, liability, tax, charge or expense of any kind whatsoever (including the reasonable fees and expenses of counsel) which may arise out of acts performed or omitted by the Depositary or the Custodian (provided that the Custodian is a branch or subsidiary of Deutsche Bank AG at the time of such act or omission) under the Deposit Agreements due to the negligence or bad faith of the Depositary or the Custodian.

We have agreed to indemnify the Depositary, the Custodian and any of their respective directors, officers, employees, agents and affiliates against, and hold each of them harmless from, any direct loss, liability, tax, charge or expense of any kind whatsoever (including the reasonable fees and expenses of counsel) that may arise, *inter alia*, (1) out of any issuance, offer or sale of the GDRs or the shares, (2) out of any offering document in respect thereof, except to the extent relating to certain information provided by the Depositary, (3) out of acts performed or omitted in accordance with the provisions of the Deposit Agreements, in any such case by the Depositary, the Custodian or any of their respective directors, officers, employees, agents and affiliates, except to the extent such loss, liability, tax, charge or expense is due to the negligence or bad faith of any of them, or by us or any of our directors, officers, employees, agents and affiliates or (4) out of the unavailability of deposited securities or the failure to make any distribution with respect thereto in the case of certain situations.

Pre-Release Transactions

The Depositary may, in certain circumstances, issue GDRs before receiving a deposit of shares or release shares before receiving GDRs for cancellation. These transactions are ordinarily referred to as "pre-release transactions." The Deposit Agreements limit the aggregate size of pre-release transactions and imposes a number of conditions on such transactions (*i.e.*, the need to receive collateral, the type of collateral required, the representations required from brokers, etc.). The Depositary may retain the compensation received from the pre-release transactions.

Taxes

You will be responsible for the taxes and other governmental charges payable on the GDRs and the securities represented by the GDRs. We, the Depositary and the Custodian may withhold or deduct from any distribution the taxes and governmental charges payable by holders and may sell any and all shares on deposit to pay the taxes and governmental charges payable by holders. You will be liable for any deficiency if the sale proceeds do not cover the taxes that are due. The Depositary may refuse to issue GDRs, to deliver, transfer, split and combine GDRs or to release securities on deposit until all taxes and charges are paid by the applicable holder.

Neither we nor the Depositary or the Custodian are obligated to take any actions to obtain tax refunds or reduced tax withholding for any distributions on your behalf. However, you may be required to provide to the Depositary and to the Custodian proof of taxpayer status and residence and such other information as the Depositary and the Custodian may require to fulfill legal obligations.

The Depositary is under no obligation to provide you with any information about our tax status. The Depositary shall not incur any liability for any tax consequences that may be incurred by you on account of your ownership of the GDRs, including without limitation by virtue of our tax status.

By purchasing GDRs, you agree to indemnify the Depositary, us, the Custodian and any of their or our agents, officers, employees and affiliates for, and to hold each of them and us harmless from, any claims with respect to taxes (including applicable interest and penalties thereon) arising from any tax benefit obtained for you as a GDR holder.

Disclosure of Interests

By purchasing GDRs, you agree to comply with requests from us or the Depositary pursuant to Russian law, the rules and requirements of any stock exchange on which the shares are, or may be, registered, traded or listed, or our charter, which are made to provide information, *inter alia*, as to the capacity in which you hold or own a beneficial interest in the GDRs (and the shares, as the case may be) and regarding the identity of any other person interested in such GDRs, the nature of such interest and various related matters, whether or not you are a holder or owner of a beneficial interest in the GDRs at the time of such request.

Foreign Currency Conversion

The Depositary will arrange for the conversion into US dollars of all foreign currency received if such conversion is in the reasonable judgment of the Depositary practicable, and it will distribute the US dollars in accordance with the terms of the Deposit Agreements. You will have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

The Depositary may, but is not obliged to, make any filing with any governmental authority required to obtain an approval or license necessary for any conversion of any foreign currency into or distribution of US dollar funds. If the conversion of foreign currency is not practicable or lawful, or if any required approvals are denied or, in the reasonable judgment of the Depositary, not obtainable at a reasonable cost or within a reasonable period, the Depositary may take the following actions in its discretion:

- Convert the foreign currency to the extent practicable and lawful and distribute the US dollars to the holders for whom the conversion and distribution is lawful and practicable.
- Distribute the foreign currency to holders for whom the distribution is lawful and practicable.
- Hold the foreign currency (without liability for interest) for the applicable holders.

The Depositary will not invest the currency it cannot convert and it will not be liable for any interest thereon. If exchange rates fluctuate during a time when the Depositary cannot convert the rubles, you may lose some or all of the value of the distribution.

Governing Law and Arbitration of Disputes

Although New York law has been chosen to govern the construction and interpretation of the Deposit Agreements and the GDRs, the rights of holders of the shares and other deposited securities and our obligations and duties in respect of such holders shall be governed by the laws of Russia (or such other jurisdiction's laws as may govern the deposited securities).

Under the terms of the Deposit Agreements owners of GDRs agree that any dispute, controversy or cause of action against us and/or the Depositary arising out of the GDRs, the Deposit Agreements or any transaction contemplated therein, the shares or other deposited securities will be referred to and resolved by arbitration in accordance with the rules of the London Court of International Arbitration in proceedings in London, England, as more fully described in the Deposit Agreements.

EACH PARTY TO THE DEPOSIT AGREEMENTS (INCLUDING, FOR AVOIDANCE OF DOUBT, EACH HOLDER AND BENEFICIAL OWNER) IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THE DEPOSIT AGREEMENTS OR THE TRANSACTIONS CONTEMPLATED THEREIN (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY).

WE IRREVOCABLY AND UNCONDITIONALLY WAIVE, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION THAT WE MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTIONS, SUITS OR PROCEEDINGS BROUGHT IN ANY ARBITRATION OR COURT AS PROVIDED IN THE DEPOSIT AGREEMENTS, AND FURTHER IRREVOCABLY AND UNCONDITIONALLY WAIVE AND AGREE NOT TO PLEAD OR CLAIM IN ANY SUCH ARBITRATION OR COURT THAT ANY SUCH ACTION, SUIT OR PROCEEDING BROUGHT IN ANY SUCH ARBITRATION OR COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

Russian Share Register

We have appointed OJSC Reestr as the registrar of our shares in Russia and we have agreed to continue such appointment so long as the GDRs remain outstanding or any of the Deposit Agreements remain in force.

We have agreed in the Deposit Agreements to:

- take any and all actions reasonably necessary to ensure the accuracy and completeness of all of the information contained in the register of shareholders maintained by the share registrar;
- provide or use our reasonable efforts to cause the share registrar to provide unrestricted access by the Depositary and the Custodian to the register of shareholders regularly (and not less than monthly) so as to permit verification of the registration of shares represented by the GDRs in the name of the Depositary or the Custodian or their respective nominees;
- use our reasonable efforts to cause the share registrar to promptly notify the Depositary (1) of any material and uncured breaches by the share registrar of the terms of the Deposit Agreements and (2) any time the share registrar will no longer be able materially to comply with, or has engaged in conduct that indicates it will not materially comply with, the provisions of the Deposit Agreements relating to it;
- use our reasonable efforts to cause the share registrar to promptly (and, in any event, within three business days in Moscow, Russia of receipt by the share registrar of such documentation as may be required by applicable law and regulation and the reasonable and customary internal regulations of the share registrar, or as soon as practicable thereafter) re-register the shares being deposited into or withdrawn from the GDR facilities; and
- use our reasonable efforts to cause the share registrar to promptly notify the Depositary (1) of any alleged unlawful elimination of shareholders from the shareholder register (or any alleged

unlawful alteration of shareholder records), (2) of any alleged unlawful refusal to register shares and (3) any time the share registrar holds the shares for its own account.

In the Deposit Agreements we have agreed to assume sole liability for:

- any act or failure to act of the share registrar (other than as a result of any act or failure to act by the Depositary or the Custodian or their respective directors, employees, agents or affiliates);
- unavailability of shares on deposit under the terms of the Deposit Agreements; and
- failure of the Depositary to make any distributions contemplated by the Deposit Agreements as a result of our actions or those of our agents, the actions of the share registrar (other than as a result of any act or failure to act by the Depositary or the Custodian or their respective directors, employees, agents or affiliates), and actions of our present or future charter (or other instrument governing the deposited securities), and any provisions of any securities we issue or distribute and any related distribution or offering.

The Depositary has agreed, for the benefit of the owners of GDRs, to confirm not less frequently than monthly, the number of shares identified on the share register as being on deposit pursuant to the terms of the Deposit Agreements. We have agreed with the Depositary that the Custodian shall maintain custody of all duplicate share extracts (or other evidence of verification) provided to the Depositary, the Custodian or their respective agents, and that any known material discrepancies between the records of the Depositary and the Custodian, on the one hand, and the records of the share registrar, on the other hand, will be brought to our attention promptly. We will use our reasonable efforts to cause the share registrar to reconcile any discrepancies and to effectuate the requisite corrections to the share register. In the event we are unable to obtain such reconciliation of records and the discrepancy exceeds 0.5% of the number of shares identified on the records of the Depositary or the Custodian as being on deposit under the terms of any one of the Deposit Agreements, we will give notice thereof to the owners of GDRs (through the Depositary) and the Depositary shall cease issuance of new GDRs until the records have been appropriately reconciled.

US Securities Act and Other Legends

Legends for Rule 144A GDRs

NEITHER THIS RULE 144A GDR CERTIFICATE, NOR THE RULE 144A GDRs EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR CERTIFICATE AND THE RULE 144A GDRs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR CERTIFICATE, THE RULE 144A GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR

(4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GDR MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR THE RULE 144A GDRs.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDRs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

THE COMPANY AND THE DEPOSITARY HAVE AGREED IN THE RULE 144A DEPOSIT AGREEMENT THAT NEITHER THE DEPOSITARY NOR THE CUSTODIAN ASSUMES ANY OBLIGATION OR RESPONSIBILITY TO MAKE ANY PAYMENTS FOR, NOR SHALL EITHER OF THEM BE SUBJECT TO ANY LIABILITY UNDER THE RULE 144A DEPOSIT AGREEMENT OR OTHERWISE FOR NONPAYMENT FOR, THE SHARES ISSUED BY THE COMPANY AND PLACED IN THE INITIAL OFFERING OF SUCH SHARES BY THE COMPANY AND THE SELLING SHAREHOLDERS (INCLUDING ANY EXERCISE BY THE UNDERWRITERS OF AN OVER-ALLOTMENT OPTION IN CONNECTION THEREWITH).

PRIOR TO RECEIPT BY THE DEPOSITARY OF WRITTEN NOTICE FROM THE COMPANY THAT A REPORT ON THE RESULTS OF THE ISSUE OF THE SHARES ISSUED BY THE COMPANY AND PLACED IN THE INITIAL OFFERING BY THE COMPANY HAS BEEN REGISTERED WITH THE RUSSIAN FEDERAL SERVICE FOR THE FINANCIAL MARKETS, THE RULE 144A GDRs REPRESENTED HEREBY ARE ISSUED ON A PROVISIONAL BASIS. PRIOR TO RECEIPT OF SUCH NOTICE, NOTWITHSTANDING ANYTHING IN THIS RULE 144A GDR CERTIFICATE OR THE RULE 144A DEPOSIT AGREEMENT TO THE CONTRARY, THE DEPOSITARY SHALL NOT, EXCEPT AS SPECIFICALLY DESCRIBED BELOW, DELIVER ANY SHARES PURSUANT TO PARAGRAPH 2 OF THIS RECEIPT AND SECTION 2.7 OF THE RULE 144A DEPOSIT AGREEMENT AND THE DEPOSITARY SHALL NOT VOTE, OR CAUSE TO BE VOTED, SECURITIES DEPOSITED THEREUNDER, AND HOLDERS SHALL NOT BE ENTITLED TO GIVE VOTING INSTRUCTIONS, AS CONTEMPLATED BY PARAGRAPH 19 OF THIS RECEIPT AND SECTION 4.10 OF THE RULE 144A DEPOSIT AGREEMENT.

IF A REPORT ON THE RESULTS OF ISSUANCE OF THE SHARES ISSUED BY THE COMPANY AND PLACED IN THE INITIAL OFFERING HAS NOT BEEN REGISTERED WITH THE RUSSIAN FEDERAL SERVICE FOR THE FINANCIAL MARKETS ON OR BEFORE THE DATE WHICH IS 60 DAYS AFTER THE CLOSING DATE FOR SUCH OFFERING (OR SUCH LATER DATE AS THE COMPANY, THE SELLING SHAREHOLDERS AND THE UNDERWRITERS PARTICIPATING IN THE OFFERING MAY AGREE), UPON WRITTEN NOTICE BY THE COMPANY, THE PROCEEDS OF THE PLACEMENT OF THE SHARES SHALL BE RETURNED TO THE DEPOSITARY AND FROM THE TIME OF RECEIPT OF SUCH FUNDS THIS RULE 144A GDR CERTIFICATE WILL REPRESENT THE RIGHT TO RECEIVE A PROPORTIONAL INTEREST IN THE FUNDS SO RECEIVED. THE FUNDS SO RECEIVED BY THE DEPOSITARY IN ANY CURRENCY OTHER THAN U.S. DOLLARS WILL BE CONVERTED INTO U.S. DOLLARS (AT MARKET RATES THEN AVAILABLE) AND DISTRIBUTED TO HOLDERS OF RULE 144A GDRs, IN EACH CASE UPON THE TERMS OF THE RULE 144A DEPOSIT AGREEMENT. THE RULE 144A GDRs WILL BE CANCELLED BY THE DEPOSITARY UPON DISTRIBUTION OF THE PROPORTIONAL INTERESTS IN THE FUNDS SO RECEIVED, CONVERTED (IF NECESSARY) AND DISTRIBUTED TO THE HOLDER OF THIS RULE 144A GDR CERTIFICATE. THE FUNDS SO RECEIVED, CONVERTED (IF NECESSARY) AND DISTRIBUTED TO HOLDERS OF RULE 144A GDRs MAY BE LESS THAN THE PRICE AT WHICH THE RULE 144A GDRs HAVE BEEN SOLD BY

THE COMPANY OR THE SELLING SHAREHOLDERS OR PURCHASED BY THE HOLDER THEREOF, AND MAY BE SUBJECT TO WITHHOLDING TAXES OR DELAYS.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF THE COMPANY IN THE NAME OF DEUTSCHE BANK TRUST COMPANY AMERICAS, AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE. HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA'S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNIZE OR ENFORCE JUDGMENTS OBTAINED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK.

DEUTSCHE BANK TRUST COMPANY AMERICAS, A BANKING CORPORATION ORGANIZED AND EXISTING UNDER THE LAWS OF THE STATE OF NEW YORK, UNITED STATES OF AMERICA, AS DEPOSITARY (THE "DEPOSITARY"), HEREBY CERTIFIES THAT CEDE & CO., AS NOMINEE OF THE DEPOSITORY TRUST COMPANY ("DTC"), IS THE RECORD OWNER OF THE NUMBER OF RULE 144A GDRs INDICATED ON THE RECORDS OF THE DEPOSITARY, REPRESENTING DEPOSITED VALIDLY ISSUED AND FULLY PAID SHARES, OR EVIDENCE OF RIGHTS TO RECEIVE SUCH SHARES ("SHARES"), OF JOINT STOCK COMPANY COMSTAR – UNITED TELESYSTEMS, AN OPEN JOINT STOCK COMPANY ORGANIZED UNDER THE LAWS OF THE RUSSIAN FEDERATION (THE "COMPANY"), AT THE DATE HEREOF, EACH RULE 144A GDR SHALL REPRESENT ONE (1) SHARE DEPOSITED UNDER THE RULE 144A DEPOSIT AGREEMENT (AS HEREINAFTER DEFINED) WITH THE CUSTODIAN, WHICH AT THE DATE OF THE EXECUTION OF THE RULE 144A DEPOSIT AGREEMENT IS DEUTSCHE BANK LTD. (THE "CUSTODIAN").

Legends for Regulation S GDRs

NEITHER THIS REGULATION S GDR CERTIFICATE, NOR THE REGULATION S GDRs EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS REGULATION S GDR CERTIFICATE AND THE REGULATION S GDRs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR CERTIFICATE, THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS REGULATION S GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE REGULATION S GDRs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

THE COMPANY AND THE DEPOSITARY HAVE AGREED IN THE REGULATION S DEPOSIT AGREEMENT THAT NEITHER THE DEPOSITARY NOR THE CUSTODIAN ASSUMES ANY OBLIGATION OR RESPONSIBILITY TO MAKE ANY PAYMENTS FOR, NOR SHALL EITHER OF THEM BE SUBJECT TO ANY LIABILITY UNDER THE REGULATION S DEPOSIT

AGREEMENT OR OTHERWISE FOR NONPAYMENT FOR, THE SHARES ISSUED BY THE COMPANY AND PLACED IN THE INITIAL OFFERING OF SUCH SHARES BY THE COMPANY AND THE SELLING SHAREHOLDERS (INCLUDING ANY EXERCISE BY THE UNDERWRITERS OF AN OVER-ALLOTMENT OPTION IN CONNECTION THEREWITH).

PRIOR TO RECEIPT BY THE DEPOSITARY OF WRITTEN NOTICE FROM THE COMPANY THAT A REPORT ON THE RESULTS OF THE ISSUE OF THE SHARES ISSUED BY THE COMPANY AND PLACED IN THE INITIAL OFFERING BY THE COMPANY HAS BEEN REGISTERED WITH THE RUSSIAN FEDERAL SERVICE FOR THE FINANCIAL MARKETS, THE REGULATION S GDRS REPRESENTED HEREBY ARE ISSUED ON A PROVISIONAL BASIS. PRIOR TO RECEIPT OF SUCH NOTICE, NOTWITHSTANDING ANYTHING IN THIS REGULATION S GDR CERTIFICATE OR THE REGULATION S DEPOSIT AGREEMENT TO THE CONTRARY, THE DEPOSITARY SHALL NOT, EXCEPT AS SPECIFICALLY DESCRIBED BELOW, DELIVER ANY SHARES PURSUANT TO PARAGRAPH 2 OF THIS RECEIPT AND SECTION 2.7 OF THE REGULATION S DEPOSIT AGREEMENT AND THE DEPOSITARY SHALL NOT VOTE, OR CAUSE TO BE VOTED, SECURITIES DEPOSITED THEREUNDER, AND HOLDERS SHALL NOT BE ENTITLED TO GIVE VOTING INSTRUCTIONS, AS CONTEMPLATED BY PARAGRAPH 19 OF THIS RECEIPT AND SECTION 4.10 OF THE REGULATION S DEPOSIT AGREEMENT.

IF A REPORT ON THE RESULTS OF ISSUANCE OF THE SHARES ISSUED BY THE COMPANY AND PLACED IN THE INITIAL OFFERING HAS NOT BEEN REGISTERED WITH THE RUSSIAN FEDERAL SERVICE FOR THE FINANCIAL MARKETS ON OR BEFORE THE DATE WHICH IS 60 DAYS AFTER THE CLOSING DATE FOR SUCH OFFERING (OR SUCH LATER DATE AS THE COMPANY, THE SELLING SHAREHOLDER AND THE UNDERWRITERS PARTICIPATING IN THE OFFERING MAY AGREE), UPON WRITTEN NOTICE BY THE COMPANY, THE PROCEEDS OF THE PLACEMENT OF THE SHARES SHALL BE RETURNED TO THE DEPOSITARY AND FROM THE TIME OF RECEIPT OF SUCH FUNDS THIS REGULATION S GDR CERTIFICATE WILL REPRESENT THE RIGHT TO RECEIVE A PROPORTIONAL INTEREST IN THE FUNDS SO RECEIVED. THE FUNDS SO RECEIVED BY THE DEPOSITARY IN ANY CURRENCY OTHER THAN U.S. DOLLARS WILL BE CONVERTED INTO U.S. DOLLARS (AT MARKET RATES THEN AVAILABLE) AND DISTRIBUTED TO HOLDERS OF REGULATION S GDRS, IN EACH CASE UPON THE TERMS OF THE REGULATION S DEPOSIT AGREEMENT. THE REGULATION S GDRS WILL BE CANCELLED BY THE DEPOSITARY UPON DISTRIBUTION OF THE PROPORTIONAL INTERESTS IN THE FUNDS SO RECEIVED, CONVERTED (IF NECESSARY) AND DISTRIBUTED TO THE HOLDER OF THIS REGULATION S GDR CERTIFICATE. THE FUNDS SO RECEIVED, CONVERTED (IF NECESSARY) AND DISTRIBUTED TO HOLDERS OF REGULATION S GDRS MAY BE LESS THAN THE PRICE AT WHICH THE REGULATION S GDRS HAVE BEEN SOLD BY THE COMPANY OR THE SELLING SHAREHOLDERS OR PURCHASED BY THE HOLDERS THEREOF, AND MAY BE SUBJECT TO WITHHOLDING TAXES OR DELAYS.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF THE COMPANY IN THE NAME OF DEUTSCHE BANK TRUST COMPANY AMERICAS, AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE. HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA'S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNIZE OR ENFORCE JUDGMENTS OBTAINED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK.

DEUTSCHE BANK TRUST COMPANY AMERICAS, A BANKING CORPORATION ORGANIZED AND EXISTING UNDER THE LAWS OF THE STATE OF NEW YORK, UNITED

STATES OF AMERICA, AS DEPOSITARY (THE "DEPOSITARY"), HEREBY CERTIFIES THAT BT GLOBENET NOMINEES LIMITED, AS NOMINEE OF DEUTSCHE BANK AG, LONDON BRANCH, AS COMMON DEPOSITARY FOR EUROCLEAR AND CLEARSTREAM, IS THE RECORD OWNER OF THE NUMBER OF REGULATION S GDRs INDICATED ON THE RECORDS OF THE DEPOSITARY, REPRESENTING DEPOSITED VALIDLY ISSUED AND FULLY PAID SHARES, OR EVIDENCE OF RIGHTS TO RECEIVE SUCH SHARES ("SHARES"), OF JOINT STOCK COMPANY COMSTAR – UNITED TELESYSTEMS, AN OPEN JOINT STOCK COMPANY ORGANIZED UNDER THE LAWS OF THE RUSSIAN FEDERATION (THE "COMPANY"), AT THE DATE HEREOF, EACH REGULATION S GDR SHALL REPRESENT ONE (1) SHARE DEPOSITED UNDER THE REGULATION S DEPOSIT AGREEMENT (AS HEREINAFTER DEFINED) WITH THE CUSTODIAN, WHICH AT THE DATE OF THE EXECUTION OF THE REGULATION S DEPOSIT AGREEMENT IS DEUTSCHE BANK LTD. (THE "CUSTODIAN").

TAXATION

The following discussion describes certain material UK, US federal and Russian income and withholding tax consequences to an owner of shares or GDRs. This discussion is not intended as tax advice to any particular investor. It is also not a complete analysis or listing of all potential UK, US federal or Russian income and withholding tax consequences to you of ownership of shares or GDRs. ***We urge you to consult your own tax adviser regarding the specific UK, US federal, state, local, Russian and other tax consequences of the acquisition, ownership and disposition of the shares or GDRs in your own particular factual circumstances.*** *Unless the context otherwise requires, references to our "shares" refer to our ordinary shares.*

A resident of the United States for purposes of the Convention between the United States of America and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital (the "United States-Russia Tax Treaty") that is fully eligible for benefits under the United States-Russia Tax Treaty and holds the shares or GDRs is referred to herein as a "US holder." Subject to certain provisions of the United States-Russia Tax Treaty relating to limitations on benefits, you generally will be a US holder if you are:

- liable, under the laws of the United States, for US federal income tax (other than taxes in respect only of income from sources in the United States or capital situated therein) by reason of your domicile, residence, citizenship, place of incorporation, or any other similar criterion (and, for income derived by a trust or estate, residence is determined in accordance with the residence of the person liable for tax with respect to such income); and
- not also a resident of the Russian Federation for purposes of the United States-Russia Tax Treaty.

A resident of the United Kingdom for purposes of the Convention between the Government of the Russian Federation and the Government of the United Kingdom and Northern Ireland on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital Gains (the "United Kingdom-Russia Tax Treaty) that is fully eligible for benefits under the United Kingdom-Russia Tax Treaty and holds shares or GDRs is referred to herein as a "UK holder." You will generally be a UK holder if you are:

- liable, under the laws of the United Kingdom, for UK tax (other than taxes in respect only of income or capital gains from sources in the United Kingdom) by reason of your domicile, residence, place of management, or any other similar criterion; and
- not also a resident of the Russian Federation for Russian tax purposes.

The benefits under the United States-Russia Tax Treaty and the United Kingdom-Russia Tax Treaty discussed in this prospectus are not generally available to US or UK persons who hold shares or GDRs in connection with the conduct of a business in the Russian Federation through a permanent establishment as defined in the relevant tax treaty. Subject to certain exceptions, a US or UK person's permanent establishment under the relevant tax treaty is a fixed place of business through which such person carries on business activities in the Russian Federation (generally including, but not limited to, a place of management, a branch, an office and a factory). Under certain circumstances, a US or UK person may be deemed to have a permanent establishment in the Russian Federation as a result of activities carried on in the Russian Federation through agents of the US or UK person. This summary does not address the treatment of those holders.

Investors that are resident in the US or UK for tax purposes and do not have a permanent establishment in the Russian Federation can be US or UK holders if they are the beneficial owners of shares or GDRs.

The following discussion is based on:

- the US Internal Revenue Code of 1986, as amended, the US Treasury regulations promulgated thereunder and judicial and administrative interpretations thereof;
- Russian legislation (in particular, the Tax Code);
- the United States-Russia Tax Treaty (and judicial and administrative interpretations thereof);
- UK tax law and HM Revenue & Customs' published practice; and
- the United Kingdom-Russia Tax Treaty;

all as in effect on the date of this prospectus. All of the foregoing is subject to change, possibly on a retroactive basis, after the date of this prospectus. This discussion is also based, in part, on representations of the Depositary, and assumes that the representations contained in the Deposit Agreements are true, and that each obligation in the Deposit Agreements and any related agreements will be performed in accordance with its terms. The discussion with respect to Russian legislation is based on our understanding of current Russian law and Russian tax rules, which are subject to frequent change and varying interpretations. See "Risk Factors—Risks Relating to the Russian Federation—Legal Risks and Uncertainties—Weaknesses relating to the legal system and legislation create an uncertain environment for investment and business activity" and "—Characteristics of and changes in the Russian tax system could materially adversely affect our business, financial condition, results of operations and prospects and the value of the shares and GDRs."

Certain Russian Tax Law Considerations

Russian tax law and procedures are not well developed, and local tax inspectors have considerable autonomy and often interpret tax rules inconsistently. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax and financial authorities may be subject to more rapid and unpredictable change than in jurisdictions with more developed capital markets.

Taxation of Dividends

Dividends paid to a non-resident holder of our shares generally will be subject to Russian withholding tax, which will be withheld by us acting as a tax agent. The applicable tax rate on dividends will depend on whether the dividend recipient is a legal entity, organization or an individual. Dividends paid to a non-resident holder of shares that is a legal entity or organization generally should be subject to Russian withholding tax at a rate of 15%. Dividends paid to non-resident holders of shares that are individuals should be subject to Russian withholding tax at a rate of 30%.

Withholding tax on dividends may be reduced under the terms of a double tax treaty between the Russian Federation and the country of tax residence of the non-resident holder of our shares. The United States-Russia Tax Treaty provides for reduced withholding rates on dividends paid to US holders who are beneficial owners of the dividends. Under this treaty, a 5% rate applies to dividends paid to US holders that are companies owning 10% or more of the entity's voting shares, and a 10% rate applies to dividends paid to US holders owning less than 10% of the entity's voting shares. The United Kingdom-Russia Tax Treaty provides for a 10% withholding rate on dividends paid to UK holders who are beneficial owners of the dividends and are subject to taxation with respect to these dividends in the United Kingdom.

Notwithstanding the foregoing, treaty relief may not be available to non-resident holders of GDRs. In 2005, the Ministry of Finance expressed an opinion that GDR holders (rather than the Depositary) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that tax residencies of the GDR holders are duly confirmed. However, in the absence of any specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities and courts will ultimately treat the GDR holders in this regard. Moreover, from a practical perspective, it may not be possible for the Depositary to collect residence confirmations from all GDR holders and submit them to us and, in addition, we may be unaware of the exact amount of income payable to each holder.

Therefore, with respect to US or UK holders (legal entities or organizations), we may be obligated to withhold income tax at the rate of 15% from dividend payments made to the Depositary, unless prior to making such dividend payments to the Depositary, we are provided with confirmation that US or UK holders are beneficial owners of dividends within the meaning of the United States-Russia Tax Treaty and the United Kingdom-Russia Tax Treaty, respectively, and all administrative requirements for claiming treaty benefits are met. See "—Tax Treaty Procedures." Although non-resident holders of GDRs may apply for a refund of a portion of the tax withheld under an applicable double tax treaty, the procedure to do so may be time consuming, and we cannot assure you that the Russian tax authorities will grant a refund. See "—Tax Treaty Procedures."

With respect to US or UK holders (individuals) of GDRs, we may also be obligated to withhold income tax at the rate of 15% from dividend payments made to the Depositary. We will not act as a tax agent for US or UK holders (individuals) of GDRs and we will not be able to withhold personal income tax with respect to the above payment. In practice, it may be impossible to apply a beneficial withholding tax rate in advance with respect to payments made in favor of individuals, as documentation is to be first provided to the tax authorities to obtain their approval for the double tax treaty relief. US or UK holders (individuals) of GDRs will then be obliged to submit an annual personal tax return to the Russian tax authorities. When submitting the tax return, US or UK holders (individuals) may claim application of the reduced rates established by the United States-Russia Tax Treaty and the United Kingdom-Russia Tax Treaty, respectively, provided the procedures described in "—Tax Treaty Procedures" below are complied with. Obtaining the respective approvals from the tax authorities may be time-consuming and burdensome. In practice, the 15% tax withheld from payment of dividends to the Depositary may not be refunded by the tax authorities, as the tax authorities will be unlikely to treat the 15% income tax as a tax liability of the individual holders. Therefore, it is possible that the US or UK holders (individuals) may suffer up to a 45% tax burden on their share of dividends.

With respect to US or UK holders of shares (individuals), we will be able to act as a tax agent and withhold personal income tax at a rate of 30%, established for non-residents. Advance treaty relief will not be possible and must be obtained by submitting a tax return and supporting documentation in accordance with the procedures described in "—Tax Treaty Procedures."

Taxation of Capital Gains

Under current Russian legislation, capital gains arising from the sale of shares or GDRs by non-resident holders (legal entities or organizations) should not be subject to tax in Russia if the immovable property located in Russia constitutes 50% or less of our assets. Because the determination of whether 50% or less of our assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis, and because the relevant legislation and regulations are not entirely clear, there can be no assurance that immovable property located in Russia does not currently, or will not, constitute 50% or less of our assets. If more than 50% of our assets were to consist of immovable property located in Russia (unless such shares or GDRs are disposed of at a foreign stock exchange) non-resident holders (legal entities or organizations) may be subject to a 20% withholding tax on the gross proceeds from the sale of shares or GDRs or 24% withholding tax on the capital gain realized from the sale being the difference between the sales price and acquisition and disposal costs of shares or GDRs. However, gains arising from the sale of shares or GDRs by non-resident holders (legal entities or organizations) at foreign stock exchanges should not be subject to taxation in Russia.

According to Russian tax legislation, taxation of income for non-residents (individuals) will depend on whether this income is received from Russian or non-Russian sources. Russian tax law gives no clear indication as to how the sale of shares or GDRs should be treated in this regard; however, the practical approach is to consider the place of sale, *i.e*., the sale of shares or GDRs outside of Russia by non-resident holders (individuals) should not be considered Russian source income and, therefore, should not be taxable in Russia. As there is no definition of what should be considered to be a "sale in Russia," the Russian tax authorities have a certain amount of freedom to conclude what transactions take place in or outside of Russia. The sale of shares or GDRs by non-resident holders (individuals) in Russia will be considered Russian source income and will be subject to tax at the rate of 30% on the amount equal to the sales price minus the acquisition value of shares or GDRs and other documented expenses, such as depositary expenses and broker fees, among others. However, the acquisition value and related expenses can only be deducted at the source of payment if the sale was made by a non-resident holder through a professional dealer or broker that is a Russian legal entity or a foreign company with a registered permanent establishment in Russia. Such professional dealer or broker should also act as a tax agent and withhold the applicable tax. The tax agent will be required to report to the Russian tax authorities on the income realized by the non-resident individual and tax withheld upon the sale of shares or GDRs by April 1 of the year following the reporting year. When a sale is made to other legal entities or individuals, generally no tax withholding needs to be made and the non-resident holder will have an obligation to file an annual tax return, report his or her income realized and apply for a deduction of acquisition expenses (which includes filing of support documentation).

Under the United States-Russia Tax Treaty, capital gains from the sale of shares or GDRs by US holders (individuals, organizations and legal entities) should be exempt from taxation in Russia (unless more than 50% of our assets were to consist of immovable property located in Russia).

Under the United Kingdom-Russia Tax Treaty, capital gains from the sale of shares or GDRs by UK holders (individuals, organizations and legal entities) should be exempt from taxation in Russia (unless the major part of our assets were to consist of immovable property located in Russia, except where respective shares are quoted on an approved stock exchange).

Since the exemption of capital gains from taxation in Russia, provided by both of the above treaties, is not more beneficial for US or UK holders (organizations and legal entities) than the treatment provided by current Russian legislation, it is unlikely that the need will arise for the UK and US holders (organizations and legal entities) to apply the respective treaties in order to obtain more beneficial treatment of capital gains resulting from the sale, exchange or other disposition of shares or GDRs.

Where the shares or GDRs are sold by the US or UK holders (organizations or legal entities) to persons other than a Russian company or a foreign company with a registered permanent establishment in Russia, even if the resulting capital gain is considered taxable Russian source income, there is currently no mechanism under which the purchaser will be able to withhold the tax and remit it to the Russian budget.

With respect to the US holders (individuals) the treatment provided by the United States-Russia Tax Treaty may be more beneficial in cases where the immovable property does not make up for more than 50% of our assets. With respect to the UK holders (individuals), the treatment provided by the United Kingdom-Russia Tax Treaty may be more beneficial as the United Kingdom-Russia Tax Treaty exempts from Russian taxation any gain on the disposition of shares or GDRs quoted on an approved stock exchange.

In order to apply the treaties, the individual holders should receive clearance from the Russian tax authorities as described below in "—Tax Treaty Procedures." However, in practice, application of the respective treaties may be impossible due to the lack of clarity in treatment of GDR holders as beneficial owners and difficulty with the collection of the residence and other confirmations from GDR holders for the Russian tax authorities. See "—Taxation of Dividends."

Tax Treaty Procedures

A non-resident holder, which is a legal entity or organization seeking to obtain relief from Russian withholding tax under a tax treaty, must provide a confirmation of its tax residence that complies with the residence requirements of the applicable double tax treaty in advance of receiving income. In accordance with the Tax Code, a non-resident holder who is an individual must present to the tax authorities a residency certificate issued by the home country tax authorities and a confirmation of the income received and the tax paid off-shore, confirmed by the foreign tax authorities. Technically, such requirement means that an individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her residence. For example, a US holder may obtain the appropriate certification by mailing completed Form 8802, Application for United States Residency Certification, together with any additional information required to: Internal Revenue Service, Philadelphia Service Centre, US Residency Certification Request, P.O. Box 16347, Philadelphia, PA 19114-0447. The procedures for obtaining certification are described in greater detail in Internal Revenue Service Publication 686. Obtaining the required certification from the Internal Revenue Service may take at least six to eight weeks. If the US holder is eligible for certification, he will receive a Form 6166, Certification of United States Residency, upon filing a completed Form 8802 with the Internal Revenue Service.

For individuals, advance relief from withholding taxes will generally be impossible as it is very unlikely that the supporting documentation for the treaty relief can be provided to the tax authorities and approval from the latter obtained before the year end.

If a non-resident does not obtain double tax treaty relief at the time that income or gains are realized and tax is withheld by a Russian payer, the non-resident holder may apply for a refund within three years from the end of the tax period in which the tax was withheld, if the recipient is a legal entity or organization, or within the one-year period from the end of the tax period in which the tax was withheld, if the recipient is an individual. To process a claim of a refund, the Russian tax authorities require (1) a confirmation of the residence of the non-resident holder at the time the income was paid, as required by the tax treaty, (2) an application for refund of the tax withheld, (3) copies of the relevant contracts and payment documents confirming the payment of the tax withheld to the appropriate Russian authorities (Form 1012DT for dividends and interest and 1011DT for other income is designed to combine (1) and (2) for foreign legal entities, and individuals are also required to submit a document issued or approved by the home country tax authorities confirming the amount of income received and taxed in the home country). The Russian tax authorities may require a Russian translation of some documents. The refund of the tax withheld should be granted within one month once the application for the refund and the relevant documents have been filed with the Russian tax authorities. However, in practice, the procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds.

The above-mentioned procedures may be more complicated with respect to GDRs due to separation of legal ownership and beneficial ownership of the Russian shares underlying the GDRs. In 2005, the Ministry of Finance expressed an opinion that GDR holders (rather than the Depositary) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to the taxation of dividends, provided that tax residencies of the GDR holders are duly confirmed. However, in practice, it may not be possible for the Depositary to collect residence confirmations from all GDR holders and submit them to us and, in addition, we may be unaware of the exact amount of income payable to each holder. Moreover, the clarifications of the Ministry of Finance referred only to dividends and did not cover capital gains, which may leave room for various interpretations by the tax authorities. Thus, we cannot assure you that we would be able to apply the respective double tax treaties when paying out income to US and UK holders. See "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—You may not be able to benefit from double tax treaties."

Certain Material United States Federal Income Tax Considerations

TO COMPLY WITH TREASURY DEPARTMENT CIRCULAR 230, YOU ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF US FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THIS PROSPECTUS AND RELATED MATERIALS IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY YOU, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON YOU UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED; (B) ANY SUCH DISCUSSION IS BEING USED IN CONNECTION WITH THE PROMOTION OR MARKETING BY US OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) YOU SHOULD SEEK ADVICE BASED ON YOUR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following is a general description of certain material US federal income tax consequences that apply to you if you are, for US federal income tax purposes, a beneficial owner of GDRs or shares that acquired the GDRs or shares pursuant to this offering for cash and you are a citizen or resident of the United States, a corporation (including any entity treated as a corporation for US federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia, an estate the income of which is subject to US tax regardless of its source, or a trust, if a US court can exercise primary supervision over the administration of such trust and one or more US persons can control all substantial trust decisions or, if such trust has properly elected to be treated as a US person. If a partnership (including any entity treated as a partnership for US federal income tax purposes) is a beneficial owner of GDRs or shares, the US federal income tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Since your US federal income and withholding tax treatment may vary depending upon your particular situation, you may be subject to special rules not discussed below. Special rules will apply, for example, if you are:

- a bank;
- a person holding GDRs or shares through a partnership or other pass-through entity;
- an insurance company;
- a tax-exempt organization;
- a financial institution;
- a person subject to the alternative minimum tax;
- a person who is a broker-dealer in securities;
- an S corporation;

- a US expatriate;
- an owner holding, directly, indirectly or by attribution, 10% or more of the total voting power of the outstanding shares; or
- an owner holding GDRs or shares as part of a hedge, straddle, synthetic security, conversion or integrated transaction.

In addition, this summary is generally limited to persons holding shares or GDRs as "capital assets" within the meaning of Section 1221 of the US Internal Revenue Code and whose functional currency is the US dollar. The discussion below does not address the effect of any US state or local tax law or foreign tax law.

For purposes of US federal income tax law, a holder of a GDR should be treated as the owner of the underlying shares represented by that GDR.

The US Treasury has expressed concerns that parties to whom GDRs are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by US persons for US federal income tax purposes. Such actions would also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non-corporate US persons, as described below. Accordingly, the analysis of the creditability of Russian taxes described below, and the availability of the reduced tax rate for dividends received by certain non-corporate US persons, could be affected by future actions that may be taken by the US Treasury or parties to whom the GDRs are pre-released.

Taxation of Dividends on Shares or GDRs

Subject to the PFIC rules discussed below, for US federal income tax purposes, the gross amount of a distribution, including any Russian withholding taxes, with respect to shares or GDRs will be treated as a taxable dividend to the extent of our current and accumulated earnings and profits, computed in accordance with US federal income tax principles. For taxable years beginning before January 1, 2009, if you are a non-corporate taxpayer, such dividends may be taxed at the reduced rate normally applicable to capital gains, provided (1) certain holding period requirements are satisfied, (2) we are eligible for the benefits of the United States-Russia Tax Treaty and (3) we are not a PFIC for either our taxable year in which the dividend was paid or the preceding taxable year. Non-corporate US holders are strongly urged to consult their tax advisors as to the applicability of the lower capital gains rate to dividends received with respect to GDRs or shares. Distributions in excess of our current or accumulated earnings and profits will be applied against and will reduce your tax basis in shares or GDRs and, to the extent in excess of such tax basis, will be treated as capital gain from a sale or exchange of such shares or GDRs. You should be aware that we do not intend to calculate our earnings and profits for US federal income tax purposes and, unless we make such calculations, you should assume that any distributions with respect to shares or GDRs will constitute ordinary dividend income. If you are a corporation, you will not be allowed a deduction for dividends received in respect of distributions on shares or GDRs, which is generally available for dividends paid by US corporations.

If a dividend distribution is paid in rubles, the amount includible in income will be the US dollar value of the dividend, calculated using the exchange rate in effect on the date the dividend is includible in income by you, regardless of whether the payment is actually converted into US dollars. Any gain or loss resulting from the subsequent conversion of such rubles into US dollars will be treated as US source ordinary income or loss. In addition, you may be required to recognize as ordinary income or loss foreign currency gain or loss on the receipt of a refund of Russian withholding tax to the extent the US dollar value of the refund differs from the US dollar equivalent of that amount on the date of receipt of the underlying dividend.

Russian tax withheld from distributions at the rate applicable to you under the United States-Russia Tax Treaty should be treated as a foreign income tax that, subject to generally applicable limitations and conditions, is eligible for credit against your US federal income tax liability or, at your election, may be deducted in computing taxable income, provided, in each case, that the amounts withheld and paid to Russian tax authorities are treated as satisfying your tax liability. If, however, the holder of a GDR is not treated as the owner of the underlying shares represented by the GDR for US federal income tax purposes, then Russian withholding tax would not be treated as a foreign income tax eligible for credit as described in the preceding sentence. If Russian tax is withheld at a rate in excess of the rate applicable to you under the United States-Russia Tax Treaty, you may not be entitled to credits for the excess amount because such amounts might be treated as recoverable by you for US federal income tax purposes, even though the procedures for claiming refunds and the practical likelihood that refunds will be made available in a timely fashion are uncertain.

A dividend distribution will be treated as foreign source income and will generally be classified as "passive income" or, in some cases, "financial services income" for US foreign tax credit purposes. The recently enacted American Jobs Creation Act of 2004, or the Act, modifies the foreign tax credit limitation by reducing the number of classes of foreign source income to two for taxable years beginning after December 31, 2006. Under the Act, dividends generally constitute "passive category income" but could, in the case of certain US holders, constitute "general category income." If you receive a dividend from us that qualifies for the reduced rate normally applicable to capital gains, as described above, the amount of the dividend taken into account in calculating the foreign tax credit limitation will in general be limited to the gross amount of the dividend, multiplied by the reduced rate divided by the highest rate of tax normally applicable to dividends.

The rules relating to the determination of the foreign tax credit, or deduction in lieu of the foreign tax credit, are complex and you should consult your tax advisors with respect to those rules.

Taxation on Sale or Exchange of Shares or GDRs

Subject to the PFIC rules discussed below, the sale or other taxable disposition of shares or GDRs will generally result in the recognition of capital gain or loss in an amount equal to the difference between the amount realized on the sale and your adjusted basis in such shares or GDRs. Any such gain or loss will be long-term capital gain or loss if the shares or GDRs have been held for more than one year. If you are an individual, such realized long-term capital gain is generally subject to a reduced rate of US federal income tax. Regardless of your actual holding period, any loss may be long-term capital loss to the extent you receive a dividend that qualifies for the reduced rate normally applicable to capital gains, described above under "—Taxation of Dividends on Shares or GDRs" and the dividend exceeds 10% of your basis in the shares. Limitations may apply to your ability to offset capital losses against ordinary income.

If the consideration you receive for the GDR or share is not paid in US dollars, the amount realized will be the US dollar value of the payment received. In general, the US dollar value of such a payment will be determined on the date of receipt of payment if you are a cash basis taxpayer or on the date of disposition if you are an accrual basis taxpayer. However, if the GDRs or shares, as applicable, are traded on an established securities market and you are either a cash basis taxpayer or an accrual basis taxpayer who has made a special election (which must be applied consistently from year to year and cannot be changed without the consent of the Internal Revenue Service), you will determine the US dollar value of the amount realized in a foreign currency by translating the amount received at the spot rate of exchange on the settlement date of the sale. Your tax basis in your GDRs or shares will generally equal the cost of such GDRs or shares, as applicable. If you use foreign currency to purchase GDRs or shares, the cost of the GDRs or shares, as applicable, will be the US dollar value of the foreign currency purchase price on the date of purchase. However, if the GDRs or shares are treated as traded on an established securities market and you are either a cash basis taxpayer or an accrual basis taxpayer who has made a special election (which must be applied consistently from year to year and cannot be changed without the consent of the Internal Revenue Service), you will determine the US dollar value of the cost of such GDRs or shares by translating the amount paid at the spot rate of exchange on the settlement date of the purchase.

A gain realized on the sale of shares or GDRs will generally be treated as US source income and therefore the use of foreign tax credits relating to any Russian taxes imposed upon such sale may be limited. You are strongly urged to consult your own tax advisors as to the availability of tax credits for any Russian taxes withheld on the sale of shares or GDRs under the United States-Russia Tax Treaty.

Deposits and withdrawals of shares by you in exchange for GDRs should not result in the recognition of gain or loss for US federal income tax purposes. Your tax basis in the withdrawn shares will be the same as your tax basis in the GDRs surrendered, and the holding period of the shares will include the holding period of the GDRs.

Passive Foreign Investment Company

We do not expect to be a PFIC for US federal income tax purposes for our current taxable year. Our expectation for our current taxable year ending December 31, 2006 is based in part on our estimates of the value of our assets, as determined by estimates of the price of our shares as of January 20, 2006, and the expected price of the GDRs and our shares following the offering. Our actual PFIC status for the taxable year ending December 31, 2006 will not be determinable until the close of the taxable year ending December 31, 2006. A non-US corporation is considered a PFIC for any taxable year if, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable "look-through rules," either:

- at least 75% of its gross income is passive income, or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income.

The determination must be made each year as to whether we are a PFIC. As a result, our PFIC status may change. In particular, our PFIC status may be determined in large part based on the market price of our GDRs and shares, which is likely to fluctuate after the offering. Accordingly, fluctuations in the market price of the GDRs and shares could result in our being a PFIC for any year. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raise in this offering. If we were a PFIC for any year during which you held GDRs or shares, we generally would continue to be treated as a PFIC for all succeeding years during which you hold GDRs or shares.

If we were a PFIC for any taxable year during which you hold GDRs or shares, you would be required, among other things, (1) to pay a special US addition to tax on certain distributions and gains on the sale or other disposition of the GDRs or shares and (2) to pay tax on certain gains from the sale or other disposition of the GDRs or shares at ordinary income (rather than capital gains) rates in addition to paying the special addition to tax on this gain. Additionally, dividends paid by us would not be eligible for the special reduced rate of tax described above under "—Taxation of Dividends on Shares or GDRs."

If you held GDRs or shares in any year in which we were a PFIC, you would be required to file Internal Revenue Service Form 8621 regarding distributions received on the GDRs or shares and any gain realized on the disposition of the GDRs or shares.

You are urged to consult your tax advisor regarding the potential application of the PFIC rules to your investment in GDRs or shares, and the availability of any applicable elections to eliminate or mitigate the adverse effects of the PFIC rules.

Information Reporting and Backup Withholding

Dividend payments with respect to GDRs or shares and proceeds from the sale, exchange or redemption of GDRs or shares may be subject to information reporting to the Internal Revenue Service and possible US backup withholding at a current rate of 28%. Backup withholding will not apply, however, if you furnish a correct taxpayer identification number and make any other required certification or if you are otherwise exempt from backup withholding (for example, if you are a corporation). Holders who are US persons who are required to establish their exempt status generally must provide such certification on Internal Revenue Service Form W-9. You should consult your tax advisor regarding the application of the US information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your US federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

United Kingdom Tax Considerations

The comments below are of a general nature based on current UK law and HM Revenue & Customs' published practice and only apply to persons who are resident and ordinarily resident in the UK for tax purposes or who carry on a trade profession or vocation through a permanent establishment (including a branch or agency) in the UK to which the shares or GDRs are attributable. They do not necessarily apply where the income is deemed for tax purposes to be the income of persons other than persons who are the absolute beneficial owners of shares or GDRs. In particular these comments do not apply to the following:

- investors who do not hold their shares or GDRs as capital assets;
- investors that own (or are deemed to own) 10% or more of our voting rights or shares (including shares represented by GDRs);
- special classes of investors such as dealers or traders in securities;
- investors who have (or are deemed to have) acquired their shares by virtue of an office or employment; or
- individuals who are resident but not domiciled in the UK and who do not remit income, profit or gain derived from the shares or GDRs to the UK.

Withholding tax on dividends

Dividend payments in respect of shares or GDRs issued by a company organized under the laws of the Russian Federation should not be subject to UK withholding tax. As discussed in "—Certain Russian Tax Law Considerations—Taxation of Dividends," such dividends will be subject to Russian withholding taxes.

Taxation of Dividends

A UK holder of interests in shares or GDRs that receives a dividend on the shares or GDRs may be subject to UK income tax or corporation tax, as the case may be, on the gross amount of any dividend paid before the deduction of any Russian withholding taxes, subject to the availability of any credit for Russian tax withheld.

Taxation of Disposals

The disposal, or part disposal, by a UK holder of interests in shares or GDRs may give rise to a chargeable gain or allowable loss for the purposes of UK taxation of capital gains depending upon the UK holder's particular circumstances (including the availability of exemptions and reliefs and in particular any credit or deduction for any Russian tax withheld, if applicable). See "—Certain Russian Tax Law Considerations—Taxation of Capital Gains."

Stamp Duty

No liability for United Kingdom stamp duty or stamp duty reserve tax will arise on the issue of shares or GDRs to investors.

United Kingdom stamp duty will not normally be payable in connection with a transfer of shares or GDRs, provided that the instrument of transfer is executed and retained outside the United Kingdom, the shareholder register and the GDR register are not held in the United Kingdom and no other action is taken in the United Kingdom by the transferor or transferee.

No United Kingdom stamp duty reserve tax will be payable in respect of any agreement to transfer shares or GDRs, provided that shares or GDRs are not registered in a register kept in the United Kingdom by us or on our behalf.

SUBSCRIPTION AND SALE

Description of the Distribution

We, the Selling Shareholder and the Underwriters named below have entered into the Underwriting Agreement dated February 7, 2006 with respect to the shares and the shares represented by the GDRs being offered. Subject to the satisfaction of certain conditions set out in the Underwriting Agreement, each Underwriter has agreed, severally but not jointly, to subscribe for or purchase the shares and the shares represented by the GDRs, and pay for such number of shares and/or GDRs as are set forth opposite its name in the following table.

	Number of Shares		
Underwriters	**Comstar UTS (in the form of GDRs)**	**Selling Shareholder**	**Total**
Deutsche Bank AG[1]	41,700,000	2,250,000	43,950,000
Goldman Sachs International[2]	41,700,000	2,250,000	43,950,000
Renaissance Securities (Cyprus) Limited[3]	41,700,000	2,250,000	43,950,000
Dresdner Bank AG London Branch[4]	6,950,000	375,000	7,325,000
ING Bank N.V., London Branch[5]	6,950,000	375,000	7,325,000
Total	139,000,000	7,500,000	146,500,000

(1) Deutsche Bank AG is an international investment bank. Its offices in London are located at Winchester House, Great Winchester Street, London EC2N 2DB, United Kingdom.

(2) Goldman Sachs International is an international investment bank. Its offices are located at Peterborough Court, 133 Fleet Street, London EC4A 2BB, United Kingdom.

(3) Renaissance Securities (Cyprus) Limited is a private limited company. Its offices are located at 2-4 Archbishop Makarios III Avenue, Capital Center, 9th Floor, Nicosia 1505, Cyprus.

(4) Dresdner Bank AG London Branch is authorized by the German Federal Financial Supervisory Authority and by the Financial Services Authority; regulated by the Financial Services Authority for the conduct of designated investment business in the United Kingdom and incorporated in Germany with limited liability. Its offices are located at 2 Swan Lane, London EC4R 3UX, United Kingdom.

(5) ING Bank N.V., London Branch is a global financial institution of Dutch origin offering banking, insurance and asset management to more than 60 million clients in over 50 countries. Its offices are located at ING House, Amstelveenseweg 500, 1081 KL Amsterdam, The Netherlands.

The GDRs will be represented by a Master Rule 144A GDR and a Master Regulation S GDR, and will be subject to certain restrictions as further discussed in "Description of the Global Depositary Receipts."

The offer price is $7.25 per share and per GDR. The Underwriters will receive a combined management and underwriting commission of 0.7% and a selling commission of 1.05%. In addition, the Underwriters will receive an incentive fee of 1.00%. The total commissions and incentive fee will be approximately $29.2 million.

We estimate that the total expenses of the offering, other than commissions, will be approximately $4.1 million.

We have provided the Underwriters customary representations and warranties under the Underwriting Agreement, including in relation to our business, the shares and GDRs and the contents of this prospectus. The Selling Shareholder has provided the Underwriters with customary representations and warranties under the Underwriting Agreement, including in relation to its title to the shares it is selling in the offering.

The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent. In addition, the Joint Global Coordinators, on behalf of the Underwriters, may terminate the Underwriting Agreement in certain circumstances prior to the Closing Date. We and the Selling Shareholder have agreed in the Underwriting Agreement, subject to its terms, to indemnify the Underwriters against certain liabilities in connection with the sale of the shares and the GDRs. In addition, we have agreed to reimburse the Underwriters for certain of their expenses.

Limitations Prior to Registration of Placement Report and Consequences of Non-registration

In the event that the placement report is not registered by the FSFM within 60 days after the Closing Date (or such later date to which we and the Selling Shareholder agree with the Underwriters), we will issue a press release and notify the Depositary and the London Stock Exchange. Under Russian law, in the case of non-registration of the placement report we are required to return the full amount of ruble proceeds that were initially deposited into our ruble-denominated account on the Closing Date. Such ruble amount will be converted into US dollars for remittance to the holders of the GDRs. We have agreed in the Underwriting Agreement that we will pay such additional amounts (if any) as may be necessary to ensure that the US dollar funds received by the Depositary for remittance to the holders of GDRs will be equal to the gross US dollar proceeds received from the sale of GDRs, except for the underwriting commissions related to the GDRs, which the Underwriters have agreed to return. The Depositary will promptly distribute through DTC, Euroclear and Clearstream, as applicable, the funds it has received to the holders of the GDRs. The amount returned to the holders of the GDRs is expected to be equal to the gross proceeds (without interest) of the offering of GDRs, regardless of the then-prevailing market prices for the GDRs, subject to applicable withholding taxes. However, the return of funds may be delayed due to Russian currency control, banking and securities regulations or practices and may be prevented if there is a change in such regulations or practices. In addition, the holders of the GDRs will be taking credit risk on us and the Underwriters for the return of funds in the event that the placement report is not registered. We have agreed with the Underwriters that we will not use the proceeds of the offering until the placement report is registered.

Until the registration of the placement report, all GDRs will be issued on a provisional basis and holders of GDRs will not be entitled to instruct the Depositary to exercise any voting rights on their behalf, and neither the Depositary nor the Custodian will exercise any voting rights as a shareholder. Holders of GDRs may not withdraw the shares or other property on deposit with the Depositary in respect of the GDRs sold in the offering prior to the registration of the placement report. Such limitation on withdrawal and voting of the shares will not prohibit trading in the GDRs. Also, following the Closing Date, no additional shares will be accepted for deposit and no additional GDRs in respect of such shares will be issued until the placement report is registered. The shares being offered by the Selling Shareholder will not be cancelled, and the proceeds of the offering of the shares by the Selling Shareholder will not be returned, in case the placement report is not registered.

See "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—GDR holders will not be able to withdraw the shares underlying the GDRs prior to the registration of a placement report for the newly issued shares, and the failure to register this placement report could result in the newly issued shares underlying the GDRs being cancelled, reliance by GDR holders on us and the Underwriters to return the offering proceeds and a small public float based solely on the shares sold by the Selling Shareholder."

Lock up Arrangements

We, the Selling Shareholder, Sistema and MGTS have agreed, subject to certain exceptions, not to issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of, directly or indirectly, any shares in us or securities convertible or exchangeable into or exercisable for any shares in us or warrants or other rights to purchase such shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or GDRs representing the right to receive any such securities or publicly announce any intention to do any of the foregoing, from the date hereof until 180 days from the Closing Date, without the prior written consent of the Joint Global Coordinators. However, such consent shall not be required for the sale of the shares to the Underwriters pursuant to the Underwriting Agreement.

Selling Restrictions

United States

The shares and the GDRs have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act.

In addition, until 40 days after the commencement of the offering of the shares and GDRs, an offer or sale of shares or GDRs within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

The Underwriters propose to offer the shares (1) in the form of shares and GDRs to investors outside the United States in accordance with Regulation S and (2) in the form of GDRs through the US selling agents of certain of the Underwriters, only to QIBs in the United States in accordance with Rule 144A. Each of the Underwriters has agreed that, except as permitted in the Underwriting Agreement, it will not offer, sell or deliver shares or GDRs within the United States.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date), an offer of shares or GDRs to the public which are the subject of the offering contemplated by this prospectus may not be made to the public in that Relevant Member State prior to the publication of a prospectus in relation to the shares or the GDRs which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of shares or GDRs to the public in that Relevant Member State at any time:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Global Coordinators for any such offer; or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive.

Provided that no such offer of shares or GDRs shall result in a requirement for the publication by Comstar UTS or any Underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive or any measure implementing the Prospectus Directive in a Relevant Member State and each person who initially acquires any shares or GDRs to whom any offer is made under the offering will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive.

In the case of any shares or GDRs being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the shares or GDRs acquired by it have not been acquired other than on a discretionary basis, where that fact means that the offer to the financial intermediary is deemed to be an offer to a qualified investor on behalf of, nor have they been acquired with a view to their offer or resale, to persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Joint Global Coordinators has been given to the offer or resale. Comstar UTS, the Underwriters and their affiliates, and others will rely (and Comstar UTS acknowledges that the Underwriters and their affiliates and others will rely) upon the truth and accuracy of the foregoing representations, acknowledgements and agreements. Notwithstanding the above, a person who is not a qualified investor and who has notified the Joint Global Coordinators of such fact in writing may, with the consent of the Joint Global Coordinators, be permitted to subscribe for or purchase shares or GDRs.

The Underwriters may rely on the truth and accuracy of the foregoing representations, acknowledgements and agreements and will not be responsible for any loss occasioned by such reliance.

For the purposes of this provision, the expression an "offer of shares or GDRs to the public" in relation to any shares or GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares or the GDRs to be offered so as to enable an investor to decide to purchase or subscribe the shares or the GDRs, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each of the Underwriters has represented and agreed that: (1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any shares or GDRs in circumstances in which section 21(1) of the FSMA does not apply to us and (2) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares or the GDRs in, from or otherwise involving the United Kingdom.

Japan

The securities offered hereby have not been and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law"). Accordingly, the Underwriters have represented, warranted and agreed that the shares and the GDRs which it subscribes will be subscribed by it as principal and that, in connection with the offering made hereby, it will not, directly or indirectly, offer or sell any shares or GDRs in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan.

Russia

Each of the Underwriters has acknowledged that no Russian prospectus has been registered or is intended to be registered with respect to the GDRs and the GDRs have not been and are not intended to be registered in the Russian Federation and, consequently, it has represented and agreed that it has not offered or sold or otherwise transferred and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter any GDRs to, or for the benefit of, any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law. It is understood and agreed that the Underwriters or their affiliates may distribute the prospectus to persons in the Russian Federation in a manner that does not constitute an "advertisement" (as defined under Russian law) of GDRs and may resell GDRs to Russian persons in a manner that does not constitute "placement" or "public circulation" of the GDRs in the Russian Federation (as defined under Russian law).

General

Neither we nor the Underwriters, nor any person acting on our or the Underwriters' behalf, have taken or will take any action in any jurisdiction that would permit a public offering of the shares or the GDRs, or the possession, circulation or distribution of this prospectus or any other material relating to us or the shares and the GDRs, in any jurisdiction where action for such purpose is required.

Accordingly, the shares and the GDRs may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisement in connection with such securities be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

No dealer, salesperson or other person has been authorized to give any information or to make any representation not contained in this prospectus, and, if given or made, such information or representation must not be relied upon as having been authorized by us or any Underwriter. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date hereof or that the information contained in this prospectus is correct as of a date after its date.

Other

The Underwriters and their respective affiliates have engaged in transactions with and performed various investment banking, financial advisory and other services for us and for our affiliates, for which they received customary fees, and the Underwriters and their respective affiliates may provide such services for us or for them in the future.

On December 20, 2005, Sistema entered into a share repurchase transaction with Deutsche Bank AG (acting through its London Branch) pursuant to which Sistema sold 30,530,000 shares of Comstar UTS to Deutsche Bank AG in accordance with the terms of The Bond Market Association/ International Securities Market Association (TBMA/ISMA) Global Master Repurchase Agreement (November 2000 version) and related confirmation. The purchase price of the shares was $132.0 million and following the transaction, Sistema owned directly and indirectly 89.06% of Comstar UTS. Pursuant to the terms of the agreement, the shares will be repurchased by Sistema no later than February 22, 2006.

Deutsche Bank Trust Company Americas, which is an affiliate of Deutsche Bank AG, has been appointed by us to act as Depositary in connection with the issuance of the GDRs. Deutsche Bank Trust Company Americas is a wholly owned subsidiary of Deutsche Bank Trust Corporation, a registered bank holding company which is a wholly owned subsidiary of Deutsche Bank AG.

SETTLEMENT AND DELIVERY

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

DTC

DTC has advised us as follows: DTC is a limited-purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerized book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant US tax laws and regulations. See "Taxation—Certain Material United States Federal Income Tax Considerations."

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream will be represented by the Master Regulation S GDR Certificate registered in the name of BT Globenet Nominees Limited as a nominee of Deutsche Bank AG, London Branch, as common depositary for Euroclear and Clearstream. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR Certificate registered in the name of Cede & Co., as nominee for DTC, which will be held by the Depositary as custodian for DTC. As necessary, the Registrar will adjust the amounts of

GDRs on the relevant register for the accounts of the common nominee and nominee, respectively, to reflect the amounts of GDRs held through Euroclear, Clearstream and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common nominee for Euroclear and Clearstream and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from us for holders holding through Euroclear and Clearstream are credited to Euroclear or Clearstream, as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from us for holders holding through DTC are received by DTC. The address for DTC is P.O. Box 5020, New York, New York 10274, United States. The address for Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address for Clearstream is 42 Avenue J.F. Kennedy, L-1855 Luxembourg, Luxembourg.

We will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreements.

Settlement and Delivery of Shares

Each purchaser of the shares in the offering is required to pay for any shares in US dollars or rubles, as the case may be, within two business days after share delivery. In order to take delivery of the shares, potential purchasers will be required to have a depo account at one or more depositaries designated by the Underwriters. Upon taking delivery of the shares, purchasers may choose to hold the shares through a direct account with our share registrar; however, directly-held shares are ineligible for trading on the Moscow Stock Exchange. In addition, in order to trade your shares on the Moscow Stock Exchange, you may have to further transfer your shares to an account at a different depositary.

Global Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the two Global Master GDRs. Purchasers electing to hold book-entry interests in the GDRs through Euroclear and Clearstream accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

Secondary Market Trading

Transfer Restrictions

For a description of the transfer restrictions relating to the GDRs, see "Description of the Global Depositary Receipts—Transfer Restrictions" and "Subscription and Sale—Selling Restrictions."

Trading between Euroclear and Clearstream Participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC Participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in US dollars, or free of payment, if payment is not effected in US dollars. Where payment is not effected in US dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC Seller and Euroclear/Clearstream Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, as the case may be, to credit the relevant account of the Euroclear or Clearstream participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (1) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate and (2) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Master Regulation S GDR Certificate.

Trading between Clearstream/Euroclear Seller and DTC Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream participant to the account of a DTC participant, the Euroclear or Clearstream participant must send to Euroclear or Clearstream a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant, as the case may be. On the settlement date, Euroclear or Clearstream, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, as the case may be, shall on the settlement date instruct the Depositary to (1) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR Certificate and (2) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream and DTC, none of Euroclear, Clearstream or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of us, the Underwriters, the Depositary, the Custodian or our or their respective agents will have any responsibility for the performance by Euroclear, Clearstream or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is Deutsche Bank Trust Company Americas. Deutsche Bank Trust Company Americas was incorporated on March 5, 1903 as a bank with limited liability in the State of New York and is an indirect wholly owned subsidiary of Deutsche Bank AG. The Depositary is subject to regulation and supervision by the New York State Banking Department, the Federal Reserve Board and the Federal Deposit Insurance Corporation. The registered office of the Depositary is located at 60 Wall Street, New York, New York 10005 and the registered number is BR1026. A copy of the Depositary's By-laws, as amended, together with copies of the most recent financial statements and annual report of the Depositary will be available for inspection at the principal administrative establishment of the Depositary located at 60 Wall Street, DR Department, 25th Floor, New York, New York 10005 and at the office of the Depositary located at Winchester House, 1 Great Winchester Street, London EC2N 2DB. Such information will be updated as long as the GDRs are admitted to listing on the Official List.

LEGAL MATTERS

Certain legal matters with respect to the offering will be passed upon for us by Latham & Watkins, London, England and Latham & Watkins LLP, New York, New York and by Liniya Prava, Moscow, Russian Federation. Certain legal matters with respect to the offering will be passed upon for the Underwriters by Linklaters, London, England and Linklaters CIS, Moscow, Russian Federation.

INDEPENDENT AUDITORS

The combined financial statements of Comstar UTS and its subsidiaries as of and for the years ended December 31, 2002, 2003 and 2004 have been audited by ZAO Deloitte & Touche CIS, independent auditors, Business Center "Mokhovaya," 4/7 Vozdvizhenka Street, Bldg. 2, Moscow 125009, Russian Federation.

GENERAL INFORMATION

1. It is expected that the GDRs will be admitted, subject only to the issue of the Master Regulation S GDR and the Master Rule 144A GDR, to the Official List on or about February 13, 2006. Application has been made for the GDRs to be traded on the London Stock Exchange. Prior to admission to the Official List, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction. A copy of this prospectus has been delivered to the Registrar of Companies in England and Wales, as required by Section 83 of the FSMA.
2. The issue of the shares underlying the GDRs being offered was authorized by the extraordinary shareholders meeting of Comstar UTS held on December 23, 2005, and the issuance of the shares was registered with the FSFM on January 17, 2006. As further described in "Registration of Placement Report," we must register a placement report with the FSFM with respect to these shares after the offering.
3. We have obtained all consents, approvals and authorizations in Russia in connection with the issue of the GDRs (except for the registration of the placement report with the FSFM which, in accordance with Russian law, will be applied for upon the completion of the placement).
4. Copies of the following documents will be available for inspection free of charge, during normal business hours on any weekday, at the offices of Deutsche Bank AG, Winchester House, Great Winchester Street, London ECN 2DB, United Kingdom or 14 days from the date of this prospectus:
   - the prospectus;
   - our charter (English translation);
   - the Deposit Agreements;
   - our combined financial statements as of and for the years ended December 31, 2002, 2003 and 2004, together with the auditors' report relating thereto; and
   - our unaudited combined financial statements as of September 30, 2005 and for the nine-month period then ended.
5. If definitive certificates are issued in exchange for the Master GDRs, Comstar UTS will appoint an agent in the United Kingdom.
6. The CUSIP for the Regulation S GDRs is 47972P208, the ISIN for the Regulation S GDRs is US47972P2083, the Common Code for the Regulation S GDRs is 024134113 and the SEDOL Code is B0WHW35. The CUSIP for the Rule 144A GDRs is 47972P109, the ISIN for the Rule 144A GDRs is US47972P1093, the Common Code for the Rule 144A GDRs is 024134156 and the SEDOL Code is B0WHVY9. The ISIN for the shares is RU000A0H1BE9.
7. There has been no significant change in our financial or trading position since September 30, 2005, the end of the last financial period for which interim financial information has been published, except as set forth in "Business—The Restructuring" on pages 93–94 and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments" on pages 44–45.
8. Industry data in "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Industry" and "Business" attributed to Pyramid Research therein has been sourced from Pyramid Research's "Russian Fixed-Line Market Study," November 2005 and attributed to Direct INFO therein has been sourced from Direct INFO's "Overview of the fixed line communication data transmission and Internet market in Moscow," November 2005. We confirm that this information has been accurately reproduced and that as far as we are aware and able to ascertain from information published by these third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

9. The following table sets forth the registered offices of our key subsidiaries:

Name	Jurisdiction of Incorporation	Business	Registered Office
MGTS	Russia	Traditional Fixed Line	12, Petrovskiy Boulevard, Building 3, Moscow 127994, Russian Federation
MTU-Intel	Russia	Alternative Fixed Line	27, Smolenskaya-Sennaya Square, Building 2, Moscow 119121, Russian Federation
MTU-Inform	Russia	Alternative Fixed Line	27, Smolenskaya-Sennaya Square, Building 2, Moscow 119121, Russian Federation
Telmos	Russia	Alternative Fixed Line	15, Zemledelchesky Pereulok, Moscow 119121, Russian Federation
Golden Line	Russia	Alternative Fixed Line	51/4, Schepkina Street, Building 1, Moscow 129110, Russian Federation
United TeleSystems MGTS	Russia	Holding company	27, Smolenskaya-Sennaya Square, Building 2, Moscow 119121, Russian Federation

10. The GDRs are not denominated in any currency and have no nominal or par value. The offer price was determined based on the results of the bookbuilding exercise conducted by the Joint Global Coordinators. The results of the offering will be made public by us through a press release and notice to the Regulatory Information Service promptly upon the closing of the offering.

11. Holders of GDRs may contact Deutsche Bank Trust Company Americas, as depositary for the GDRs (Attn: Broker Services, Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom, tel. +44 207 547 6500) with questions relating to the transfer of GDRs on the books of the depositary, which shall be maintained at the Depositary's corporate trust office at 60 Wall Street, New York, New York 10005, United States (tel. +1 212 250 9100).

12. Set forth below are summaries of each material contract, other than contracts entered into in the ordinary course of business, to which we are a party, for the two years immediately preceding publication of the prospectus, or any other contracts, other than contracts entered into in the ordinary course of business, entered into by us, which contain any provisions under which we have any obligation or entitlement material to us at the date of this prospectus.

    Material Loan and Credit Agreements:

    The Credit Facility Agreement dated January 30, 2006, between MGTS and ZAO Raiffeisenbank Austria, pursuant to which MGTS may borrow up to $7.9 million at an interest rate of LIBOR+3.5% per annum, payable in October 2009. The loan will be secured by the equipment of MGTS pursuant to pledge agreements entered into at the time funds are drawn under the Credit Facility Agreement.

    The Syndicated Credit Facility Agreement dated January 12, 2006, among Comstar UTS, ING Bank (Eurasia) ZAO, ZAO ABN AMRO BANK A.O. and ZAO International Moscow Bank, pursuant to which we obtained a $65 million loan at an interest rate of LIBOR+1.40% per annum, payable in January 2007. The loan is secured by MTU-Inform and Telmos pursuant to two suretyship agreements each dated January 12, 2006.

    The Credit Facility Agreement dated September 8, 2005, between Comstar UTS and ZAO ABN AMRO BANK A.O., pursuant to which Comstar UTS may borrow up to $20 million at an interest rate of LIBOR+2.75% per annum as of January 11, 2006, payable in September 2007. The loan is secured by MTU-Inform pursuant to a suretyship agreement dated September 8, 2005.

    The Loan Agreement dated July 14, 2005, between Sistema Multimedia and MBRD, pursuant to which Sistema Multimedia obtained a $5 million loan at an interest rate of 11% per annum, payable in July 2010. The loan is secured by Sistema pursuant to a suretyship agreement dated July 14, 2005.

    The Loan Agreement dated March 28, 2005, between MGTS and OJSC Vneshtorgbank, as modified by the supplemental agreement dated August 8, 2005, pursuant to which MGTS obtained a €5.2 million loan at an interest rate of Euribor+5.0% per annum, payable in ten equal semi-annual installments by September 2010. This loan is secured by the equipment of MGTS valued at €4.7 million pursuant to a pledge agreement dated July 18, 2005.

The Credit Facility Agreement dated December 31, 2004, between MGTS and Citibank A.S. (Prague), pursuant to which MGTS obtained a $8.5 million loan at an interest rate of LIBOR+1.6% per annum, payable in eight equal semi-annual installments from June 2006 to December 2009. The facility is guaranteed by the Export Guarantee and Insurance Corporation of the Czech Republic. The facility is collateralized by the pledge of equipment of MGTS valued at $7.4 million pursuant to a pledge agreement dated December 31, 2004, between MGTS and Citibank A.S. (Prague).

The Letter of Credit dated December 3, 2004, between MGTS and OJSC Vneshtorgbank, pursuant to which MGTS may borrow up to €4.7 million at an interest rate of 8.5% per annum if MGTS provides at least 14 days notice to Vneshtorgbank prior to drawing on the line of credit, or 13% per annum if MGTS provides less than 14 days notice to Vneshtorgbank. The letter of credit is payable in March 2007. This letter of credit is secured by the equipment of MGTS valued at €3.5 million pursuant to a pledge agreement dated July 7, 2005.

The Loan Agreement dated November 15, 2004, between Sistema Multimedia and Commerzbank Belgium S.A./N.V., pursuant to which Sistema Multimedia obtained a €5.5 million loan at an interest rate of 3.75% per annum, payable in ten equal semi-annual installments by October 2010. The loan is secured by Sistema pursuant to a guarantee agreement dated November 15, 2004.

The Credit Line Agreement dated September 15, 2004, between MGTS and OJSC AKB Sberbank, pursuant to which MGTS obtained a 600 million ruble loan at a floating interest rate depending on the gross cash flow on MGTS' account opened at Sberbank, payable in March 2007. This loan is secured by the pledge of promissory notes of MGTS valued at 620 million rubles pursuant to a pledge agreement dated February 4, 2005, as modified by the supplemental agreement dated June 6, 2005.

The Credit Facility Agreement dated August 5, 2004, between MGTS and Citibank A.S. (Prague), pursuant to which MGTS obtained a $3.2 million loan at an interest rate of LIBOR+1.6% per annum, payable in eight equal semi-annual installments from February 2006 to August 2009. The facility is guaranteed by the Export Guarantee and Insurance Corporation of the Czech Republic. The facility is collateralized by a pledge of equipment of MGTS valued at $1.1 million pursuant to a pledge agreement dated August 5, 2004, between MGTS and Citibank A.S. (Prague) and secured by the pledge of bank account rights valued at $3.7 million pursuant to an agreement on the pledge of bank account rights among MGTS, Citibank A.S. (Prague) and ZAO KB Citibank dated August 5, 2004.

The Loan Agreement dated July 16, 2004, between MGTS and OJSC Vneshtorgbank, pursuant to which MGTS may obtain a €4.2 million loan at an interest rate of the higher of Euribor+5.4% or 7.5% per annum, payable in ten equal semi-annual installments by January 2010. This loan is secured by the equipment of MGTS valued at €3.5 million pursuant to a pledge agreement dated November 11, 2004.

The Loan Agreement dated July 16, 2004, between MGTS and OJSC Vneshtorgbank, pursuant to which MGTS may obtain a €3.0 million loan at an interest rate of the higher of Euribor+5.4% or 7.5% per annum, payable in ten equal semi-annual installments by January 2010. This loan is secured by the equipment of MGTS valued at €2.5 million pursuant to a pledge agreement dated November 11, 2004.

The Loan Agreement dated April 19, 2004, between MGTS and OJSC Vneshtorgbank, pursuant to which MGTS may obtain a €1.5 million loan payable in July 2006 at an interest rate of either 11.5% or 17% per annum depending on the date in which MGTS informs Vneshtorgbank that it is seeking payment under a letter of credit. This loan is secured by the equipment of MGTS valued at €1.1 million pursuant to a pledge agreement dated August 13, 2004.

The Loan Agreement dated April 19, 2004, between MGTS and OJSC Vneshtorgbank, pursuant to which MGTS may obtain a €0.7 million loan payable in July 2006 at an interest rate of either 11.5% or 17% per annum depending on the date in which MGTS informs Vneshtorgbank that it is seeking payment under a letter of credit. This loan is secured by the equipment of MGTS valued at €0.4 million pursuant to a pledge agreement dated August 13, 2004.

The Loan Agreement dated April 19, 2004, between MGTS and OJSC Vneshtorgbank, pursuant to which MGTS may obtain a €1.1 million loan payable in July 2006 at an interest rate of either 11.5% or 17% per annum depending on the date in which MGTS informs Vneshtorgbank that it is seeking payment under a letter of credit. This loan is secured by the equipment of MGTS valued at €0.8 million pursuant to a pledge agreement dated October 22, 2004.

The Credit Facility Agreement dated February 23, 2004, between MGTS and Citibank A.S. (Prague), pursuant to which MGTS obtained a $6.3 million loan at an interest rate of LIBOR+1.6% per annum, payable in eight equal semi-annual installments from August 2005 to February 2009. The facility is guaranteed by the Export Guarantee and Insurance Corporation of the Czech Republic. The facility is collateralized by the pledge of equipment of MGTS valued at $3.1 million pursuant to a pledge agreement dated February 23, 2004, between MGTS and Citibank A.S. (Prague) and secured by the pledge of bank account rights valued at $1.0 million pursuant to an agreement on the pledge of bank account rights among MGTS, Citibank A.S. (Prague) and ZAO KB Citibank dated February 23, 2004.

The Credit Facility dated July 30, 2003, between MGTS and Citibank A.S. (Prague), pursuant to which MGTS obtained a $7.1 million loan at an interest rate of LIBOR+1.6% per annum, payable in eight equal semi-annual installments from January 2005 to July 2008. The facility is guaranteed by the Export Guarantee and Insurance Corporation of the Czech Republic. The facility is collateralized by the pledge of equipment of MGTS valued at $5.4 million pursuant to a pledge agreement dated July 30, 2003, between MGTS and Citibank A.S. (Prague) and secured by the pledge of bank account rights valued at $1.0 million pursuant to an agreement on pledge of bank account rights among MGTS, Citibank A.S. (Prague) and ZAO KB Citibank dated July 30, 2003.

The Loan Agreement dated December 30, 2002, between MTU-Inform and Alcatel N.V., pursuant to which MTU-Inform obtained a $10 million loan at an interest rate of LIBOR+0.75% per annum, payable in December 2007.

The Loan Agreement dated September 10, 2002, between MGTS and OJSC Vneshtorgbank, pursuant to which MGTS obtained a $6.7 million loan at an interest rate of LIBOR+4.9% per annum, payable in seven equal semi-annual installments by February 2007. This loan is collateralized by equipment of MGTS valued at $2.8 million pursuant to a pledge agreement dated January 21, 2003.

The Loan Agreement dated September 10, 2002, between MGTS and OJSC Vneshtorgbank, pursuant to which MGTS obtained a $0.3 million loan at an interest rate of LIBOR+4.9% per annum, payable in seven equal semi-annual installments by February 2007. This loan is collateralized by equipment of MGTS valued at $0.1 million pursuant to a pledge agreement dated January 21, 2003.

Material Operating Agreements:

The Network Connectivity Agreement dated December 30, 2005 between MGTS and OJSC MTT, pursuant to which (1) MGTS provides MTT with connection to its network, traffic transmission and subscriber database support and (2) MTT provides MGTS with DLD/ILD connection.

The Network Connectivity Agreement dated December 1, 2005, between MGTS and OJSC Rostelecom, pursuant to which (1) MGTS provides Rostelecom with connection to its network, traffic transmission and support of the subscriber database and (2) Rostelecom provides MGTS with DLD/ILD connection and data transmission.

The Network Interconnection and Cooperation Agreement dated June 22, 2004, between Comstar UTS and OJSC Mobile TeleSystems, pursuant to which Comstar UTS provides Mobile TeleSystems with the connection to its network, the allocation of network capacity and local and DLD/ILD traffic transmission.

The Network Interconnection Agreement dated December 1, 2003, between MTU-Inform and OJSC Rostelecom, pursuant to which (1) Rostelecom provides MTU-Inform with DLD/ILD traffic transmission and (2) MTU-Inform provides its subscribers access to DLD/ILD communications services of Rostelecom.

The Agreement dated November 5, 2003, between Comstar UTS and ZAO Investelectrosvyaz providing for the interconnection of switching networks and traffic transmission and connectivity.

The Agreement dated June 10, 2003, between Comstar UTS and MGTS, pursuant to which (1) Comstar UTS provides MGTS with the receipt and further transmission of traffic to other communications networks connected to Comstar UTS' network and (2) MGTS provides Comstar UTS with the receipt and further transmission of traffic generated by Comstar UTS subscribers.

The Network Connectivity Agreement dated July 15, 2002, between Comstar UTS and MGTS, pursuant to which MGTS provides Comstar UTS connection to its communications networks for data transmission and telematics services.

The Agreement dated July 15, 2002, between Comstar UTS and MGTS, pursuant to which MGTS provides Comstar UTS with the receipt and transmission of traffic to Comstar's network.

The Network Interconnection Agreement dated April 25, 2002, between MTU-Inform and OJSC Russian Telecommunication Network (ROSNET) providing for telecommunications services, access to networks and transmission of local traffic.

The Agreement dated August 30, 2001, between MGTS and MTU-Inform, pursuant to which MGTS provides MTU-Inform with interconnection points to its network, as well as the receipt and further transmission of traffic generated by subscribers of MTU-Inform.

The Network Interconnection Agreement dated December 15, 2000, between Comstar UTS and OJSC Rostelecom, pursuant to which (1) Rostelecom provides Comstar UTS with admission and transmission of DLD/ILD traffic and sets tariffs for such services and (2) Comstar UTS provides Rostelecom with the transmission of traffic.

The Agreement dated December 31, 1999, among MTU-Inform, OJSC KB Impuls and OJSC Vimpelcom, pursuant to which MTU-Inform provides Impuls and Vimpelcom with local, DLD/ILD telecommunications services and the transmission of traffic.

The Network Connectivity Agreement dated June 7, 1999, between MTU-Inform and MGTS, pursuant to which MGTS provides MTU-Inform with the local transmission of traffic.

The Network Interconnection Agreement dated June 1, 1999, between MTU-Inform and OOO SCS Sovintel, pursuant to which MTU-Inform provides Sovintel with connection to its network and the allocation of switching capacity.

The Network Connectivity Agreement dated June 30, 1998, between MTU-Inform and OJSC Mobile TeleSystems, pursuant to which MTU-Inform provides Mobile TeleSystems with connection to its network and local and DLD/ILD telecommunications services.

The Agreement on Telecommunication Networks Interconnection and Rendering of Telecommunications Services dated March 3, 1998, between Comstar UTS and MGTS, pursuant to which MGTS and Comstar UTS provide each other with technological resources for the transmission of traffic.

The Agreement dated December 1, 1997, between Comstar UTS and OJSC Mobile TeleSystems, pursuant to which Comstar UTS provides Mobile TeleSystems with connection to its network, allocation of numbering capacity and local and DLD/ILD traffic transmission.

Material Services Agreements:

The Agreement dated July 13, 2005, between MTU-Inform and MGTS, pursuant to which MGTS provides MTU-Inform with installation and maintenance services.

The Agreement dated June 1, 2005, between MTU-Inform and MGTS, pursuant to which MGTS provides MTU-Inform with installation and maintenance services.

The Cooperation Agreement dated June 1, 2005, between Comstar UTS and OJSC Mobile TeleSystems providing services involving the placement of telecommunications equipment.

The Services Agreement dated April 25, 2005, between Telmos and MGTS, pursuant to which MGTS provides support to Telmos for the operation of telecommunications equipment.

The Contract on Provision of Services dated November 10, 2004, between Sistema Multimedia and Alcatel, pursuant to which Alcatel provides Sistema Multimedia installation and maintenance services for OMP equipment. The contract is secured by Sistema pursuant to a suretyship agreement dated November 16, 2004.

The Services Agreement dated October 12, 2004, between Comstar UTS and MGTS, pursuant to which MGTS provides support to Comstar UTS for the operation of telecommunications equipment.

The Services Agreement dated September 28, 1999, between MTU-Inform and MGTS, pursuant to which MGTS provides support to MTU-Inform for the operation of telecommunications equipment.

Material Supply, Sale and Purchase Agreements:

The Supply Agreement dated October 17, 2005, between Comstar UTS and ZAO AMT Group, pursuant to which AMT Group provides Comstar UTS with licensed software support for telecommunications equipment.

The Supply Agreement dated October 11, 2005, between MGTS and ECI Telecom Ltd., pursuant to which ECI Telecom supplies MGTS with telecommunications equipment.

The Supply Agreement dated August 8, 2005, between Comstar UTS and ZAO Datatel, pursuant to which Datatel provides Comstar UTS the supply and maintenance of telecommunications equipment.

The Supply Agreement dated November 11, 2004, between MGTS and ECI Telecom Ltd., pursuant to which ECI Telecom supplies MGTS with telecommunications equipment.

The Supply Agreement dated November 10, 2004, between MGTS and Siemens AG, pursuant to which Siemens AG supplies, assembles and installs telecommunications equipment for MGTS.

The Contract for Supply of and Provision of Services on Updating Operating Center dated October 19, 2004, between MTU-Intel and ZAO Alcatel, pursuant to which Alcatel provides MTU-Intel an operator center and related installation and maintenance services.

The Contract for Supply of Equipment and Provision of Services dated September 14, 2004, between Sistema Multimedia and Alcatel Bell N.V., pursuant to which Alcatel Bell N.V. provides Sistema Multimedia the supply of an OMP platform for the integration of StreamTV services. The contract is secured by Sistema pursuant to a suretyship agreement dated November 16, 2004.

The Supply Agreement dated January 16, 2004, between MGTS and Ericsson Nikola Tesla d.d., pursuant to which Ericsson Nikola Tesla supplies, assembles and installs telecommunications equipment for MGTS.

The Supply Agreement dated January 16, 2004, between MGTS and Siemens AG, pursuant to which Siemens supplies, assembles and installs telecommunications equipment for MGTS.

The Supply Agreement dated January 16, 2004, between MGTS and Siemens AG, pursuant to which Siemens supplies, assembles and installs telecommunications equipment for MGTS.

The Supply Agreement dated July 1, 2003, between MGTS and Siemens AG, pursuant to which Siemens supplies, assembles and installs telecommunications equipment for MGTS.

The Supply Agreement dated March 14, 2003, between MGTS and Siemens AG, pursuant to which Siemens supplies, assembles and installs telecommunications equipment for MGTS.

The Framework Contract dated March 13, 2003, between Comstar UTS and Siemens AG, pursuant to which Siemens provides Comstar UTS with the supply and maintenance of telecommunications equipment.

The Supply Agreement dated February 20, 2001, between MGTS and Siemens AG, pursuant to which Siemens supplies, assembles and installs telecommunications equipment for MGTS.

Material Lease Agreements:

The Tripartite Agreement for Leasing Purposes dated February 15, 2005, among OOO Multimedia System, ZAO I.S.P.A.-Engineering and OOO BSGV Leasing, pursuant to which Multimedia System leases from BSGV broadcast and switching manufacturing equipment supplied by I.S.P.A.-Engineering.

The Leasing Agreement dated February 15, 2005, between OOO Multimedia System and OOO BSGV Leasing, pursuant to which Multimedia System leases broadcast equipment from BSGV Leasing.

The Leasing Agreement dated June 21, 2004, between MGTS and CJSC Invest-Svyaz-Holding, pursuant to which MGTS leases telecommunications equipment from Invest-Svyaz-Holding. This agreement expires in 2007 and assumes transfer of ownership for equipment to MGTS after the last lease payment is made.

The Leasing Agreement dated March 9, 2004, between MGTS and CJSC Invest-Svyaz-Holding, pursuant to which MGTS leases telecommunications equipment from Invest-Svyaz-Holding. This agreement expires in 2007 and assumes transfer of ownership for equipment to MGTS after the last lease payment is made.

The Leasing Agreement dated November 18, 2003, between MGTS and CJSC Invest-Svyaz-Holding, pursuant to which MGTS leases telecommunications equipment from Invest-Svyaz-Holding. This agreement expires in 2007 and assumes transfer of ownership for equipment to MGTS after the last lease payment is made.

The Finance Lease Agreement dated October 10, 2003, between Telmos and CJSC Invest-Svyaz-Holding, pursuant to which Telmos leases telecommunications equipment from Invest-Svyaz-Holding.

The Finance Lease Agreement dated April 27, 2001, between MGTS and CJSC RTK-Leasing, pursuant to which MGTS leases telecommunications equipment from RTK-Leasing.

Other Material Agreements:

The Underwriting Agreement dated February 7, 2006 between Comstar UTS, the Selling Shareholder and the Underwriters as described in "Subscription and Sale."

GLOSSARY OF SELECTED TERMS

Access Channel	The network element used to connect a subscriber to the nearest switch or concentrator. An access channel generally takes the form of a closed circuit and consists of a pair of copper wires, but may also employ fiber optic cables, microwave links or other technologies.
Active line	A line is considered "active" if the subscriber has used the service within the last 30 days.
ADSL	Asymmetric digital subscriber line. A common subset of DSL where upstream communication is conducted at a lower speed than downstream.
ADSL2+	ADSL technology using the ITU G.992.5 standard. Allows for downstream speed of up to 24 Mbps.
Analog	A transmission mode in which the initial signal (*e.g.*, voice) is converted into and transmitted as an electrical signal. Signals are conveyed by continuously varying, for example, the frequency, amplitude or phase of the transmission. Analog signals typically require higher amounts of capacity to transfer data than is possible using digital transmissions and are more susceptible to attenuation.
ARPC	Average revenue per channel.
ARPL	Average revenue per line.
ARPU	Average monthly revenue per user. ARPU is calculated by dividing the revenue earned for the relevant period by the number of months in the period and by the average number of RGUs for the period (which average number of RGUs may vary from the number of RGUs presented at the end date of the relevant period). As applied, ARPU can refer to an individual service or to total revenue from a unique subscriber.
ATE	Automatic telephone exchange. In the field of telecommunications, a telephone exchange (US: telephone switch) is a piece of equipment that connects phone calls.
ATM	Asynchronous transfer mode network. A multiplexing and routing technology for high-speed digital communications that permits data, text, voice, video and multimedia signals to be transmitted simultaneously between network access points at speeds of up to 155 Mbps or more. ATM allows for better LAN interconnections, PABX interconnection, data transmission and flexible bandwidth delivery.
Base station	Fixed transceiver equipment in each cell of a mobile telecommunications network that communicates by radio signal with mobile handsets in that cell.
broadband Internet service . .	A general term for Internet services capable of delivering transmissions at speeds in excess of approximately 256 Kbps.
bundle	Combination of products and services that may be offered at a price lower than the sum of the prices of each of the services individually.
CAGR	Compound annual growth rate. Interest rate at which a given present value would grow to a given future value in a given amount of time. The formula for calculating CAGR is (Current Value/Base Value)^(1/number of years) − 1.

call forwarding	A feature permitting the user to program a phone to ring at an alternate location; call forwarding may be in effect at all times or only in certain designated instances, such as when a particular phone is busy or there is no answer.
call transferring	A call connection routing feature that transfers a call from one telephone or extension to another. Call transferring can occur at various stages of the call conversation through the use of a system special service call request feature. The system special service request feature is often called a "Flash" feature. The flash feature is created to indicate a desire to recall a service function or to activate a custom calling feature (such as a call transfer request). A flash feature service request can be created when the user initiates a short on-hook interval or through the sending of a special service request message. The short on-hook interval is created by a momentary operation of the telephone switch hook, during a prolonged off-hook period. The special service request message can be sent by a button on a telephone (such as a PBX telephone) or by pressing the SEND key on a mobile telephone.
call waiting	A warning signal received when a person is on a call that there is a second incoming call.
Caller ID	An optional telephone service that provides a receiving telephone device with the phone number of the originating caller, which can be displayed to the destination person prior to receiving the call. The caller ID is transmitted as a data parameter in the SS7 Initial Address Message from the originating end switch to the destination end switch in the process of setting up the call. Some caller ID services can also provide directory name listing information, derived separately from the LIDB data base. Caller ID information is typically transferred as a type-202-modem-compatible data signal between the first two ringing cadence cycles of the alerting tone.
CDMA 2000 standard	CDMA 2000 standard is a 3G mobile telecommunications standard that uses CDMA, a multiple access scheme for digital radio, to send voice, data and signaling data (such as a dialed telephone number) between mobile telephones and cell sites.
churn	A measure of subscriber turnover due to subscription disconnections as a result of terminations by subscribers; switching by subscribers to competing services; terminations by the service provider due to subscriber non-payment; and, in the case of mobile communications services, expirations of pre-paid cards.
Circuit-switched network	A network using a type of communications in which a dedicated channel (or circuit) is established for the duration of a transmission. The most ubiquitous circuit-switching network is the telephone system, which links together wire segments to create a single unbroken line for each telephone call.
CLEC	Competitive local exchange carrier. A telephone service company that provides local telephone service that competes with ILEC.
Coaxial network	A network composed of insulated wire cables commonly used to broadcast television broadcast signals by cable companies. Coaxial cables typically comprise a copper core carrying the signal, an insulating layer and an outer channel. Suitably upgraded, coaxial cables can be used to carry a range of other communications such as telephony and Internet transmissions. Coaxial cables are well suited to transmissions over long distances.

Concentrator . . . . A communications device that subdivides a channel into a larger number of channels by connecting a number of circuits, which are not all used simultaneously, to a smaller group of circuits for a more economical transmission.

CPE . . . . Customer premises equipment. All telecommunications terminal equipment located on the customer's premises, including telephone sets, PBXs, data terminals and customer-owned coin-operated telephones.

DACS cross-switch . . . . A digital switching system that interconnects specific communication channels (time slots) between digital multiplexed lines (usually t-carrier lines).

DBMS . . . . Database management system. A system that controls access to, organization of, security, and application interfaces to information data.

DECT . . . . Digital enhanced cordless telephone. The DECT system is a digital cordless and WPBX system. The DECT system includes three key parts: the mobile radio portable part, the radio base station fixed part and the interconnecting system fixed part. There are two versions of DECT: the European version and the American version. The European version uses a very wide radio channel to allow up to 12 simultaneous wireless telephones to share each channel. The American version uses a slightly more narrow radio channel and allows up to 8 users to share a single radio channel.

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

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

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

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

DTH . . . . Direct to home. The reception of satellite programs with a personal dish in an individual home.

DTV . . . . Digital television. The generic term for television systems employing digital, rather than analog, technology.

DWDM	Dense wave division multiplexing. High capacity method of increasing the capacity of fiber optic data transmission systems by sending multiple wavelengths of light down a single strand of fiber.
EPON	Ethernet passive optical network. EPON is a network for using Ethernet for packet data.
Ethernet	Ethernet is a packet based transmission protocol that is primarily used in LANs. Ethernet is the common name for the IEEE 802.3 industry specification and it is often characterized by its data transmission rate and type of transmission medium (*e.g.*, twisted pair is T and fiber is F). Ethernet can be provided on twisted pair, coaxial cable, wireless or fiber cable. Originally created by an alliance between Digital Equipment Corporation, Intel and Xerox, Ethernet is slightly different than IEEE 802.3. In Ethernet, the packet header includes a type field and the length of the packet is determined by detection. In IEEE 802.3, the packet header includes a length field and the packet type is encapsulated in an IEEE 802.2 header.
fiber optic cable	Cable that uses optical glass fibers to transmit signals over long distances with minimal signal loss or distortion. Fiber optic cable has good broadband frequency characteristics and noise immunity and is capable of managing very high capacity, high speed transmissions.
firewall	A system designed to prevent unauthorized access to or from a private network.
FMC	Fixed mobile convergence. The removal of distinctions between fixed and wireless telecommunication networks that create seamless services using a combination of fixed broadband and local access wireless technologies.
frame relay	A data transport protocol that divides a physical communications line into several virtual channels. A technology part-way between packet switching and ATM.
G.703 channel	An ITU standard for the physical and electrical characteristics of various digital interfaces, including those at 64 kbps and 2.048 Mbps.
Gbps	Gigabytes per second; 1 Gbps = 1 thousand Mbps. Gbps stands for thousands of bits or kilobits per second. It is a measure of bandwidth (the total information flow over a given time) on a telecommunications medium.
GE	Gigabit Ethernet. Ethernet systems that can transmit at 1 Gbps or more are called "Gigabit Ethernet (GE)."
GHz	The gigahertz, abbreviated GHz, is a unit of alternating current (AC) or electromagnetic (EM) wave frequency equal to one thousand million hertz (1,000,000,000 Hz). The GHz is used as an indicator of the frequency of ultra-high-frequency (UHF) and microwave EM signals and also, in some computers, to express microprocessor clock speed
GSM	Global system for mobile communication. A widely adopted technical standard for digital mobile telephony.
HFC	Hybrid fiber coaxial network. A network that consists of a high capacity fiber network connected through nodes to a series of coaxial cables linked to subscribers' homes. An HFC network is typically defined by the extent to which it has been upgraded to provide two way communications and the bandwidth available in the coaxial portion of the HFC network.

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

HPNA . . . . Home phoneline networking alliance specification. The HPNA specification defines the signals and operation for data and entertainment services that can be provided through telephone lines that are installed in homes and businesses. The HPNA specification is designed to co-exist with other communication systems including POTS, ISDN and ADSL.

Hybrid-VPN . . . . A technology that makes it possible to integrate offices with different types of "last mile" access, such as fiber optic, wire and airwave connections, into a unified protected data transmission network.

IEEE . . . . Institute of Electrical and Electronic Engineers. A global body that sets standards and protocols for communications purposes.

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

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

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

IN . . . . Intelligent network. Network architecture focusing on the efficiency, automation and functionality of telecommunication networks. Intelligent networks are typically equipped with sophisticated computerized routing systems, allow for advanced features such as caller identification and Voicemail and can be readily expanded and upgraded.

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

IP-Centrex . . . . IP-Centrex is a set of specialized business solutions where the equipment providing the call control and service logic functions is owned and operated by the service provider and is located on the service provider's premises.

ISDN . . . . Integrated services digital network. A transmission system with the capacity to transmit two streams of information (voice, text, data or graphics) simultaneously on a single access channel, based upon end-to-end digitalization and standardized out-of-band signaling.

ISP . . . . Internet services provider. A company providing access to Internet and other computer based information networks through its servers.

IVR . . . . Interactive voice response. A telecommunications systems that uses a pre-recorded database of voice messages to present options to a user, typically over telephones lines.

IT . . . . Information technology. The broad subject concerned with all aspects of managing and processing information.

ITU standard	Telecommunications standards set by the International Telecommunications Union (ITU). The ITU, headquartered in Geneva, Switzerland is an international organization within the United Nations where governments and the private sector coordinate global telecom networks and services.
Kbps	Kilobits per second. A data transfer speed measured by the number of thousands of bits per second. A bit is the smallest unit of data in a computer network.
LAN	Local area network. A short distance data transmission network designed to interconnect PCs, workstations, minicomputers, file servers and other computing devices within a localized environment for the purpose of sharing files, programs and devices such as printers and high-speed modems. LANs may have a decentralized communications management or include dedicated computers or file services that provide a centralized source of shared files and programs.
Lan2Lan connectivity	A service to connect two different sites to LAN interconnection through SDSL.
"last mile"	The last portion of the telephone access line that is installed between a local telephone company switching facility and the customer's premises.
Leased line	Voice and data circuits leased to connect two or more locations for the exclusive use of the subscriber. Leased lines are typically used to transmit various forms of data, including voice and Internet traffic.
LIDB	Line information database. A database maintained by the local telephone company that contains subscriber information, such as a service profile, name and address, as well as credit card validation information.
local loop	Network element used to connect a subscriber to the nearest switch or concentrator. The local loop is commonly referred to as the "last mile" because it is the part of the network that is connected directly to the subscriber.
MB	Megabyte. A measure of data volume representing one million bytes. Each byte is equal to eight bits.
Mbps	Megabits per second. A data transfer speed measured by the number of millions of bits per second. A bit is the smallest unit of data in a computer network.
MGW-A	MediaGateWay. A device used as an interface between circuit-switched and packet-switched networks.
MMDS	Multichannel multipoint distribution service. Multichannel multipoint distribution service is the providing of television services through the use of 2.5 GHz microwave frequencies. MMDS is commonly called "wireless cable."
MPLS	Multi-protocol label switching. A standards-approved technology for speeding up network traffic flow and making such traffic easier to manage. MPLS involves setting up a specific path for a given sequence of packets, identified by a label put in each packet, thus saving the time needed for a router to look up the address in order to forward the packer to the next node.
NGN	Next generation network. IP/MPLS protocol-based digital packet-switched network.

node . . . . A network element that provides a point at which key telecommunications equipment or computers can access the network. In circuit networks, nodes are switching systems. In packet-switched networks they are often computers.

PABX . . . . Private automatic branch exchange. An exchange used for switching calls within an organization rather than between PSTN subscribers. Most PABXs do have connections to the PSTN for outside calls.

packet switching . . . . A data transmission process, utilizing addressed packets, whereby a channel is occupied only for the duration of transmission of the packet.

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

PBX . . . . Private branch exchange. A telephone exchange operated within an organization that is used for switching calls between internal lines and between internal and PSTN lines.

PC . . . . Personal computer. A small digital computer based on a microprocessor and designed to be used by one person at a time.

PDTN . . . . Public data transmission network. A public telecommunications network built for the purpose of transmitting of data.

peering . . . . Peering refers to a relationship between two service providers that agree to exchange traffic and routing policies, usually across a direct link that the two service providers establish.

penetration rate . . . . The total number of subscribers for a carrier divided by the population that it serves expressed as a percentage.

Point-to-point . . . . A link from one user or network to another using a phone line.

PON . . . . Passive optical network. A high bandwidth point to multipoint optical fiber network based on the ATM, Ethernet or TDM.

PoP . . . . Point of presence. A site where there exists a collection of telecommunications equipment, usually modems, digital leased lines and multi-protocol routers.

POTS . . . . Plain old telephone service. Traditional phone service that is found in most homes and businesses. POTS is in contrast to advanced services such as ISDN and DSL, which are digital and provide greater bandwidth.

PSTN . . . . Public switched telephone network. The international telephone system based on copper wires carrying analog voice data. This is in contrast to newer telephone networks based on digital technologies, such as ISDN.

RC . . . . Retransmision counter.

RGU . . . . Revenue generating unit. A term that is commonly used in the cable and telecommunications industry. Defined by the National Cable Television Association in the United States as the sum of all analog cable, digital cable and Internet customers. RGUs measure the overall increase or decrease in a company's customer base, as some categories increase and others decrease, such as analog cable and digital subscribers.

roaming . . . . The mobile telecommunications feature that permits subscribers of one network to use their mobile handset and telephone numbers when in a region covered by another operator's networks.

router	An inter-network device that relays data packets to networks connected to the router based upon the destination address contained in those data packets being routed.
SCS	Structured cabling system. SCS is a set of cabling and connectivity products that integrates the voice, data, video and various management systems of a building (such as safety alarms, security access, energy systems, etc.).
SDH	Synchronous digital hierarchy. A standard for high-speed digital transmission that is commonly used in telephony networks.
SDSL	Symmetric digital subscriber line. A DSL line with identical upstream and downstream speeds.
SLA	Service level agreement. A contract between a network service provider and a customer that specifies, usually in measurable terms, what services, and in certain cases, the quality of such services that the network service provider will furnish.
SMS	Short message service. Also commonly referred to as text messaging. SMS features enable a user to send a short message to another user using a simplified key-pad. SMS capabilities among the latest user devices are capable of sending music and video messages, in addition to alphanumeric messages.
subscriber	In accordance with general practice in the telecommunications industry, in this prospectus the term "subscriber" is used, unless the context otherwise requires, to indicate a customer of fixed line communications services who has used such services within the last 30 days.
switch	A device used to set up and rout telephone calls either to the number called or to the next switch along the path. They may also record information for billing and control purposes.
TDM	Time division multiplexer. A device which divides the time available on its composite link among its channels, usually interleaving bits (Bit TDM) or characters (Character TDM) of data from each terminal.
Termination rate	The interconnection fee received by an operator for incoming calls terminating on its networks.
Universal service	The obligation placed on universal service providers to ensure that standard telephone services, payphones and prescribed carriage services are reasonably accessible to all people in a particular region on an equitable basis, and with affordable pricing, wherever they reside or carry on business.
voicemail	Any system for sending, storing and retrieving audio messages, similar to a telephone answering machine.
VoIP	Voice over Internet protocol. Protocol in which voice traffic is carried in IP packets rather than a circuit-switched network.
VPC	Virtual path connection. (1-general) An identifier of a physical channel and a logical channel that is used as a connection path between two points. (2-ATM) A set of logical virtual channel connections (VCCs) between two end stations. All channels in a specific VPC connect the same two end stations.
VPN	Virtual private network. A data network that shares telecommunications infrastructure but acts as a secure private network.

VSAT . . . . Very small aperture terminal. VSAT consists of a small, dish-shaped antenna and associated electronics which allow satellite access to a geosynchronous, communications satellite. A VSAT system is an entire network which includes the central hub, the remote sites and the network software to run the system. VSAT utilizes geosynchronous satellites located 22,500 miles above the equator as the communication backbone. The satellite connects the VSAT locations to the central hub facility which routes messages to the appropriate destination.

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

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

WPBX system . . . . Wireless private branch exchange. A PBX that supports cordless telephone calls.

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

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Comstar UTS Group:

We have audited the accompanying combined balance sheets of JSC "COMSTAR – United TeleSystems", PJSC "MGTS", JSC "MTU-Inform Company", JSC "Telmos", JSC "MTU-Intel", JSC "Sistema Multimedia" and their subsidiaries (collectively—"Comstar UTS Group" or the "Group") as of December 31, 2004, 2003 and 2002, and the related combined statements of operations, changes in shareholders' equity, and cash flows for the years then ended. The Group is under common ownership and common management. These financial statements are the responsibility of the Comstar UTS Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the combined financial position of the Group as of December 31, 2004, 2003 and 2002, and the combined results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ ZAO Deloitte & Touche CIS

November 30, 2005
(December 29, 2005 as to Note 25)

COMSTAR UTS GROUP

COMBINED BALANCE SHEETS

AS OF DECEMBER 31, 2004, 2003 and 2002
(Amounts in thousands of U.S. dollars)

	Notes	December 31, 2004	December 31, 2003	December 31, 2002
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	5	$ 67,436	$ 46,952	$ 39,589
Short-term investments	6	105,313	66,450	5,719
Trade receivables, net	7	63,504	54,007	47,749
Other receivables and prepaid expenses	8	60,669	38,902	33,619
Inventories and spare parts	9	23,004	19,071	11,664
Deferred tax assets, current portion	21	15,693	12,695	4,156
Assets of discontinued operations	3	—	58,999	76,031
Total current assets		335,619	297,076	218,527
Property, plant and equipment, net	10	1,031,757	844,667	692,316
Intangible assets, net	11	30,240	16,418	6,466
Deferred tax assets, long-term portion	21	6,274	4,845	31,857
Restricted cash	14	3,268	3,735	1,321
Long-term investments	12	11,290	18,859	52,478
TOTAL ASSETS		$1,418,448	$1,185,600	$1,002,965

COMSTAR UTS GROUP

COMBINED BALANCE SHEETS (Continued)

AS OF DECEMBER 31, 2004, 2003 and 2002
(Amounts in thousands of U.S. dollars)

	Notes	December 31, 2004	2003	2002
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Accounts payable		$ 17,699	$ 18,648	$ 16,372
Subscriber prepayments		34,095	29,412	23,015
Deferred connection fees, current portion		35,790	24,938	20,805
Accrued expenses and other current liabilities	13	23,620	17,117	10,982
Taxes payable		19,563	14,535	9,893
Debt, current portion	14	85,616	56,687	65,412
Capital lease obligations, current portion	15	6,782	4,763	5,027
Liabilities of discontinued operations	3	—	42,498	45,491
Total current liabilities		223,165	208,598	196,997
LONG-TERM LIABILITIES:				
Deferred connection fees, net of current portion		104,087	77,303	64,247
Debt, net of current portion	14	104,482	104,300	103,172
Capital lease obligations, net of current portion	15	19,917	4,164	5,928
Post-retirement obligations	16	11,513	4,897	4,235
Property, plant and equipment contributions	17	103,822	88,388	64,493
Deferred tax liabilities, long-term portion	21	19,397	15,186	—
Total long-term liabilities		363,218	294,238	242,075
TOTAL LIABILITIES		586,383	502,836	439,072
COMMITMENTS AND CONTINGENCIES	24	—	—	—
MINORITY INTERESTS		450,624	388,670	348,377
SHAREHOLDERS' EQUITY:				
Share capital	18	72,133	72,133	67,087
Additional paid-in capital		43,335	43,335	27,619
Retained earnings		250,756	176,947	120,810
Other comprehensive income		15,217	1,679	—
TOTAL SHAREHOLDERS' EQUITY		381,441	294,094	215,516
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$1,418,448	$1,185,600	$1,002,965

See notes to combined financial statements.

COMSTAR UTS GROUP

COMBINED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 and 2002

(Amounts in thousands of U.S. dollars)

	Notes	Year ended December 31, 2004	2003	2002
OPERATING REVENUES	19	$ 695,133	$ 589,218	$ 438,755
OPERATING EXPENSES	20	(521,414)	(426,545)	(302,241)
OPERATING INCOME		173,719	162,673	136,514
OTHER INCOME (EXPENSES):				
Interest income		7,941	4,718	1,894
Interest expense		(18,695)	(18,545)	(31,496)
Foreign currency transactions gain		4,368	3,594	330
Loss from disposal of an affiliate	12	(6,610)	—	—
INCOME BEFORE INCOME TAX AND MINORITY INTERESTS		160,723	152,440	107,242
Income tax expense	21	(41,076)	(38,848)	(22,429)
Income from affiliates		542	1,259	2,427
Minority interests		(44,400)	(39,526)	(32,082)
INCOME FROM CONTINUING OPERATIONS		75,789	75,325	55,158
Gain/(loss) from discontinued operations, net of income tax charges of $1,430, $3,166 and $1,667, respectively	3	4,182	(16,914)	6,985
(Loss)/gain from disposal of discontinued operations, net of income tax charges of $841 and $476, respectively	3	(3,831)	—	1,507
NET INCOME		**$ 76,140**	**$ 58,411**	**$ 63,650**
Other comprehensive income/(loss):				
Translation adjustment, net of minority interest of $34,175 and $28,993, respectively		13,538	18,059	—
Income tax effect of changes in the functional currency, net of minority interest of $18,959		—	(16,380)	—
Comprehensive income		$ 89,678	$ 60,090	$ 63,650

See notes to combined financial statements.

COMSTAR UTS GROUP

COMBINED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 and 2002
(Amounts in thousands of U.S. dollars)

	Year ended December 31,		
	2004	2003	2002
OPERATING ACTIVITIES:			
Net income	$ 76,140	$ 58,411	$ 63,650
Adjustments to reconcile net income to net cash provided by operations:			
(Gain)/loss from discontinued operations	(4,182)	16,914	(6,985)
Loss/(gain) from disposal of discontinued operations	3,831	—	(1,507)
Depreciation and amortization	76,138	73,097	53,417
Loss from disposal of fixed assets	4,312	10,380	524
Loss from disposal of an affiliate	6,610	—	—
Gain from disposal of long-term investments	—	(3,560)	—
Deferred tax expense	1,453	2,687	5,608
Income from affiliates	(542)	(1,259)	(2,427)
Foreign currency transactions gain on non-operating activities	(4,177)	(1,759)	(368)
Postretirement benefits	6,315	327	(2,575)
Minority interests	44,400	39,526	32,082
Provision for uncollectible notes	—	—	3,884
Provision for doubtful debts	1,307	654	(4,061)
Changes in operating assets and liabilities:			
Trade receivables	(7,815)	2,302	(8,037)
Other receivables and prepaid expenses	(19,013)	95	(2,494)
Inventories and spare parts	(3,083)	(2,010)	183
Accounts payable	(2,727)	(3,372)	14,494
Deferred connection fees	30,790	9,321	17,945
Subscriber prepayments	4,683	2,982	5,138
Taxes payable	5,028	4,289	(3,936)
Accrued payroll and other current liabilities	6,338	(1,576)	(12,624)
Net cash provided by operations	225,806	207,449	151,911
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(150,481)	(95,131)	(85,764)
Proceeds from sale of property, plant and equipment	1,454	2,260	2,502
Proceeds from property insurance	—	1,658	—
Purchases of intangible assets	(18,366)	(5,175)	(3,601)
Proceeds from disposal of subsidiaries, net of cash disposed	16,211	—	—
Acquisition of subsidiary, net of cash acquired	—	3,018	22
Purchases of long-term investments	—	—	(2,025)
Proceeds from sale of long-term investments	652	4,117	—
Purchases of short-term investments	(249,465)	(88,109)	(12,044)
Proceeds from sale of short-term investments	211,656	33,869	15,097
Decrease/(increase) in restricted cash	467	(1,043)	(1,321)
Net cash used in investing activities	(187,872)	(144,536)	(87,134)

COMSTAR UTS GROUP

COMBINED STATEMENTS OF CASH FLOWS (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 and 2002

(Amounts in thousands of U.S. dollars)

	December 31, 2004	2003	2002
FINANCING ACTIVITIES:			
Proceeds from borrowings	101,329	91,990	50,294
Principal payments on borrowings	(99,969)	(135,795)	(87,247)
Principal payments on capital lease obligations	(10,641)	(5,264)	(5,531)
Dividends paid	(10,201)	(6,583)	(4,174)
Net cash used in financing activities	(19,482)	(55,652)	(46,658)
Effects of foreign currency translation on cash and cash equivalents	2,032	102	(665)
INCREASE IN CASH AND CASH EQUIVALENTS	20,484	7,363	17,454
CASH AND CASH EQUIVALENTS, beginning of year	46,952	39,589	22,135
CASH AND CASH EQUIVALENTS, end of year	$ 67,436	$ 46,952	$ 39,589
SUPPLEMENTAL INFORMATION:			
Cash paid for interest, net of amounts capitalized	$ 15,109	$ 18,652	$ 30,806
Income taxes paid	40,187	34,289	22,645
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Property, plant and equipment received free of charge	$ 13,597	$ 18,793	$ 18,050
Equipment acquired through vendor financing	20,714	17,093	8,522
Equipment acquired under capital leases	25,966	4,590	6,438

In addition, non-cash investing activities during the years ended December 31, 2004, 2003 and 2002 included acquisition and disposal of subsidiaries, as described in Note 4.

See notes to combined financial statements.

COMSTAR UTS GROUP

COMBINED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 and 2002

(Amounts in thousands of U.S. dollars)

	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total
Balances at January 1, 2002	**$38,743**	**$31,410**	**$ 86,729**	**$ —**	**$156,882**
Increase in par value of MGTS' shares	28,344	—	(28,344)	—	—
Distribution to the controlling shareholder	—	(3,791)	—	—	(3,791)
Dividends declared	—	—	(1,225)	—	(1,225)
Net income	—	—	63,650	—	63,650
Balances at December 31, 2002	**$67,087**	**$27,619**	**$120,810**	**$ —**	**$215,516**
Contribution from the controlling shareholder	5,046	15,716	—	—	20,762
Dividends declared	—	—	(2,274)	—	(2,274)
Net income	—	—	58,411	—	58,411
Translation adjustment, net of minority interest of $28,993	—	—	—	18,059	18,059
Income tax effect of changes in functional currency, net of minority interest of $18,959	—	—	—	(16,380)	(16,380)
Balances at December 31, 2003	**$72,133**	**$43,335**	**$176,947**	**$ 1,679**	**$294,094**
Dividends declared	—	—	(2,331)	—	(2,331)
Net income	—	—	76,140	—	76,140
Translation adjustment, net of minority interest of $34,175	—	—	—	13,538	13,538
Balances at December 31, 2004	**$72,133**	**$43,335**	**$250,756**	**$ 15,217**	**$381,441**

See notes to combined financial statements.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

1. DESCRIPTION OF THE BUSINESS

Nature of the business—The Combined Entities ("Comstar UTS Group" or the "Group"), including JSC "COMSTAR – United TeleSystems", PJSC "MGTS", JSC "MTU-Inform Company", JSC "Telmos", JSC "MTU-Intel", JSC "Sistema Multimedia" and subsidiaries, is a provider of fixed line communications services, including voice, Internet dial-up and broadband, and various value added services, to commercial and residential customers throughout the Moscow metropolitan area. The controlling shareholder of the Combined Entities is JSFC Sistema ("Sistema"). The Combined Entities are incorporated in the Russian Federation (the "RF").

The Group has two reportable segments: the Traditional fixed line communications segment, comprised of MGTS, the incumbent public service telephone network ("PSTN") operator in Moscow, and the Alternative fixed line communications segment, comprised of all other Combined Entities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation—The accompanying financial statements have been prepared in conformity with the accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Group's entities maintain accounting records and prepare their financial statements in Russian rubles in accordance with the requirements of accounting and tax legislation in Russia. The accompanying combined financial statements differ from the financial statements prepared for statutory purposes in Russia in that they reflect certain adjustments, not recorded in the accounting books of the Combined Entities, which are appropriate to present the financial position, results of operations and cash flows in accordance with U.S. GAAP.

Principles of combination—The combined financial statements include the accounts of the Combined Entities and their subsidiaries, which collectively comprise fixed line communications business line of Sistema. All significant intercompany transactions, balances and unrealized gains (losses) on transactions have been eliminated.

The ownership interest and proportion of voting power of Sistema in the Combined Entities as of December 31, 2004, 2003 and 2002 were as follows:

	Ownership interest			**Proportion of voting power**		
Operating entities	**2004**	**2003**	**2002**	**2004**	**2003**	**2002**
Comstar UTS	73%	73%	Affiliate	100%	100%	Affiliate
MGTS	46%	46%	46%	56%	56%	56%
MTU-Inform	72%	72%	72%	99%	99%	99%
Telmos	59%	59%	59%	80%	80%	80%
MTU-Intel	84%	84%	84%	100%	100%	100%
Sistema Multimedia*	100%	n/a	n/a	100%	n/a	n/a

*—In the years ended December 31, 2003 and 2002, Sistema Multimedia (previous name—"MTU-Inform Plus") was a subsidiary of MTU-Inform. In 2004, Sistema Multimedia shares were sold to Sistema Mass Media, a subsidiary of Sistema (Note 4).

Ownership interest of Sistema in MGTS is determined taking into account both common and preferred (non-voting) shares of MGTS (Note 18). Ownership interest of Sistema in other Combined Entities, where blocks of shares are held through MGTS, is determined taking into account Sistema's ownership interest in MGTS.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

The respective ownership interest of the Combined Entities and proportion of their respective voting power in their subsidiaries as of December 31, 2004, 2003 and 2002 were as follows:

	Ownership interest			Proportion of voting power		
Operating entities	2004	2003	2002	2004	2003	2002
Comstar UTS's subsidiaries:						
TWT—Ukraine	100%	100%	100%	100%	100%	100%
Port-Telecom	100%	n/a	n/a	100%	n/a	n/a
MGTS's subsidiaries:						
AMT	100%	100%	100%	100%	100%	100%
Petrodvor	100%	100%	100%	100%	100%	100%
MGTS United Telesystems	100%	—	—	100%	—	—
MTU-Inform's subsidiaries:						
P-Com	—	83%	83%	—	83%	83%
PTT-Teleport	100%	100%	100%	100%	100%	100%
MTU-Inform Plus (current name—Sistema Multimedia)	n/a	100%	100%	n/a	100%	100%
MTU-Intel's subsidiaries:						
Golden Line	100%	100%	100%	100%	100%	100%
PTT-Stroi	100%	100%	100%	100%	100%	100%
Etel	51%	51%	51%	51%	51%	51%
Port-Telecom	n/a	100%	n/a	n/a	100%	n/a

Operations of P-Com are classified as discontinued operations in the combined balance sheets and statements of operations for all years presented (Note 3).

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

Use of estimates—The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses of the reporting period. Actual results could differ from those estimates.

Examples of significant estimates include the allowance for doubtful accounts, the recoverability of long-lived tangible and intangible assets, and valuation allowances on deferred tax assets.

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

Foreign currency translation—The Group follows a translation policy in accordance with Statement on Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation". Due to a highly inflationary economy in the RF in 2002, the U.S. dollar (the Group's reporting currency) has been designated as the Group's functional currency. Accordingly, all foreign currency amounts were translated into U.S. dollars ("USD") using the remeasurement method.

Starting from January 1, 2003, the Russian economy ceased to be considered highly inflationary for accounting purposes. Management has determined that beginning January 1, 2003 the functional currency of MGTS is the Russian ruble ("RUR"). Accordingly, the reporting currency amounts for these entities were translated into their functional currency at the exchange rate current at January 1, 2003. These amounts became the new accounting bases for the non-monetary assets and liabilities.

Management believes that USD is still the appropriate functional currency of the other Combined Entities, as the majority of their revenues, costs, capital expenditures and debt are either priced, incurred, payable or otherwise measured in USD.

The Group has selected the USD as its reporting currency and translates financial statements of MGTS into USD. Assets and liabilities are translated at the exchange rates current at the balance sheet date, while income and expense items are translated at average rates of exchange prevailing during the period. The resulting translation adjustment in amount of $13.5 million and $18.1 million was recorded as a separate component of other comprehensive income for the years ended December 31, 2004 and 2003, respectively.

Pursuant to Emerging Issues Task Force ("EITF") Issue No. 92-8, "Accounting for the Income Tax Effects under FASB Statement No. 109 of a Change in Functional Currency When an Economy Ceases to Be Considered Highly Inflationary", the differences between the new functional currency bases of non-monetary assets and liabilities and their tax bases represent temporary differences, for which deferred taxes must be recognized. Income tax effect of changes in the functional currency amounted to $16.4 million and was reported within other comprehensive income for the year ended December 31, 2003.

The official rate of exchange, as determined by the Central Bank of the RF, between the RUR and the USD at December 31, 2004 was 27.75 rubles to 1 U.S. dollar (2003: 29.45; 2002: 31.78).

The Russian ruble is not fully convertible outside of the territory of the RF. The translation of ruble denominated assets and liabilities into U.S. dollars for the purpose of these financial statements does not indicate that the Group could realize or settle in U.S. dollars the reported values of the assets and liabilities. Likewise, it does not indicate that the Group could return or distribute the reported U.S. dollar values of capital and retained earnings to its shareholders.

Revenue recognition—The Group's revenues are principally derived from the provision of telecommunication services which consist of (i) monthly subscription fees, (ii) local traffic charges, (iii) connection fees, (iv) revenues from data transmission and internet services, (v) revenues from value-added and additional telecommunication services, (vi) revenues from services to other operators and (vii) revenues from payphones. The Group records revenues over the periods they are earned as follows:

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

(ii) Local traffic charges are recognized as the services are provided;

(iii) Upfront fees received for connection of new subscribers are deferred and recognized over the expected subscriber relationship period. According to management estimates, the average subscriber relationship period for residential wireline voice phone subscribers of the Traditional fixed line communications segment is 15 years. For all other categories of subscribers the subscriber relationship period is estimated at 3 to 5 years.

(iv) Revenues from the provision of data transmission and internet services are recognized when the services are provided to customers.

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

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

(vii) Revenues from payphones are recognized as the prepaid calling cards are used by the customers or expire.

Local telephone services provided by MGTS totaling approximately 38.1%, 36.8% and 37.2% of the combined revenues for the years ended December 31, 2004, 2003 and 2002, respectively, are regulated tariff services and changes in rate structure are subject to the Federal Tariff's Service approval.

Management believes that the Group is not subject to the requirements of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" as the regulated rates for local telephone services provided by MGTS are not designed to recover the specific costs of providing the regulated services.

During the years ended December 31, 2004, 2003 and 2002, MGTS was required to grant discounts ranging from 20% to 100% on installation and monthly fees to certain categories of residential subscribers, such as pensioners, military veterans and disabled individuals, and was entitled to reimbursement from the federal budget for these discounts. Due to the lack of certainty of reimbursement, MGTS accounted for such revenues upon collection. In the years ended December 31, 2004, 2003 and 2002, the discounts provided by MGTS to its subscribers and not compensated by the federal budget amounted to $24.9 million, $31.7 million and $19.2 million, respectively. In accordance with the new legislation effective January 1, 2005, substantially all MGTS' subscribers are required to pay the full price for residential service, and those entitled to discounts are to receive reimbursement from the government rather than discounts from MGTS.

Cash and cash equivalents—Cash and cash equivalents include cash on hand, amounts on deposit in banks and cash invested temporarily in various instruments with maturities of three months or less at the time of purchase.

Fair value of financial instruments—Financial instruments carried on the balance sheet include cash and bank balances, receivables, investments, accounts payable and debt. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Short-term financial instruments that expose the Group to concentration of credit risk consist primarily of cash and bank balances, receivables, short-term investments, payables and short-term debt. The estimated fair value of such financial instruments as of December 31, 2004 approximated their carrying value as reflected in the combined balance sheet.

Long-term financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of long-term investments and long-term debt. It is not practicable for the Group to estimate the fair values of all of its long-term investments due to quoted market prices not being readily available and regular valuations are not being completed or obtained due to the excessive costs involved.

Fair values of corporate bonds issued by MGTS are disclosed in Note 14. As of December 31, 2004, fair value of other fixed rate debt, including capital lease obligations, and variable rate debt approximated carrying value.

Short-term investments—Short-term investments represent investments in promissory notes and time deposits, which have original maturities in excess of three months and mature within twelve months from the balance sheet date. These investments are being accounted for at amortized cost. Management periodically assesses the realizability of the carrying values of the investments and, if necessary, records impairment losses to write the investment down to fair value. For the years ended December 31, 2004, 2003 and 2002, no such impairments have occurred.

Accounts receivable—Accounts receivable are stated at their net realizable value after deducting an allowance for doubtful accounts. Such provisions reflect either specific cases or estimates based on evidence of collectibility.

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

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

Value-added taxes—Value-added taxes ("VAT") related to sales are payable to the tax authorities upon provision of services and issuance of an invoice to the customer. VAT incurred for purchases may be reclaimed, subject to certain restrictions, against VAT related to sales.

Inventories and spare parts—Inventories and spare parts comprise equipment for resale, cables and spare parts and are stated at the lower of cost or market. Cost is computed on a weighted average basis. The entities of the Group periodically assess their inventories and spare parts for obsolete or slow moving stock and write down slow-moving inventories and spare parts to their market value.

Property, plant & equipment—For Combined Entities acquired by the controlling shareholder through business combinations accounted for by the purchase method, property, plant and equipment ("PP&E") were assigned their fair values at the acquisition date. If fair values of the identifiable net assets of the acquired entities exceeded acquisition cost, the fair values of non-current assets held by the acquired entities at the acquisition date, including PP&E, were reduced by such excess. All subsequent purchases of PP&E have been recorded at cost.

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

Cost includes major expenditures for improvements and replacements which extend useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance are charged to the statements of operations as incurred.

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

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

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

Buildings	20-47 years
Telecommunication equipment	10-17 years
Cables and transmission devices	10-31 years
Motor vehicles	4-5 years
Office equipment and other	3-25 years

Leasehold improvements are depreciated on a straight-line basis over the shorter of their useful life or lease term.

Property, plant and equipment held and used by the Group are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may have been impaired. Recoverability of assets to be held and used is measured by comparison of the carrying amount of the assets to the future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Management is not aware of any indicators of impairment occurred relating to the Group's investments in property, plant and equipment during the years ended December 31, 2004, 2003 and 2002.

The Group incurs costs associated with operating and other equipment, which require installation and related works to commence revenue generating activities. All costs necessarily incurred which are directly attributable to the construction, preparation and installation of an item to commence revenue generating activities are capitalized.

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

Asset retirement obligations—In accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations", the Group calculates an asset retirement obligation and an associated asset retirement cost when the Group has a legal obligation in connection with the retirement of tangible long-lived assets. The Group's obligations under SFAS No. 143 arise from certain of its leases and relate primarily to the cost of removing equipment from such lease sites. As of December 31, 2004, the estimated asset retirement obligations were not significant to the Group's combined financial position and results of operations.

Intangible assets—Intangible assets are stated at acquisition cost. License costs are amortized on a straight-line basis over the license period starting from the date such license area becomes commercially operational. Amortization of other finite-life intangible assets, comprised mostly of billing systems and other software, is computed on a straight-line basis over five years.

Investments—Investments in businesses in which the Group does not have control, but exercises significant influence over operating and financial policies ("affiliates"), are accounted for using the equity method. The Group's share of net assets and net income of affiliates is included in the combined net assets and operating results using the equity method of accounting.

During the years ended December 31, 2004, 2003 and 2002, MGTS owned 51% of voting common shares of Mediatel, with the remaining shares owned by Concern SITRONICS, a subsidiary of Sistema. Mediatel, a company incorporated in the RF, provides support and maintenance services related to telecommunication equipment and software, primarily to the Combined Entities. MGTS has entered into an agreement with Concern SITRONICS in respect of corporate governance of Mediatel that provides that control over operating and financial policies of Mediatel (including, but not limited to, the rights to establish its operating and capital decisions, including budgets, and the rights to select and set the compensation of management responsible for implementation of these decisions) is transfered to Concern SITRONICS. The Group's investment in Mediatel was accounted for using the equity method of accounting (Note 25).

Investments in corporate shares where the Group owns more than 20% of share capital, but does not have the ability or intent to control or exercise significant influence over operating and financial policies, as well as investments in corporate shares where the Group owns less than 20% of share capital, are accounted for at cost of acquisition. Management periodically assesses realizability of the carrying values of such investments.

The promissory notes purchased by the Group are carried at amortized cost. A provision is made, based on management assessment, for notes that are considered uncollectible.

Income taxes—Income taxes have been computed in accordance with the laws of the RF. Income tax rate in the RF is 24%. In July 2004, amendments to Russian income tax legislation were enacted to increase the income tax rate on dividends paid within Russia to 9% (previously 6%) effective January 1, 2005.

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

Retirement benefit and social security costs—In Russia, all social contributions, including contributions to the pension fund, are substituted with the unified social tax ("UST") calculated by the application of a regressive rate from 35.6% to 2% of the annual gross remuneration of each employee. UST is allocated to three social funds, including the pension fund, where the rate of contributions vary from 28% to 2%, respectively, depending on the annual gross salary of each employee. The contributions are expensed as incurred.

MGTS has historically offered its employees certain benefits upon and after retirement. The cost of such benefits is recognized during an employee's years of active service (Note 16).

The Group accounts for pension plans following the requirements of SFAS No. 87 "Employers' Accounting for Pensions". In December 2003, FASB issued a revision of SFAS No. 132, "Employers' Disclosure about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106" ("SFAS No. 132R"). SFAS No. 132R revised employers' disclosure about pension plans and other postretirement benefit plans. It requires additional disclosures about the plan assets, benefit obligations, cash flows and net periodic benefit cost of defined benefit plans and other defined postretirement plans. It does not change the measurement or recognition of those plans required by previous Financial Accounting Board Standards. Following the application of SFAS No. 132R, the Group included the required disclosures in the combined financial statements as of December 31, 2004 (Note 16).

Borrowing costs—Borrowing costs were recognized as an expense in the year in which they were incurred. Borrowing costs for assets that require a period of time to get them ready for their intended use are capitalized and amortized over the related assets' estimated useful lives. The capitalized borrowing costs for the years ended December 31, 2004, 2003 and 2002 amounted to $1.2 million, $1.2 million and $0.6 million, respectively.

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

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

Minority interests—Minority interests represent shares in book value of net assets of the Combined Entities proportional to equity interests in those entities owned, directly or indirectly, by shareholders other than Sistema and its subsidiaries.

Distributions to shareholders—Dividends are recognized at the date they are declared. Distributable retained earnings of the Group are based on amounts extracted from statutory accounts of individual entities and may differ from amounts calculated on the basis of U.S. GAAP.

Recently adopted accounting pronouncements—In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". This Standard rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishments of Debt", and an amendment of that Standard, Standard No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements" to address classification of gains and losses from extinguishment of debt in the statement of operations. This Standard also amended Standard No. 13, "Accounting for Leases", to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. The adoption of SFAS No. 145 did not have a material impact on the Group's results of operations or its financial position.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which requires the recognition of a liability when incurred for costs associated with an exit or disposal activity. The fundamental conclusion reached by the FASB in this Statement is that an entity's commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. The Group adopted the provisions of SFAS No. 146 effective January 1, 2003. The adoption of SFAS No. 146 did not have a material impact on the Group's results of operations or its financial position.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that the guarantor recognize, at the inception of certain guarantees, a liability for the fair value of the obligation undertaken in issuing such guarantee. FIN 45 also requires additional disclosure requirements about the guarantor's obligations under certain guarantees that it has issued. The Group adopted initial recognition and measurement provisions of this interpretation on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of FIN 45 did not have a material impact on the Group's financial position or results of operations.

In November 2002, the Emerging Issues Task Force ("EITF") issued a final consensus on EITF Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables". EITF Issue No. 00-21 provides guidance on when and how an arrangement involving multiple deliverables should be divided in separate units of accounting. The Group adopted the requirements of EITF Issue No. 00-21 prospectively for arrangements entered into after June 15, 2003. The adoption of EITF Issue No. 00-21 did not have a material impact on the Group's financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendments of FASB Statements No. 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 clarifies under what circumstances a contract with an initial investment meets the characteristic of a derivative, clarifies when a derivative contains a financing component, amends the definition of an underlying and certain other existing pronouncements. The Group adopted the requirements of SFAS No. 149 for contracts entered into or modified and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not have a material impact on the Group's financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS No. 150 requires issuers to classify as liabilities (or assets in some circumstances) certain classes of freestanding financial instruments that embody obligations for the issuer, including mandatorily redeemable financial instruments, obligations to repurchase the issuer's equity shares by transferring assets and certain obligations to issue a variable number of shares. The Group adopted the requirements of SFAS No. 150 effective July 1, 2003. The adoption of SFAS No. 150 did not have a material impact on the Group's financial position or results of operations.

In November 2003, the EITF reached a final consensus on Issue No. 03-10, "Application of EITF Issue No. 02-16, 'Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor', by Resellers to Sales Incentives Offered to Consumers by Manufacturers." The consensus was reached that consideration received by a reseller from the vendor in exchange for vendor sales incentives tendered by consumers should not be reported as a reduction of the cost of the reseller's purchases from the vendor but instead should be shown as revenue. EITF Issue No. 03-10 is effective for reporting periods beginning after November 25, 2003. The adoption of Issue No. 03-10 did not have a material impact on the Group's results of operations or financial position.

In December 2003, the FASB issued a revision to Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46R" or the "Interpretation"). FIN 46R clarifies the application of ARB No. 51, "Consolidated Financial Statements", to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. FIN 46R requires the consolidation of these entities, known as variable interest entities ("VIEs"), by the primary beneficiary of the entity. The primary beneficiary is the entity, if any, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. Among other changes, the revisions of FIN 46R (a) clarified some requirements of the original FIN 46, which had been issued in January 2003, (b) eased some implementation problems, and (c) added new scope exceptions. FIN 46R deferred the effective date of the Interpretation for public companies to the end of the first reporting period ending after March 15, 2004, except that all public companies must at minimum apply the provisions of the Interpretation to entities that were previously considered "special-purpose entities" under the FASB literature prior to the issuance of FIN 46R by the end of the first reporting period ending after December 15, 2003. The adoption of FIN 46R did not have a material impact on the Group's financial position or results of operations.

In October 2004, the EITF reached a consensus on EITF Issue No. 04-10, "Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds". EITF No. 04-10 provided additional guidance on when operating segments that are below the 10% threshold can be aggregated. EITF Issue No. 04-10 states that segments can only be aggregated if they have similar economic characteristics and if they are similar in areas such as production processes, types of customers, distribution channels and the products themselves are similar. The consensus reached by EITF No. 04-10 is effective for fiscal years ending after October 13, 2004. The adoption of EITF No. 04-10 did not have a material impact on the Group's financial position or results of operations.

New accounting pronouncements—In July 2004, the EITF issued EITF No. 02-14, "Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock." A consensus was reached regarding an investor that has the ability to exercise significant influence over the operating and financial policies of the investee. This type of investor should apply the equity method of accounting only when it has an investment(s) in common stock and/or an investment that is in-substance common stock. The Task Force also reached a consensus on the definition of in-substance common stock and related guidance. EITF No. 02-14 is effective for reporting periods beginning after September 15, 2004. The Group does not anticipate that the adoption of EITF Issue No. 02-14 will have a material impact on its financial position or results of operations.

In September 2004, the EITF issued a final consensus on EITF Issue No. 04-1, "Accounting for Preexisting Relationships between the Parties to a Business Combination". In this issue the EITF reached a consensus that a business combination between two parties having a preexisting relationship is a multiple-element transaction with one element being the business combination and the other element being the settlement of the preexisting relationship. This Issue requires certain additional disclosures for business combinations between parties with a preexisting relationship. EITF Issue No. 04-1 is effective for reporting periods beginning after October 13, 2004. The Group does not anticipate that the adoption of EITF Issue No. 04-1 will have a material impact on its financial position or results of operations.

In September 2004, the U.S. Securities and Exchange Commission ("SEC") staff issued the EITF Topic D-108, "Use of the Residual Method to Value Acquired Assets Other Than Goodwill", which requires the companies to use the direct value method to determine the fair value of the intangible assets acquired in business combinations completed after September 29, 2004. The SEC staff also announced that companies that currently apply the residual value approach for valuing intangible assets with indefinite useful lives for purposes of impairment testing, must use the direct value method by no later than the beginning of their first fiscal year after December 15, 2004. The Group does not anticipate impact from adoption of the above SEC guidance to be material to its results of operations or financial position.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets", an amendment of APB Opinion No. 29, "Accounting for Nonmonetary Transactions". SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets set in the APB Opinion No. 29 and replaces it with a general exception for exchanges that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective prospectively for nonmonetary exchanges occurring after June 15, 2005. The Group does not anticipate the adoption of SFAS No. 153 to have a material impact on its results of operations or financial position.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS No. 123R"), a revision of SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS No. 123R supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and requires all entities to recognize compensation cost in an amount equal to the grant-date fair value of share-based payments to employees. That cost will be recognized over the period during which an employee is required to provide service in exchange for an award of equity instruments. For public entities (other than those filing as small business issuers) SFAS No. 123R is effective in the first interim or annual reporting period of the first fiscal year that begins after June 15, 2005. For nonpublic entities SFAS No. 123R is effective in the first annual reporting period that begins after December 15, 2005. At that time companies can select whether they will apply the standard retroactively by restating their historical financial statements or prospectively for new stock-based compensation arrangements and the unvested portion of existing arrangements. The Group does not anticipate the adoption of SFAS No. 123R to have a material impact on its financial position, cash flows and results of operations.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143." This Interpretation clarifies that the term "conditional asset retirement obligation" as used in FASB Statement No. 143, "Accounting for Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity, in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists to make a reasonable estimate of the fair value of the obligation. Interpretation No. 47 is effective for the Group beginning January 1, 2006. The Group is currently in the process of assessing effects of Interpretation No. 47 on its financial position and result of operations.

In March 2005, the U.S. Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin 107, "Share-Based Payments", or SAB 107. The interpretations in SAB 107 express views of the SEC staff regarding the interaction between SFAS No. 123R and certain SEC rules and regulations, and provide the SEC staff's views regarding the valuation of share-based payment arrangements for public companies. In particular, SAB 107 provides guidance related to share-based payment transactions with nonemployees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS No. 123R in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS No. 123R, the modification of employee share options prior to adoption of SFAS No. 123R.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections", which replaces APB Opinion No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements". SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle and is applicable to all voluntary changes and to changes required by an accounting pronouncement if such pronouncement does not specify transition provisions. SFAS No. 154 requires retrospective application to the prior periods' financial statements of changes in accounting principle. In cases when it is impracticable to determine the period-specific or cumulative effects of an accounting change, the statement provides that the new accounting principle should be applied as of the earliest period for which retrospective application is practicable or, if impracticable to determine the effect of a change to all prior periods, prospectively from the earliest date practicable. This Statement shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In June 2005, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 05-2, "The Meaning of "Conventional Convertible Debt Instrument' in EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." Issue No. 00-19 is used to evaluate whether embedded derivatives should be bifurcated under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. Specifically, Statement 133 provides guidance as to when an issuer is required to bifurcate a conversion option that is embedded in convertible debt. However, Issue 00-19 does not define "conventional convertible debt instrument." Given the development of numerous contractual terms that may be included in a convertible debt instrument, it is not clear when a convertible debt instrument is "conventional." The consensus reached by EITF No. 05-2 is effective for new instruments entered into and instruments modified in reporting periods after June 29, 2005. The Group does not anticipate the adoption of EITF No. 05-2 to have a material impact on its financial position and results of operations.

(Amounts in thousands of U.S. Dollars)

In June 2005, the EITF reached a consensus on EITF Issue No. 05-6, "Determining the Amortization Period for Leasehold Improvements." As part of a business combination, the acquiring entity will often assume existing lease agreements of the acquired entity and acquire the related leasehold improvements. The issues are whether the "lease term" should be reevaluated at consummation of a purchase business combination and whether the amortization period for acquired leasehold improvements should be reevaluated by the acquiring entity in a business combination. The consensus reached by EITF No. 05-6 is effective for leasehold improvements that are purchased or acquired in reporting periods beginning June 29, 2005. The Group does not anticipate the adoption of EITF No. 05-6 to have a material impact on its financial position and results of operations.

3. DISCONTINUED OPERATIONS

During 2003, Sistema made a decision to discontinue operations of P-Com, subsidiary of the Group. In August 2004, the Group sold its 83.25% of P-Com's voting common shares to Sky-Link, an affiliate of Sistema, for cash consideration of $16.0 million.

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the combined financial statements of the Group reflect P-Com business as discontinued operations for all periods presented. Accordingly, assets, liabilities and income and expense items of P-Com have been excluded from the respective captions in the balance sheets and statements of operations and have been reported as assets and liabilities of discontinued operations and as gain or loss from discontinued operations, net of applicable taxes for all years presented.

Revenues from discontinued operations and gain (loss) from discontinued operations before income taxes and minority interest for the year ended December 31, 2004 (prior to the date of disposal) and for the years ended December 31, 2003 and 2002 are presented as follows:

	2004	2003	2002
Revenues from discontinued operations	32,419	51,305	44,544
Gain/(loss) from discontinued operations before income taxes and minority interest	8,421	(13,328)	10,759

(Amounts in thousands of U.S. Dollars)

Assets and liabilities of discontinued operations as of December 31, 2003 and 2002 consisted of the following:

	2003	2002
Current assets	$ 9,688	$ 9,521
Non-current assets	49,311	66,510
Total assets of discontinued operations	**$58,999**	**$76,031**
Current liabilities	$27,639	$40,089
Non-current liabilities	11,994	3,007
Minority interest	2,865	2,395
Total liabilities of discontinued operations	**$42,498**	**$45,491**

Assets of discontinued operations as of December 31, 2002 included goodwill in amount of $19.3 million assigned to P-Com. Concurrently with the decision of Sistema to curtail further investments in P-Com, the Group performed an impairment test of its goodwill assigned to P-Com and recorded an impairment charge of $19.3 million, which was included in net loss from discontinued operations for the year ended December 31, 2003.

4. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Acquisition of Golden Line

In July 2002, the controlling shareholder of the Group acquired 50% of voting common shares of Golden Line, a provider of fixed line data transmission services, for cash consideration of $0.1 million. This transaction increased the controlling shareholder's voting power in Golden Line to 100% and resulted in obtaining control over Golden Line operations by the Group. This acquisition was accounted for under the purchase method.

The purchase price allocation was as follows:

Current assets	$ 779
Non-current assets, net of allocated excess of fair value over cost	9,692
Current liabilities	(5,661)
Non-current liabilities	(872)
Carrying value of the Group's investments in Golden Line as of the date of acquisition	(3,878)
Purchase price allocation	**$ 60**

Acquisition of Comstar UTS

In September and October 2002, the controlling shareholder of the Group acquired senior discounted notes of Metromedia International Group, a U.S.-based company with interests in telecommunications and mass media businesses in the RF. In December 2003, the controlling shareholder acquired 50% of voting shares of Comstar (previous name of Comstar UTS) in exchange for the Metromedia notes with the fair value of $20.8 million. This transaction increased the controlling shareholder's voting power in Comstar UTS to 100% and resulted in obtaining control over Comstar UTS' operations by the Group. This acquisition was also accounted for under the purchase method.

(Amounts in thousands of U.S. Dollars)

The purchase price allocation was as follows:

Current assets	$ 23,645
Non-current assets	53,165
Current liabilities	(16,983)
Non-current liabilities	(6,540)
Carrying value of the Group's investments in Comstar UTS as of the date of acquisition	(32,495)
Purchase price allocation	**$ 20,792**

The transaction was accounted for as a contribution by the controlling shareholder and resulted in the increase of the combined equity for the amount of $20.8 million.

For the year ended December 31, 2002, the Group's investments in Comstar UTS were accounted for under the equity method. If the acquisition of Comstar UTS shares by the controlling shareholder had occurred on January 1, 2002, the net revenues and the net income of the Group for the year ended December 31, 2002 would equal $493.3 million and $65.3 million, respectively.

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

Other acquisitions and disposals of subsidiaries

In October 2002, the Group sold 7.5% of its shareholding in P-Com to Qualcomm for a promissory note with par value of $5.1 million. The net gain on the disposal amounting to $1.5 million was included in gain on disposal of discontinued operations for the year ended December 31, 2002.

In June 2004, 100% of voting common shares of MTU-Inform Plus were sold to Sistema Mass Media for $0.2 million. Subsequent to the sale, the name of the company was changed to Sistema Multimedia. The Group retained control over and continued to combine Sistema Multimedia in its financial statements (Note 25).

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2004, 2003 and 2002 consisted of the following:

	December 31,		
	2004	2003	2002
Cash	$32,837	$24,490	$27,252
Cash equivalents:			
Promissory notes	30,535	7,908	12,273
Deposits	3,935	14,472	—
Other	129	82	64
	34,599	22,462	12,337
Total	**$67,436**	**$46,952**	**$39,589**

Promissory notes with original maturities less than three months, included in cash equivalents as of December 31, 2004 are comprised of Ruble-denominated promissory notes of $22.2 million, USD-denominated promissory notes of $6.7 million, and Euro-denominated promissory notes of $1.6 million. The weighted average interest rate on promissory notes, included in cash equivalents as of December 31, 2004 was 4.1%.

(Amounts in thousands of U.S. Dollars)

Cash and cash equivalents with the Moscow Bank of Reconstruction and Development ("MBRD"), a subsidiary of Sistema, as of December 31, 2004, 2003 and 2002 amounted to $45.5 million, $31.9 million and $19.0 million, respectively.

6. SHORT-TERM INVESTMENTS

Short-term investments as of December 31, 2004, 2003 and 2002 consisted of the following:

	December 31,		
	2004	2003	2002
RUR-denominated time deposits in MBRD	$ 19,821	$ 8,488	$ 295
USD-denominated time deposits in MBRD	4,600	1,300	—
Promissory notes from other subsidiaries and affiliates of the controlling shareholder:			
Sistema Telecom	34,828	3,735	—
Sky-Link	26,277	—	—
MBRD	12,081	36,513	—
P-Com	5,087	5,070	5,070
Other	1,188	836	354
	103,882	55,942	5,719
Promissory notes from third parties	1,431	10,508	—
Total	**$105,313**	**$66,450**	**$5,719**

The interest rates of RUR-denominated time deposits in MBRD vary from 7.8% for a 4 months deposit to 12.0% for a 12 months deposit. USD-denominated time deposits in MBRD have original terms of 4 and 5 months and bear interest of 6.0% and 7.0% per annum, respectively.

Promissory notes from other subsidiaries of the controlling shareholder bear interest rates varying from 0% to 11.3%.

As of December 31, 2004, 2003 and 2002, Telmos held three Ruble denominated, substantially interest free, unsecured promissory notes of a party related by means of common control. Two notes with the face value equivalent to $2.3 million and $2.2 million were repayable on demand, but not earlier than March and June 2012, respectively. Another note with the face value equivalent to $1.0 million was repayable on demand but not earlier than November 2006. As repayment of those notes was considered doubtful, the Group has recognized impairment loss in amount equal to the carrying value of the promissory notes. The impairment loss recognized during the year ended December 31, 2002 amounted to $3.9 million (Note 20). In September 2005, the notes were disposed to a subsidiary of Sistema for a cash consideration of $5.5 million. The gain from disposal was recorded in additional paid-in capital.

Interest income received from related parties is disclosed in Note 23.

7. TRADE RECEIVABLES, NET

Trade receivables, net of provision for doubtful debts, as of December 31, 2004, 2003 and 2002 consisted of the following:

	December 31,		
	2004	2003	2002
Trade receivables	$69,563	$58,955	$51,479
Provision for doubtful receivables	(6,059)	(4,948)	(3,730)
Total	**$63,504**	**$54,007**	**$47,749**

(Amounts in thousands of U.S. Dollars)

Trade receivables as of December 31, 2004, 2003 and 2002 include receivables from related parties of $13.5 million, $12.3 million and $nil, respectively, of which receivables from P-Com amounted to $11.0 million, $8.4 million and $nil, respectively.

8. OTHER RECEIVABLES AND PREPAID EXPENSES

Other receivables and prepaid expenses as of December 31, 2004, 2003 and 2002 consisted of the following:

	December 31,		
	2004	2003	2002
VAT recoverable	$22,113	$12,636	$15,341
Other taxes receivable	17,160	8,918	2,374
Prepayments for services	8,670	3,972	3,253
Other receivables	12,726	13,376	12,651
Total	**$60,669**	**$38,902**	**$33,619**

9. INVENTORIES AND SPARE PARTS

Inventories and spare parts as of December 31, 2004, 2003 and 2002 consisted of the following:

	December 31,		
	2004	2003	2002
Equipment for resale	$ 5,888	$ 3,469	$ —
Spare parts and other materials	17,116	15,602	11,664
Total	**$23,004**	**$19,071**	**$11,664**

10. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as of December 31, 2004, 2003 and 2002 consisted of the following:

	December 31,		
	2004	2003	2002
Buildings and site improvements	$ 206,577	$ 178,482	$ 152,192
Switches and transmission devices	815,698	630,332	525,192
Other fixed assets	170,256	159,162	71,358
Construction in progress and equipment for installation	135,661	85,229	71,622
Property, plant and equipment, cost	1,328,192	1,053,205	820,364
Less: accumulated depreciation	(296,435)	(208,538)	(128,048)
Total	**$1,031,757**	**$ 844,667**	**$ 692,316**

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

Depreciation charge during the years ended December 31, 2004, 2003 and 2002 amounted to $74.8 million, $72.8 million and $57.8 million, respectively.

(Amounts in thousands of U.S. Dollars)

11. INTANGIBLE ASSETS, NET

Intangible assets, net of accumulated amortization, as of December 31, 2004, 2003 and 2002 consisted of the following:

	December 31, 2004			December 31, 2003			December 31, 2002		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Licenses	$ 6,919	$ (3,190)	$ 3,729	$ 6,492	$ (2,998)	$ 3,494	$ 4,391	$(3,485)	$ 906
Billing systems and other software	42,108	(19,743)	22,365	27,150	(16,088)	11,062	7,499	(2,670)	4,829
Other	4,542	(396)	4,146	2,178	(316)	1,862	1,038	(307)	731
Total intangible assets, net	**$53,569**	**$ 23,329**	**$30,240**	**$35,820**	**$(19,402)**	**$16,418**	**$12,928**	**$(6,462)**	**$6,466**

Amortization expense recorded on intangible assets for the years ended December 31, 2004, 2003 and 2002 amounted to $4.5 million, $2.9 million and $2.0 million, respectively. Based on the intangible assets existing at December 31, 2004, the estimated amortization expense for each of the five succeeding years and thereafter is as follows:

Year ended December 31,	
2005	$ 5,290
2006	5,205
2007	5,142
2008	4,820
2009	4,610
Thereafter	5,173
Total	**$30,240**

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

12. LONG-TERM INVESTMENTS

Long-term investments as of December 31, 2004, 2003 and 2002 consisted of the following:

	December 31,					
	2004		2003		2002	
	Ownership, %	Investment	Ownership, %	Investment	Ownership, %	Investment
Comstar UTS	combined	—	combined	—	50%	$31,460
MCC		—	24%	$ 7,262	24%	6,730
Total investments in affiliates		—		7,262		38,190
Other investees, at cost	various	$ 7,171	various	6,851	various	10,493
P-Com RUR-denominated 16% promissory notes		3,964		3,735		—
Comincom RUR-denominated loan		—		—		2,705
Interest free loans to investees		155		1,011		1,090
Total long-term investments		**$11,290**		**$18,859**		**$52,478**

In October 2004, MGTS sold shares of MCC to Sky-Link, an affiliate of Sistema, for $0.7 million in cash. As a result of this transaction, the Group recognized loss from disposal of investments in affiliates of $6.6 million (Note 20).

(Amounts in thousands of U.S. Dollars)

13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued payroll and other current liabilities as of December 31, 2004, 2003 and 2002 consisted of the following:

	December 31,		
	2004	2003	2002
Accrued payroll and applicable taxes	$13,300	$ 5,830	$ 2,563
Accrued interest	3,664	2,263	3,161
Other current liabilities	6,656	9,024	5,258
Total	**$23,620**	**$17,117**	**$10,982**

14. DEBT OBLIGATIONS

The Group's debt obligations as of December 31, 2004, 2003 and 2002 consisted of the following:

	Currency	Annual interest rate (Actual at December 31, 2004)	December 31, 2004	2003	2002
MGTS Bonds 1st issue	RUR	—	—	—	$ 9,540
MGTS Bonds 2nd issue	RUR	—	—	$ 18,692	31,462
MGTS Bonds 3rd issue	RUR	17.0%	$ 36,038	33,951	—
MGTS Bonds 4th issue	RUR	10.0%	54,057	—	—
Total corporate bonds			90,095	52,643	41,002
Citibank	USD	LIBOR+1.6% (4.2%)	15,144	8,616	7,577
Sberbank	RUR	11.0%	12,613	30,556	58,333
Vneshtorgbank	Euro	highest of 7.5% or EURIBOR+5.4% (7.5%)	9,908	—	—
Vneshtorgbank	USD	11.0%	7,073	11,652	14,924
Sistema Mass Media	RUR	0.0%	6,994	—	—
MBRD	USD	4.8%	5,000	—	—
Raiffeisenbank	USD	LIBOR+5.0% (7.6%)	3,750	15,000	15,000
Vnesheconombank	USD	7.0%	2,216	6,646	—
Alfa Bank	USD	12.5%	1,517	3,172	2,392
International Moscow Bank	USD	—	—	1,750	1,500
Promissory notes issued to Donau-Bank	USD	—	—	—	3,831
Long-term portion of vendor financing	various	various	14,996	18,272	10,040
Short-term portion of vendor financing	various	various	18,570	9,135	7,330
Other	various	various	2,222	3,545	6,655
Total debt			190,098	160,987	168,584
Less: amounts maturing within one year			(85,616)	(56,687)	(65,412)
Total debt, net of current portion			**$104,482**	**$104,300**	**$103,172**

Corporate bonds—In the fourth quarter of 2000, MGTS issued two tranches of RUR-denominated bonds (first issue) with aggregate face value of RUR 600 million (equivalent of $21.6 million as of December 31, 2004) due in 2003. MGTS has fully repaid both tranches of the first issue of the bonds.

In the fourth quarter of 2001, MGTS issued RUR-denominated bonds (second issue) with the face value of RUR 1,000 million (equivalent of $36.0 million as of December 31, 2004) due in 2004. MGTS has fully repaid the second issue of the bonds.

In February 2003, MGTS issued 2-year RUR-denominated bonds (third issue) with the face value of RUR 1,000 million (equivalent of $36.0 million as of December 31, 2004) due in 2005. The bonds carry coupon of 12.3% during the first year of trading and 17.0% during the second year. MGTS has fully repaid the bonds in February 2005.

In April 2004, MGTS issued 5-year RUR-denominated bonds (fourth issue) with the face value of RUR 1,500 million (equivalent of $54.1 million as of December 31, 2004). The bonds carry a coupon of 10% per annum. MGTS made an unconditional offer to repurchase the bonds at par value in April 2006.

As of December 31, 2004, the fair value of the bonds was approximately $90.8 million and ranged from 100.0% to 102.0% of the principal amount.

Citibank—In May and August 2004, MGTS entered into two credit facilities with Citibank for a total amount of $9.5 million. Both facilities bear interest of LIBOR+1.6% and are repayable in 8 semi-annual installments with the last payment in 2009. Credit facilities were opened to finance acquisitions of equipment from STROM Telecom, a subsidiary of Sistema. The facilities are collateralized by equipment with approximate carrying amount of $4.2 million as of December 31, 2004 and are guaranteed by Export Guarantee and Insurance Corporation of the Czech Republic. As of December 31, 2004, the amount outstanding under these facilities was $8.0 million.

In 2003, MGTS received a loan from Citibank for purchase of equipment in amount of $7.1 million. The loan bears interest of LIBOR+1.6% and is repayable in 8 semi-annual installments with the last payment in 2008. The loan is collateralized by pledge of equipment with approximate carrying value of $5.4 million, a deposit of $1.0 million in Citibank and is guaranteed by Export Guarantee and Insurance Corporation of the Czech Republic.

Based on restrictive covenants of the Citibank loan agreements, the Debt to Equity ratio and Debt Service to Earnings Before Interest and Taxes (“EBIT”) ratio of MGTS should not exceed 3:1. MGTS is not allowed to obtain borrowings individually exceeding $30.0 million (apart from the Sberbank loan, Raiffeisenbank loan and the third and fourth issue of MGTS bonds) or alienate more than 10% of its assets without the written approval of Citibank and its aggregate debt may not exceed $250.0 million.

Sberbank credit facilities—In September 2004, MGTS entered a credit line with Sberbank limited to RUR 600 million (equivalent of $21.6 million as of December 31, 2004) to finance its current assets. The loan matures in 2007. As of December 31, 2004, $10.8 million was outstanding under this credit line. The interest rate of the credit line depends on the gross cash flow on MGTS accounts with Sberbank, and was 11% per annum as of December 31, 2004.

In December 2000, MGTS signed a credit facility agreement with Sberbank for a total amount equivalent to $90.0 million to finance its obligations under Eurobond borrowings. The loan was received in three tranches during the first quarter of 2001. In September 2002, MGTS prolonged repayment of the outstanding balance to the first quarter of 2005. The interest rate on the prolonged loan was 18% per annum during the first six months and 12% during the second six months of the year. As of December 31, 2004, $1.8 million was outstanding under this loan. The loan was fully repaid in February 2005.

Vneshtorgbank—In July 2004, MGTS entered into two credit agreements for a total amount of Euro 7.3 million (equivalent of $9.9 million as of December 31, 2004) to finance equipment acquisition. The interest rate is the highest of EURIBOR+5.4% or 7.5%. Equipment with approximate carrying amount of $7.8 million is pledged to collateralize the outstanding balance as of December 31, 2004.

During the year ended December 31, 2002, the Group received a number of loans from Vneshtorgbank maturing in 2003-2007 to finance working capital. As of December 31, 2004, amount of

(Amounts in thousands of U.S. Dollars)

$7.1 million was outstanding under these loans. The loans are collateralized by equipment with approximate carrying amount of $5.0 million. The weighted average interest rate on the loans outstanding as of December 31, 2004 is 11% per annum.

Sistema Mass Media—In 2004, Sistema Mass Media provided to Sistema Multimedia a short-term RUR denominated loan in the amount equivalent to $7.0 million. The loan is not secured and interest-free.

MBRD—In March 2004, Comstar UTS entered into $6.0 million credit facility with MBRD. The balance under the facility as of December 31, 2004 is USD 5.0 million. The facility is not secured, payable upon demand and bears interest rate of 4.8% per annum.

Raiffeisenbank—In September 2002, MGTS entered a credit line with Raiffeisenbank limited to $15.0 million and maturing in 2007. The approximate carrying amount of equipment pledged under the credit line as of December 31, 2004 was $25.9 million. In addition, MGTS is required to maintain monthly gross cash flows on the specified bank accounts in the amount of not less than $1.5 million. The credit line bears interest of LIBOR+5.0%. As of December 31, 2004, $3.8 million was outstanding under the credit line.

Vnesheconombank—In 1994, Comstar UTS entered a USD-denominated loan agreement bearing interest at 7.0% per annum with Vnesheconombank. The total amount of loan agreement was $65.1 million to be provided in four tranches. Comstar UTS only used the first two tranches, and borrowed $54.7 million. The balance outstanding under the loan as of December 31, 2004 of $2.2 million was repaid in January 2005. The next installment to be paid under the agreement is reserved in a special escrow account under the trilateral agreement between Comstar UTS, Vnesheconombank and International Moscow Bank. The escrow account balance as of December 31, 2004 amounted to $2.3 million and was recorded as restricted cash in the combined balance sheet.

Alfa Bank—In December 2002, Golden Line obtained a USD-denominated credit facility from Alfa Bank bearing annual interest at the rate of 12.5%. The facility limit was $4.0 million and it was available till November 2005. MTU-Inform guaranteed this credit facility and pledged equipment with the fair value of $4.7 million.

Vendor financing—Foreign suppliers of telecommunication equipment provide uncollateralized commercial credit to the Group denominated in various currencies on short-term and long-term basis, mostly interest free. The present value of the obligations under vendor financing agreements as of December 31, 2004 was determined using the Group's incremental borrowing rate of 10%.

The loan repayments over future periods are as follows:

Year ended December 31,	
2005	$ 85,616
2006	71,452
2007	23,503
2008	6,157
2009	3,370
Thereafter	—
Total	**$190,098**

As of December 31, 2004, the Group is in compliance with all covenants contained in its credit facilities.

(Amounts in thousands of U.S. Dollars)

15. CAPITAL LEASE OBLIGATIONS

Capital lease obligations as of December 31, 2004, 2003 and 2002 consisted of the following:

	December 31,		
	2004	2003	2002
Capital lease obligations	$26,699	$ 8,927	$10,955
Less: current portion	(6,782)	(4,763)	(5,027)
Total	**$19,917**	**$ 4,164**	**$ 5,928**

During the years ended December 31, 2004, 2003 and 2002, MGTS and Telmos entered into contracts for the lease of telecommunication equipment with Raiffeisen Leasing, MMB-Leasing and Invest-Svyaz-Holding, a subsidiary of Sistema. The agreements expire in 2005-2008 and assume transfer of ownership for equipment to the Group after the last lease payment is effected.

The net book value of leased assets comprised $42.7 million, $19.1 million and $17.2 million as of December 31, 2004, 2003 and 2002, respectively. Interest expense accrued on capital lease obligations for the years ended December 31, 2004, 2003 and 2002 amounted to $2.5 million, $1.2 million and $1.5 million, respectively.

The following table presents future minimum lease payments under finance leases together with the present value of the net minimum lease payments as of December 31, 2004:

Year ended December 31,	
2005	$ 9,233
2006	9,899
2007	8,110
2008	4,592
Total minimum lease payments (undiscounted)	31,834
Less: amount representing interest	(5,135)
Total present value of net minimum lease payments	**$26,699**

16. POSTRETIREMENT BENEFITS

MGTS has historically provided certain benefits to employees upon their retirement and afterwards. Currently the main features under the defined benefit pension program include the following:

Monthly regular pension—Employees retiring with at least fifteen years of service receive lifetime payments varying from RUR 3,600 (equivalent of USD 130 as of December 31, 2004) to RUR 50,400 (equivalent of USD 1,816 as of December 31, 2004) per year depending on employee's actual years of service and qualification;

Death-in-service—Lump-sum payment of RUR 15,000 (equivalent of USD 541 as of December 31, 2004), payable upon death of an employee, irrespective of past service;

Lump-sum upon retirement—Lump-sum payment upon retirement of employees with at least five years of service varying from RUR 3,700 (equivalent of USD 133 as of December 31, 2004) to RUR 22,200 (equivalent of USD 800 as of December 31, 2004) depending on employee's actual years of service;

Monthly telephone subsidy—Qualifying pensioners (those who served more than 30 years at MGTS) get 50% subsidy (approximately USD 4 per month as of December 31, 2004) for their monthly telephone bills from MGTS;

(Amounts in thousands of U.S. Dollars)

Death-while-pensioner—MGTS pays lump-sum benefits to relatives of deceased pensioners of up to RUR 10,000 (equivalent of USD 360 as of December 31, 2004)

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

Discount rate	9.2%
Future salary increases	9.2%
Future pension increases	0.0%
Average life expectancy of members from date of retirement	17 years

The change in the projected benefit obligation and the change in plan assets are presented in the following table:

	Year ended December 31,		
	2004	2003	2002
Projected benefit obligation, beginning of the year	$ 6,034	$ 5,172	$ 7,147
Service cost	1,601	544	578
Interest cost	634	441	428
Plan amendments	4,488	—	—
Actuarial losses/(gains)	855	(376)	(2,495)
Benefit payments	(433)	(156)	(116)
Currency translation effect	371	409	(370)
Projected benefit obligation, end of period	13,550	6,034	5,172
Less: fair value of plan assets	(2,037)	(1,137)	(937)
Unfunded status of the plan, end of the year	**$11,513**	**$ 4,897**	**$ 4,235**

The increase in projected benefit obligation due to plan amendment in the year ended December 31, 2004 relates to the increase in the base rate used to determine the monthly payments to the retired employees. The changes in the projected benefit obligation due to actuarial losses/(gains) for the years ended December 31, 2004, 2003 and 2002 relates primarily to the changes in the discount rate and employees turnover assumptions.

The accumulated benefit obligation as of December 31, 2004, 2003 and 2002 was $11.5 million, $5.1 million and $4.4 million, respectively.

The components of the net periodic benefit costs for the years ended December 31, 2004, 2003 and 2002 are as follows:

	Year ended December 31,		
	2004	2003	2002
Service cost	$1,601	$544	$ 578
Interest cost	634	441	428
Net periodic benefit cost	**$2,235**	**$985**	**$1,006**

The Group's management expects contributions to the plan during the year ended December 31, 2005 to amount to $0.8 million.

(Amounts in thousands of U.S. Dollars)

The future benefit payments to retirees under the defined benefit plan are expected as follows:

Year ended December 31,	
2005	$ 3,155
2006	1,075
2007	1,023
2008	977
2009	936
2010-2014	3,225
Thereafter	1,122
Total	**$11,513**

The plan assets for lifetime payments to employees retiring after January 1, 2004, are managed by Sistema Pension Fund, a subsidiary of Sistema.

17. PROPERTY, PLANT AND EQUIPMENT CONTRIBUTIONS

In the course of its business, in accordance with the regulations of the Moscow City Government, MGTS receives telecommunication infrastructure which is intended to operate as an integral part of the city wireline network from the real estate constructors free of charge. Property, plant and equipment contributions received by the Group as of December 31, 2004, 2003 and 2002 were as follows:

	December 31,		
	2004	2003	2002
Property, plant and equipment, beginning of the year	$ 88,388	$64,493	$48,388
Contributions received during the year	13,597	18,793	18,050
Currency translation effect	4,993	7,691	4,460
Property, plant and equipment amortized	(3,156)	(2,589)	(6,405)
Property, plant and equipment, end of the year	**$103,822**	**$88,388**	**$64,493**

18. SHARE CAPITAL

Share capital as of December 31, 2004, 2003 and 2002 is comprised of the share capitals of the Combined Entities as follows:

	Number of shares, authorised, issued and outstanding			Par value, Rubles			Amount		
	December 31,			December 31,			December 31,		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
MGTS:									
Preferred stock	15,965,850	15,965,850	15,965,850	40	40	40	$ 22,538	$ 22,538	$ 22,538
Common stock	79,829,200	79,829,200	79,829,200	40	40	40	112,462	112,462	112,462
Comstar UTS	23,021,000	1,000	—	1	23,021	—	10,088	10,088	—
MTU-Inform	1,000	1,000	1,000	10	10	10	1	1	1
Telmos	15,370	15,370	15,370	2,000	2,000	2,000	11,335	11,335	11,335
MTU-Intel	21,457	21,457	21,457	5	5	1	5	5	5
Sistema Multimedia	—	—	—	—	—	—	—	—	—
							156,429	156,429	146,341
Less: cross holdings and minority interests							(84,296)	(84,296)	(79,254)
Total							**$ 72,133**	**$ 72,133**	**67,087**

(Amounts in thousands of U.S. Dollars)

In October 2003, MTU-Intel increased par value of its shares from 1 Ruble to 5 Rubles. In April 2004, Comstar UTS effected a split of its 1,000 ordinary shares with par value of 23,021 Rubles into 23,021,000 ordinary shares with par value of 1 Ruble.

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

As of December 31, 2004, the common voting shares of the Combined Entities were held as follows:

	MGTS	Comstar UTS	MTU-Inform	Telmos	MTU-Intel	Sistema Multimedia
Sistema	56%	—	20%	40%	70%	—
ECU GEST S.A., subsidiary of Sistema	—	50%	—	—	—	—
MGTS	—	50%	51%	40%	30%	—
Sistema Telecom, subsidiary of Sistema	—	—	28%	—	—	—
Sistema Mass Media	—	—	—	—	—	100%
OJSC Svyazinvest	28%	—	—	—	—	—
OJSC Rostelecom, subsidiary of Svyazinvest	—	—	—	20%	—	—
Others	16%	—	1%	—	—	—
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

In February 2005, Sistema purchased 20% of voting common shares of Telmos from Rostelecom (Note 25).

(Amounts in thousands of U.S. Dollars)

19. OPERATING REVENUES

Operating revenues for the years ended December 31, 2004, 2003 and 2002 consisted of the following:

	Year ended December 31,		
	2004	2003	2002
Alternative fixed line communications			
Corporates			
Voice	$ 73,396	$ 65,511	$ 24,161
Data and internet	50,820	39,161	26,809
Value-added services	4,884	3,378	2,083
Other	2,404	333	70
Residential			
Voice	942	970	485
Data and internet: broadband	9,682	1,634	—
dial-up	25,097	18,844	16,696
Other	1,566	1,321	250
Operators	102,731	106,577	83,961
Other	10,151	10,193	9,514
	281,673	**247,922**	**164,029**
Traditional fixed line communications			
Residential			
Voice	156,094	118,626	78,421
Payphones	8,008	9,575	9,505
Additional telecommunication services	5,268	4,376	3,971
Other	2,061	7,267	7,298
Corporates			
Voice	125,403	117,848	107,988
Access node / Trunks rental	19,215	15,597	13,482
Additional telecommunication services	9,907	7,680	14,510
Other	7,179	3,976	2,108
Operators	80,325	56,351	37,443
	413,460	**341,296**	**274,726**
Total	**$695,133**	**$589,218**	**$438,755**

MGTS does not provide domestic long-distance and international long-distance, or DLD/ILD, telecommunication services directly to its subscribers, but must route such traffic through a DLD/ILD licensed operator. As a result, DLD/ILD traffic originated by MGTS' subscribers is carried by Rostelecom, which bills MGTS' subscribers directly. In 2004, MGTS had an agreement with Rostelecom pursuant to which Rostelecom paid MGTS approximately $2.4 million per month of its DLD/ILD revenues generated by MGTS' subscribers.

(Amounts in thousands of U.S. Dollars)

20. OPERATING EXPENSES

Operating expenses for the years ended December 31, 2004, 2003 and 2002 consisted of the following:

	Year ended December 31,		
	2004	2003	2002
Employee costs	$198,190	$148,952	$100,583
Depreciation and amortization	76,138	73,097	53,417
Repairs and maintenance	67,145	57,079	43,263
Network traffic	31,002	28,556	19,015
Taxes other than income taxes	29,528	15,187	17,313
Selling and marketing	19,452	14,387	8,319
Utilities and energy	16,443	13,288	10,819
Rent	16,006	13,387	6,764
Bank charges	9,109	6,823	5,441
Insurance	7,684	7,400	4,701
Transportation	3,343	3,177	2,206
Allowance for doubtful accounts	(243)	1,303	1,423
Provision for uncollectible notes (Note 6)	—	—	3,884
Damages from fire, net of insurance coverage	—	6,775	—
Cost of equipment sold	5,394	885	—
Other	42,223	36,249	25,093
Total	**$521,414**	**$426,545**	**$302,241**

In February 2003, a fire occurred in one of MGTS' switching stations, significantly damaging Telmos's and MGTS' equipment. As a result of the fire, 40,000 telephone lines were damaged. The net book value of the damaged equipment and equipment that became obsolete as a result of replacement of the damaged equipment amounted to $9.7 million, including the net book value of leased equipment of $1.4 million. The damaged equipment of Telmos was insured by Rosno, a subsidiary of Sistema, and Rossia Insurance Co ("Rossia"). Telmos received insurance coverage of $1.7 million from Rosno and entered in coverage litigation with Rossia seeking compensation of damages in amount of $5.8 million. Additionally, MGTS has filed a claim against a third party seeking compensation of damages caused by a fire in the amount of approximately $8.7 million (Note 25).

21. INCOME TAX EXPENSE

The Group's provision for income taxes for the years ended December 31, 2004, 2003 and 2002 was as follows:

	Year ended December 31,		
	2004	2003	2002
Current expense	$39,623	$36,161	$16,821
Deferred tax expense	1,453	2,687	5,608
Total	**$41,076**	**$38,848**	**$22,429**

(Amounts in thousands of U.S. Dollars)

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

	Year ended December 31,		
	2004	2003	2002
Income tax charge computed on income before taxes at standard rate applicable to the Group of 24%	$38,574	$36,586	$25,738
Change in valuation allowance	942	346	(2,860)
Foreign currency transactions differences	1,007	(965)	(1,115)
Non-deductible expenses	553	2,881	666
Total	**$41,076**	**$38,848**	**$22,429**

Temporary differences between the tax and accounting bases of assets and liabilities give rise to the following deferred tax assets and liabilities as of December 31, 2004, 2003 and 2002:

	December 31,		
	2004	2003	2002
Deferred tax assets			
Deferred connection fees	$ 36,220	$ 28,204	$15,591
Property, plant and equipment contributions	24,917	21,213	10,999
Valuation of property, plant and equipment	3,471	3,212	1,129
Allowance for doubtful accounts	3,758	3,207	224
Accrued operating expenses	3,164	2,810	3,277
Post-retirement benefits	2,763	1,175	1,062
Tax losses carryforward	1,607	1,682	8,697
Other	2,272	1,389	1,237
Less: valuation allowance	(1,802)	(860)	(514)
Total	**76,370**	**62,032**	**41,702**
Deferred tax liabilities			
Depreciation of property, plant and equipment	$(70,210)	$(58,730)	$ (4,327)
Other	(3,590)	(948)	(1,362)
Total	**$(73,800)**	**$(59,678)**	**$ (5,689)**
Net deferred tax assets, current portion	$ 15,693	$ 12,695	$ 4,156
Net deferred tax assets, long-term portion	6,274	4,845	31,857
Net deferred tax liabilities, long-term portion	(19,397)	(15,186)	—

Deferred tax assets relating to tax losses carried forward in the amount of $1.6 million as of December 31, 2004 expire in 2012 and are attributable to MTU-Inform.

22. SEGMENT INFORMATION

SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information”, established standards for reporting information about operating segments in financial statements. Operating segments are defined as components of an enterprise engaging in business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Group’s management evaluates performance of the segments based on operating income.

(Amounts in thousands of U.S. Dollars)

An analysis and reconciliation of the Group's business segment information to the respective information in the combined financial statements for the years ended December 31, 2004, 2003 and 2002 is as follows:

	Year ended December 31, 2004		
	Alternative fixed line communication services	Traditional fixed line communication services	Total
Net sales to external customers	$ 281,673	$ 413,460	$ 695,133
Intersegment sales	716	67,387	68,103
Depreciation and amortization	(22,216)	(53,922)	(76,138)
Operating income	62,387	113,129	175,516
Interest income	4,511	3,430	7,941
Interest expense	(1,562)	(17,133)	(18,695)
Income tax expense	(16,421)	(24,655)	(41,076)
Segment assets	374,739	1,065,473	1,440,212
Cash and cash equivalents	38,688	28,748	67,436
Indebtedness[(a)]	(27,237)	(189,560)	(216,797)
Capital expenditures	36,728	192,396	229,124

	Year ended December 31, 2003		
	Alternative fixed line communication services	Traditional fixed line communication services	Total
Net sales to external customers	$ 247,922	$341,296	$ 589,218
Intersegment sales	1,103	44,383	45,486
Depreciation and amortization	(27,077)	(46,020)	(73,097)
Operating income	62,431	101,202	163,633
Interest income	2,472	2,246	4,718
Interest expense	(1,488)	(17,057)	(18,545)
Income tax expense	(20,579)	(18,269)	(38,848)
Segment assets	347,638	854,417	1,202,055
Cash and cash equivalents	15,186	31,766	46,952
Indebtedness[(a)]	(26,386)	(143,528)	(169,914)
Capital expenditures	39,978	100,804	140,782

	Year ended December 31, 2002		
	Alternative fixed line communication services	Traditional fixed line communication services	Total
Net sales to external customers	$ 164,029	$274,726	$ 438,755
Intersegment sales	414	28,295	28,709
Depreciation and amortization	(15,139)	(38,278)	(53,417)
Operating income	53,164	84,335	137,499
Interest income	944	950	1,894
Interest expense	(1,506)	(29,990)	(31,496)
Income tax expense	(12,171)	(10,258)	(22,429)
Segment assets	242,070	774,561	1,016,631
Cash and cash equivalents	13,818	25,771	39,589
Indebtedness[(a)]	(9,863)	(169,676)	(179,539)
Capital expenditures	44,272	78,103	122,375

(a)—Represents the sum of short-term and long-term debt and capital lease obligations

(Amounts in thousands of U.S. Dollars)

The reconciliation of segment operating income to the combined income before income tax and minority interests and reconciliation of segment assets to the combined segment assets are as follows:

	Year ended December 31,		
	2004	2003	2002
Total segment operating income	$ 175,516	$ 163,633	$ 137,499
Intersegment eliminations	(1,797)	(960)	(985)
Interest income	7,941	4,718	1,894
Interest expense	(18,695)	(18,545)	(31,496)
Foreign currency transactions gain	4,368	3,594	330
Loss from disposal of an affiliate	(6,610)	—	—
Combined income before income tax and minority interests	**$ 160,723**	**$ 152,440**	**$ 107,242**
Total segment assets	$1,440,212	$1,202,055	1,016,631
Intersegment eliminations	(21,764)	(16,455)	(13,666)
Combined assets	**$1,418,448**	**$1,185,600**	**$1,002,965**

For the years ended December 31, 2004, 2003 and 2002, the Group did not have revenues from transactions with a single external customer amounting to 10% or more of the Group's combined revenues.

23. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2004, 2003 and 2002, major transactions involving related parties (subsidiaries and affiliates of Sistema) were as follows:

Mobile Telesystems (MTS)

The Group has interconnection arrangements and line rental agreements with MTS, a subsidiary of Sistema. MTS also rents buildings for administrative, sales and marketing offices from the Group as well as premises for its switching and base station equipment. Amounts received by the Group under these agreements during the years ended December 31, 2004, 2003 and 2002 were approximately $36.3 million, $37.2 million and $33.0 million, respectively. During the years ended December 31, 2004, 2003 and 2002, MTS purchased telephone numbering capacity from the Group for the amounts of $4.2 million, $0.5 million and $1.6 million, respectively. In the year ended December 31, 2002, the Group sold a building to MTS for the amount of $2.0 million.

Comstar UTS

The Group's sales of telecommunication services to Comstar UTS amounted to $9.2 million in the year ended December 31, 2002. Starting from January 1, 2003, the results of Comstar UTS' operations are combined in these financial statements.

Rosno

The Group purchases insurance services from Rosno. The insurance premium paid to Rosno during the years ended December 31, 2004, 2003 and 2002 amounted to $7.4 million, $5.8 million and $4.8 million, respectively. Indemnity received from Rosno for the same periods amounted to $0.2 million, $3.1 million and $nil, respectively.

STROM Telecom and Mediatel

The Group purchases telecommunication equipment and software from STROM Telecom and Mediatel. The cost of equipment and software purchased from these entities during the years ended December 31, 2004, 2003 and 2002 was $13.2 million, $10.6 million and $8.1 million, respectively.

(Amounts in thousands of U.S. Dollars)

MBRD

During the years ended December 31, 2004, 2003 and 2002, the Group has received interest income on MBRD's promissory notes of $3.1 million, $2.1 million and $0.3 million, respectively.

Sistema Telecom, Sky-Link

Interest income received by the Group on promissory notes of Sistema Telecom and Sky-Link for the years ended December 31, 2004, 2003 and 2002 amounted to $1.0 million, $nil and $nil, respectively.

Invest-Svyaz-Holding

During the three-year period ended December 31, 2004, the Group entered into agreements with Invest-Svyaz-Holding, a subsidiary of Sistema, for leasing of network equipment and billing system. These leases were recorded as capital leases based on the requirements of SFAS No. 13, "Accounting for Leases". The net book value of assets leased under such agreements as of December 31, 2004, 2003 and 2002 was $28.5 million, $3.3 million and $nil, respectively. The interest rate implicit in the leases varied from 14.0% to 23.9%.

The following table summarizes the future minimum lease payments under capital leases to Invest-Svyaz-Holding together with the present value of the net minimum lease payments as of December 31, 2004.

Year ended December 31,	
2005	$ 7,771
2006	9,471
2007	8,110
2008	4,592
Total minimum lease payments (undiscounted)	29,944
Less: amount representing interest	(5,297)
Present value of net minimum lease payments	24,647
Less: current portion of lease obligations	(5,179)
Non-current portion of lease obligations	**$19,468**

24. COMMITMENTS AND CONTINGENCIES

Operating leases—The Group leases land, buildings and office space from municipal organizations through contracts, which expire in various years through 2049. Rental expenses for the years ended December 31, 2004, 2003 and 2002, amounted to $16.0 million, $13.4 million and $7.5 million, respectively.

(Amounts in thousands of U.S. Dollars)

Future minimum rental payments under operating leases in effect as of December 31, 2004, are as follows:

Year ended December 31,	
2005	$10,000
2006	4,293
2007	4,143
2008	2,965
2009	2,238
Thereafter	20,062
Total	**$43,701**

Capital commitments—In December 2003, MGTS announced its long-term investment program for the period from 2004 till 2012 providing for extensive capital expenditures including expansion and full digitalization of the Moscow telephone network. The program was approved by the resolution of the Moscow City Government in December 2003. Capital expenditures under the investment program are estimated to be approximately $1.6 billion during the years 2004-2012 and include reconstruction of 350 local telephone stations and installation of 4.3 million of new phone numbers.

In the course of completion of the investment program, in September-December 2004, MGTS entered into a series of agreements with Sistema-Hals, a subsidiary of Sistema, on project development and reconstruction of buildings of automatic telephone exchanges. The main part of work under the contracts is to be performed in 2005-2008. As of December 31, 2004, no obligations of the Group to Sistema-Hals exist except for the agent fee payable for the total amount of $0.3 million.

In November 2004, MGTS entered into an agreement to acquire telecommunications equipment and related services from ECI Telecom (Israel). The vendor financing amounting to $3.5 million will bear interest of LIBOR+4% and be repayable in 7 equal quarterly installments starting April 2005.

In December 2004, MGTS entered a credit facility with Citibank of $8.5 million under guarantee of Export Guarantee and Insurance Corporation of the Czech Republic, to finance acquisition of telecommunication equipment and cover insurance expenses. The loan will bear interest of LIBOR+1.6%. The equipment with a fair value of $7.4 million is pledged as a guarantee.

In September 2004, Sistema Multimedia entered into an agreement to purchase broadcasting equipment and related services from Alcatel Bell N.V. (Belgium) for the total amount of $14.6 million.

Licenses—Substantially all of the Group's revenues are derived from operations conducted pursuant to licenses granted by the Russian Government. These licenses expire in various years ranging from 2005 to 2013. The Group has no reason to believe that the licenses will not be renewed or that any license will be suspended or terminated.

Issued guarantees—In December 2004, MGTS became a guarantor under the credit facility between Sistema-Hals and WestLB Vostok Bank. The loan of $10.4 million matures in December 2006. The guarantee amounted to $5.0 million as of December 31, 2004.

In 2004, MGTS became a guarantor under the credit facility between Commerzbank (Eurasia) and Invest-Svyaz-Holding. The credit line for the total amount of $17.0 million matures in 2006. The guarantee amounted to $8.5 million as of December 31, 2004.

In July 2004, MTU-Inform issued guarantees to MBRD on behalf of Sky-Link for the total amount of $22.5 million. The guarantees have expired in the fourth quarter of 2005. No payments have been made by the Group in respect of these guarantees.

Under these guarantees the Group could be potentially liable for a maximum amount of $13.5 million in case of the borrowers' default under their obligations. As of the date of these financial statements, no event of default occurred under any of the guarantees issued by the Group.

Taxation environment—Russian tax legislation is subject to varying interpretations with changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three years.

The tax inspection has challenged the application by MGTS of certain provisions of the tax legislation, including application of the investment allowance for income tax purposes in 2001. The tax inspection assessment amounted to the equivalent of $5.4 million at the rate current as of December 31, 2004. In November 2004, the Group contested the assessment in Moscow Arbitrage. In March 2005, Moscow Arbitrage made a decision to disaffirm the tax inspection claims in part of application of the investment allowance. The Arbitrage considered the tax inspectorate's claims for the amount of $1.8 million to be valid.

An accrual has been made for the amount of $4.6 million in the combined financial statements with respect of the above mentioned claims.

Russian environment and current economic situation—Over the past decade Russia has undergone substantial political and social changes. As an emerging market, Russia does not possess a fully developed business and regulatory infrastructure that would generally exist in a more mature market economy. The current government is attempting to address these issues; however it has not yet fully implemented the reforms necessary to create banking and judicial systems that usually exist in more developed markets. As a result, operations in Russia involve risks that typically do not exist in more developed markets.

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

Regulations on telecommunications—On January 1, 2004, a new Communications Law came into effect in Russia. The law sets the legal basis for the telecommunications business in Russia and defines the status that state bodies have in the telecommunications sector.

The Communications Law introduces a Universal Services Reserve Fund (USRF) which will result in higher costs for all operators, including the Group. Under the Law on Telecommunications, all telecommunications operators must contribute to the USRF. The USRF is designed to fund socially important but economically unviable projects. In April 2005, Russian government approved several provisions clarifying how the USRF will be collected and administered. Starting July 1, 2005, the amount of the universal service charge will be 1.2% of the total revenues received from the usage of public telecommunication network less connection fees and revenues received from interconnection services provided to other operators.

Recently, the Russian government has issued several implementing acts under the Communications Law, such as Resolution No. 87, dated February 18, 2005, approving the list of licensed telecommunication activities, and Resolution No. 68, dated February 11, 2005, regarding the rules applicable to the state registration of telecommunication infrastructure such as real property. However, it is presently not yet clear how these regulations would be implemented. Thus, the uncertainty related to the Communications Law continues.

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

(Amounts in thousands of U.S. Dollars)

25. SUBSEQUENT EVENTS

In February 2005, the controlling shareholder of the Group acquired additional 20% equity stake in Telmos from Rostelecom for a cash consideration of $8.5 million, increasing the controlling shareholder's voting power in Telmos to 100%. In September 2005, Comstar UTS purchased the 20% stake in Telmos from the controlling shareholder for a cash consideration of $12.8 million.

In May 2005, MGTS issued 5-year RUR-denominated bonds in the amount of RUR 1,500 million (equivalent of $54.1 as of December 31, 2004). The bonds carry a coupon of 8.3% per annum. MGTS made an unconditional offer to repurchase the bonds at par value in May 2010.

In September 2005, Comstar UTS completed the purchase of 45% stake in Metrokom, a leading alternative fixed line operator in Saint-Petersburg, for a total cash consideration of $12.2 million. The acquisition is expected to enhance Comstar UTS business operations through regional development.

In 2005, Moscow arbitration court and, subsequently, courts of appeal ruled in favor of the Group in its litigation with Rossia regarding the insurance coverage for the equipment damaged as a result of the fire (Note 20). During the third quarter of 2005, the Group collected $5.8 million and recognized a gain in the same amount.

In October 2005, Comstar UTS acquired 89.4% of the common shares and 31.9% of the preferred shares of Tyumenneftegazsvyaz, a leading alternative fixed line telecommunications services provider operating in the Tyumen region, as well as in the autonomous districts of Khanty-Mansi and Yamalo-Nenets. The purchase price amounted to $9.0 million.

In November 2005, Comstar UTS issued additional 255,919,860 common shares with par value of RUR 1 each to Sistema, its subsidiaries United TeleSystems and ECU GEST S.A., and MGTS United TeleSystems. The issue was settled by shares of MGTS, MTU-Inform, Telmos and MTU-Intel held by those entities. As a result of the restructuring, Comstar UTS obtained controlling interests in MGTS, MTU-Inform, Telmos and MTU-Intel. Comstar UTS' shareholders' structure upon completion of the restructuring is as follows:

Sistema	54.6%
United TeleSystems	20.6%
ECU GEST S.A.	4.1%
MGTS United TeleSystems	16.6%
MGTS	4.1%
Total	**100.0%**

In December 2005, Comstar UTS acquired 100% interests in Conversiya-Svyaz and Overta, two leading alternative fixed-line operators in the Saratov region. The purchase price amounted to $10.0 million.

In December 2005, shareholders of Comstar UTS approved issue of additional 150 million common shares with par value of RUR 1 each.

In December 2005, Comstar UTS sold 51% stake in Mediatel to Concern SITRONICS, a subsidiary of Sistema, for cash consideration of $1.9 million.

In December 2005, Comstar UTS announced the terms of its public share purchase offer to the holders of common shares of MGTS. The offer price was set at RUR 490 (equivalent of $17.7 as of December 31, 2004) per one common share of MGTS. Shareholders of MGTS may accept this offer within 30 days of receipt of official notification.

In December 2005, Sistema Multimedia was merged into MTU-Intel. Comstar UTS ownership interest in the merged entity is 51.82%. The remaining shares are held by Sistema.

In December 2005, Comstar UTS acquired 100% interest in CTK Contrast-Telecom, an alternative fixed-line operator in the Moscow region. The purchase price amounted to $5.5 million.

COMSTAR UTS GROUP

COMBINED BALANCE SHEETS

AS OF SEPTEMBER 30, 2005 (unaudited) AND DECEMBER 31, 2004 (Amounts in thousands of U.S. dollars)

	Notes	September 30, 2005	December 31, 2004
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	5	$ 76,083	$ 67,436
Short-term investments	6	121,730	105,313
Trade receivables, net	7	75,573	63,504
Other receivables and prepaid expenses	8	75,029	60,669
Inventories and spare parts	9	25,151	23,004
Deferred tax assets, current portion	21	13,993	15,693
Total current assets		387,559	335,619
Property, plant and equipment, net	10	1,072,333	1,031,757
Intangible assets, net	11	35,240	30,240
Long-term investments	12	59,589	11,290
Restricted cash		3,847	3,268
Deferred tax assets, long-term portion	21	2,448	6,274
TOTAL ASSETS		$1,561,016	$1,418,448

COMSTAR UTS GROUP

COMBINED BALANCE SHEETS (Continued)

AS OF SEPTEMBER 30, 2005 (unaudited) AND DECEMBER 31, 2004 (Amounts in thousands of U.S. dollars)

	Notes	September 30, 2005	December 31, 2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable		$ 30,976	$ 17,699
Deferred connection fees, current portion		39,874	35,790
Subscriber prepayments		34,842	34,095
Accrued expenses and other current liabilities	13	29,250	23,620
Taxes payable		20,149	19,563
Debt, current portion	14	83,232	85,616
Capital lease obligations, current portion	15	8,289	6,782
Total current liabilities		246,612	223,165
LONG-TERM LIABILITIES:			
Deferred connection fees, net of current portion		107,595	104,087
Debt, net of current portion	14	113,711	104,482
Capital lease obligations, net of current portion	15	13,021	19,917
Post-retirement obligations	16	17,286	11,513
Property, plant and equipment contributions	17	102,933	103,822
Deferred tax liabilities, long-term portion	21	15,357	19,397
Total long-term liabilities		369,903	363,218
TOTAL LIABILITIES		616,515	586,383
COMMITMENTS AND CONTINGENCIES	24	—	—
MINORITY INTERESTS		481,488	450,624
SHAREHOLDERS' EQUITY:			
Share capital	18	72,133	72,133
Additional paid-in capital		51,542	43,335
Retained earnings		330,574	250,756
Accumulated other comprehensive income		8,764	15,217
TOTAL SHAREHOLDERS' EQUITY		463,013	381,441
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$1,561,016	$1,418,448

See notes to combined financial statements.

COMSTAR UTS GROUP

COMBINED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004 (unaudited) (Amounts in thousands of U.S. dollars)

	Notes	Nine months ended September 30, 2005	Nine months ended September 30, 2004
OPERATING REVENUES	19	$636,823	$510,578
OPERATING EXPENSES	20	(436,025)	(382,497)
OPERATING INCOME		200,798	128,081
OTHER INCOME (EXPENSES):			
Interest income		5,449	6,478
Interest expense		(12,168)	(14,421)
Foreign currency transactions gain		1,043	821
Loss from disposal of an affiliate	4	—	(6,610)
INCOME BEFORE INCOME TAX AND MINORITY INTERESTS		195,122	114,349
Income tax expense	21	(50,304)	(34,683)
Income from affiliates		96	552
Minority interests		(61,102)	(29,220)
INCOME FROM CONTINUING OPERATIONS		83,812	50,998
Gain from discontinued operations, net of income tax charge of $1,430	3	—	4,182
Loss from disposal of discontinued operations, net of income tax charge of $841	3	—	(3,831)
NET INCOME		**$ 83,812**	**$ 51,349**
Other comprehensive income/(loss):			
Translation adjustment, net of minority interest of $12,611 and $2,341, respectively		(6,453)	1,915
Comprehensive income		$ 77,359	$ 53,264

See notes to combined financial statements.

COMSTAR UTS GROUP

COMBINED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004 (unaudited)
(Amounts in thousands of U.S. dollars)

	Nine months ended September 30,	
	2005	**2004**
OPERATING ACTIVITIES:		
Net income	$ 83,812	$ 51,349
Adjustments to reconcile net income to net cash provided by operations:		
Gain from discontinued operations	—	(4,182)
Loss from disposal of discontinued operations	—	3,831
Depreciation and amortization	68,861	54,607
Loss from disposal of fixed assets	1,162	3,712
Loss from disposal of an affiliate	—	6,610
Income from affiliates	(96)	(552)
Deferred tax expense	2,516	3,298
Foreign currency transactions gain on non-operating activities	(1,043)	(821)
Postretirement benefits	6,359	5,377
Minority interests	61,102	29,220
Provision for doubtful debts	3,472	(519)
Changes in operating assets and liabilities:		
Trade receivables	(17,070)	(8,261)
Other receivables and prepaid expenses	(15,444)	(14,972)
Inventories and spare parts	(2,553)	(2,461)
Accounts payable	13,843	1,135
Deferred connection fees	11,261	18,433
Subscriber prepayments	747	(782)
Taxes payable	1,643	4,710
Accrued expenses and other current liabilities	5,187	8,867
Net cash provided by operations	223,759	158,599
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(132,931)	(102,871)
Proceeds from sale of property, plant and equipment	441	1,091
Proceeds from property insurance	5,806	—
Purchases of intangible assets	(9,758)	(10,040)
Proceeds from disposal of subsidiaries, net of cash disposed	—	16,211
Acquisition of minority interests in a combined entity	(8,529)	—
Purchases of long-term investments	(36,394)	—
Proceeds from sale of long-term investments	—	299
Purchases of short-term investments	(235,998)	(212,906)
Proceeds from sale of short-term investments	205,804	154,097
Decrease/(increase) in restricted cash	(579)	1,844
Net cash used in investing activities	(212,138)	(152,275)

COMSTAR UTS GROUP

COMBINED STATEMENTS OF CASH FLOWS (Continued)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004 (unaudited)
(Amounts in thousands of U.S. dollars)

	Nine months ended September 30, 2005	Nine months ended September 30, 2004
FINANCING ACTIVITIES:		
Contributions from the controlling shareholder	12,508	—
Proceeds from borrowings	117,023	88,065
Principal payments on borrowings	(108,959)	(85,486)
Principal payments on capital lease obligations	(5,389)	(9,685)
Dividends and other distributions to shareholders	(17,393)	(9,741)
Net cash used in financing activities	(2,210)	(16,847)
Effects of foreign currency translation on cash and cash equivalents	(764)	331
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	8,647	(10,192)
CASH AND CASH EQUIVALENTS, beginning of period	67,436	46,952
CASH AND CASH EQUIVALENTS, end of period	$ 76,083	$36,760
SUPPLEMENTAL INFORMATION:		
Cash paid for interest, net of amounts capitalized	$ 11,911	$13,262
Income taxes paid	54,474	33,118
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Property, plant and equipment received free of charge	$ 4,571	$ 9,109
Equipment acquired through vendor financing	3,001	10,567
Equipment acquired under capital leases	—	24,857

In addition, non-cash investing activities during the nine months ended September 30, 2005 and 2004 included acquisition and disposal of subsidiaries and affiliates, as described in Note 4.

See notes to combined financial statements.

COMSTAR UTS GROUP

COMBINED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2005 and 2004 (unaudited)
(Amounts in thousands of U.S. dollars)

	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total
Balances at January 1, 2004	**$72,133**	**$43,335**	**$176,947**	**$ 1,679**	**$294,094**
Dividends declared	—	—	(2,331)	—	(2,331)
Net income	—	—	51,349	—	51,349
Translation adjustment, net of minority interest of $2,341	—	—	—	1,915	1,915
Balances at September 30, 2004	**$72,133**	**$43,335**	**$225,965**	**$ 3,594**	**$345,027**
Balances at January 1, 2005	**$72,133**	**$43,335**	**$250,756**	**$15,217**	**$381,441**
Contribution from the controlling shareholder	—	5,513	—	—	5,513
Acquisition of interest in a combined entity from the controlling shareholder	—	(4,301)	—	—	(4,301)
Common stock issuance		6,995	—	—	6,995
Dividends declared	—	—	(3,994)	—	(3,994)
Net income	—	—	83,812	—	83,812
Translation adjustment, net of minority interest of $12,611	—	—	—	(6,453)	(6,453)
Balances at September 30, 2005	**$72,133**	**$51,542**	**$330,574**	**$ 8,764**	**$463,013**

See notes to combined financial statements.

COMSTAR UTS GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 and 2004 (unaudited)

(Amounts in thousands of U.S. dollars, unless otherwise stated)

1. DESCRIPTION OF THE BUSINESS

Nature of the business—The Combined Entities or ("Comstar UTS Group" or the "Group"), including JSC "COMSTAR – United TeleSystems", PJSC "MGTS", JSC "MTU-Inform Company", JSC "Telmos", JSC "MTU-Intel", JSC "Sistema Multimedia" and subsidiaries, is the provider of fixed line communications services, including voice, Internet dial-up and broadbank, and various value added services, to commercial and residential customers throughout the Moscow metropolitan area. The controlling shareholder of the Combined Entities is JSFC Sistema ("Sistema"). The Combined Entities are incorporated in the Russian Federation (the "RF").

The Group has two reportable segments: the Traditional fixed line communications segment, comprised of MGTS, the incumbent public service telephone network ("PSTN") operator in Moscow, and the Alternative fixed line communications segment, comprised of all other Combined Entities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation—The accompanying financial statements have been prepared in conformity with the accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Group's entities maintain accounting records and prepare their financial statements in Russian rubles in accordance with the requirements of accounting and tax legislation in Russia. The accompanying combined financial statements differ from the financial statements prepared for statutory purposes in Russia in that they reflect certain adjustments, not recorded in the accounting books of the Combined Entities, which are appropriate to present the financial position, results of operations and cash flows in accordance with U.S. GAAP.

Principles of combination—The combined financial statements include the accounts of the Combined Entities and their subsidiaries, which collectively comprise fixed line communications business line of Sistema. All significant intercompany transactions, balances and unrealized gains (losses) on transactions have been eliminated.

The ownership interest and proportion of voting power of Sistema in the Combined Entities as of September 30, 2005 and December 31, 2004 were as follows:

	Ownership interest		Proportion of voting power	
Operating entities	**September 30, 2005**	**December 31, 2004**	**September 30, 2005**	**December 31, 2004**
Comstar UTS	73%	73%	100%	100%
MGTS	46%	46%	56%	56%
MTU-Inform	72%	72%	99%	99%
Telmos	79%	59%	100%	80%
MTU-Intel	84%	84%	100%	100%
Sistema Multimedia	100%	100%	100%	100%

Ownership interest of Sistema in MGTS is determined taking into account both common and preferred (non-voting) shares of MGTS (Note 18). Ownership interest of Sistema in other Combined Entities, where blocks of shares are held through MGTS, is determined taking into account Sistema's ownership interest in MGTS.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

The respective ownership interest of the Combined Entities and proportion of their respective voting power in their subsidiaries as of September 30, 2005 and December 31, 2004 were as follows:

	Ownership interest		Proportion of voting power	
Operating entities	September 30, 2005	December 31, 2004	September 30, 2005	December 31, 2004
Comstar UTS's subsidiaries:				
TWT—Ukraine	100%	100%	100%	100%
Port-Telecom	100%	100%	100%	100%
MGTS's subsidiaries:				
AMT	100%	100%	100%	100%
Petrodvor	100%	100%	100%	100%
MGTS United TeleSystems	100%	100%	100%	100%
MTU-Inform's subsidiaries:				
PTT-Teleport	100%	100%	100%	100%
MTU-Intel's subsidiaries:				
Golden Line	100%	100%	100%	100%
Etel	51%	51%	51%	51%
PTT-Stroi	100%	100%	100%	100%

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

Use of estimates—The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses of the reporting period. Actual results could differ from those estimates.

Examples of significant estimates include the allowance for doubtful accounts, the recoverability of long-lived tangible and intangible assets, and valuation allowances on deferred tax assets.

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

Foreign currency translation—The Group follows a translation policy in accordance with Statement on Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation".

Management has determined that the functional currency of MGTS is the Russian ruble ("RUR"). Management believes that USD is still the appropriate functional currency of the other Combined Entities, as the majority of their revenues, costs, capital expenditures and debt are either priced, incurred, payable or otherwise measured in USD.

The Group has selected the USD as its reporting currency and translates financial statements of MGTS into USD. Assets and liabilities are translated at the exchange rates current at the balance sheet date, while income and expense items are translated at average rates of exchange prevailing during the period. The resulting translation loss in amount of $6.5 million was recorded within other comprehensive income for the nine months ended September 30, 2005. For the nine months ended September 30, 2004 the Group has recorded translation gain in amount of $1.9 million.

The official rate of exchange, as determined by the Central Bank of the RF, between the RUR and the USD at September 30, 2005 was 28.50 rubles to 1 U.S. dollar (September 30, 2004: 29.22).

The Russian ruble is not a fully convertible currency outside of the RF territory. The translation of ruble denominated assets and liabilities into U.S. dollars for the purpose of these financial statements does not indicate that the Group could realize or settle in U.S. dollars the reported values of the assets and liabilities. Likewise, it does not indicate that the Group could return or distribute the reported U.S. dollar values of capital and retained earnings to its shareholders.

Revenue recognition—The Group's revenues are principally derived from the provision of telecommunication services which consist of (i) monthly subscription fees, (ii) local traffic charges, (iii) connection fees, (iv) revenues from data transmission and internet services, (v) revenues from value-added and additional telecommunication services, (vi) revenues from services to other operators and (vii) revenues from payphones. The Group records revenues over the periods they are earned as follows:

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

(ii) Local traffic charges are recognized as the services are provided;

(iii) Upfront fees received for connection of new subscribers are deferred and recognized over the expected subscriber relationship period. According to management estimates, the average subscriber relationship period for residential wireline voice phone subscribers of the Traditional fixed line communications segment is 15 years. For all other categories of subscribers, except for residential subscribers of our broadband Internet services (see Note 2, Change in estimate), the subscriber relationship period is estimated at 3 to 5 years.

(iv) Revenues from the provision of data transmission and internet services are recognized when the services are provided to customers.

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

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

(vii) Revenues from payphones are recognized as the prepaid calling cards are used by the customers or expire.

Local telephone services provided by MGTS, totaling approximately 36% of the combined revenues for the nine months ended September 30, 2005 and 2004 are regulated tariff services, and changes in rate structure are subject to the Federal Tariff's Service approval.

Management believes that the Group is not subject to the requirements of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" as the regulated rates for local telephone services provided by MGTS are not designed to recover the specific costs of providing the regulated services.

During the nine months ended September 30, 2004, MGTS was required to grant discounts ranging from 20% to 100% on installation and monthly fees to certain categories of residential subscribers, such as pensioners, military veterans and disabled individuals, and was entitled to reimbursement from the federal budget for these discounts. Due to the lack of certainty of reimbursement, MGTS accounted for such revenues upon collection. In the nine months ended September 30, 2004, the discounts provided by MGTS to its subscribers and not compensated by the federal budget amounted to $19.6 million. In accordance with the new legislation effective January 1, 2005, substantially all MGTS' subscribers are required to pay the full price for residential service, and those entitled to discounts are to receive reimbursement from the government rather than discounts from MGTS.

Change in estimate—Effective July 1, 2005, the Group has changed its estimates of average subscriber lives for residential subscribers of the broadband Internet services from 3 years to 1 year.

The effect of this change in estimate in the nine months ended September 30, 2005 was an increase in net income of approximately $4.0 million, net of income tax.

Cash and cash equivalents—Cash and cash equivalents include cash on hand, amounts on deposit in banks and cash invested temporarily in various instruments with maturities of three months or less at the time of purchase.

Fair value of financial instruments—Financial instruments carried on the balance sheet include cash and bank balances, receivables, investments, accounts payable and debt. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Short-term financial instruments that expose the Group to concentration of credit risk consist primarily of cash and bank balances, receivables, short-term investments, payables and short-term debt. The estimated fair value of such financial instruments as of September 30, 2005 approximated their carrying value as reflected in the combined balance sheet.

Long-term financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of long-term investments and long-term debt. It is not practicable for the Group to estimate the fair values of all of its long-term investments due to quoted market prices not being readily available and regular valuations are not being completed or obtained due to the excessive costs involved.

Fair values of corporate bonds issued by MGTS are disclosed in Note 14. As of September 30, 2005, fair value of other fixed rate debt, including capital lease obligations, and variable rate debt approximated carrying value.

Short-term investments—Short-term investments represent investments in promissory notes and time deposits, which have original maturities in excess of three months and mature within twelve months from the balance sheet date. These investments are being accounted for at amortized cost. Management periodically assesses the realizability of the carrying values of the investments and, if necessary, records impairment losses to write the investment down to fair value. For the nine months ended September 30, 2005 and 2004, no such impairments have occurred.

Accounts receivable—Accounts receivable are stated at their net realizable value after deducting an allowance for doubtful accounts. Such provisions reflect either specific cases or estimates based on evidence of collectibility.

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

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

Value-added taxes—Value-added taxes (“VAT”) related to sales are payable to the tax authorities upon provision of services and issuance of an invoice to the customer. VAT incurred for purchases may be reclaimed, subject to certain restrictions, against VAT related to sales.

Inventories and spare parts—Inventories and spare parts comprise equipment for resale, cables and spare parts and are stated at the lower of cost or market. Cost is computed on a weighted average basis. The entities of the Group periodically assess their inventories and spare parts for obsolete or slow moving stock and write down slow-moving inventories and spare parts to their market value.

Property, plant and equipment—For Combined Entities acquired by the controlling shareholder through business combinations accounted for by the purchase method, property, plant and equipment (“PP&E”) were assigned their fair values at the acquisition date. If fair values of the identifiable net assets of the acquired entities exceeded acquisition cost, the fair values of non-current assets held by the acquired entities at the acquisition date, including PP&E, were reduced by such excess. All subsequent purchases of PP&E have been recorded at cost.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

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

Cost includes major expenditures for improvements and replacements which extend useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance are charged to the statements of operations as incurred.

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

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

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

Buildings	20-47 years
Telecommunication equipment	10-17 years
Cables and transmission devices	10-31 years
Motor vehicles	4-5 years
Office equipment and other	3-25 years

Leasehold improvements are depreciated on a straight-line basis over the shorter of their useful life or lease term.

Property, plant and equipment held and used by the Group is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may have been impaired. Recoverability of assets to be held and used is measured by comparison of the carrying amount of the assets to the future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Management is not aware of any indicators of impairment occurred relating to the Group's investments in property, plant and equipment during the nine months ended September 30, 2005 and 2004.

The Group incurs costs associated with operating and other equipment, which require installation and related works to commence revenue generating activities. All costs necessarily incurred which are directly attributable to the construction, preparation and installation of an item to commence revenue generating activities are capitalized.

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

Asset retirement obligations—In accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations", the Group calculates an asset retirement obligation and an associated asset retirement cost when the Group has a legal obligation in connection with the retirement of tangible long-lived assets. The Group's obligations under SFAS No. 143 arise from certain of its leases and relate primarily to the cost of removing equipment from such lease sites. As of September 30, 2005, the estimated assets retirement obligations were not significant to the Group's combined financial position and results of operations.

Intangible assets—Intangible assets are stated at acquisition cost. License costs are amortized on a straight-line basis over the license period starting from the date such license area becomes commercially operational. Amortization of other finite-life intangible assets, comprised mostly of billing systems and other software, is computed on a straight-line basis over five years.

Investments—Investments in businesses in which the Group does not have control, but exercises significant influence over operating and financial policies ("affiliates"), are accounted for using the equity method. The Group's share of net assets and net income of affiliates is included in the combined net assets and operating results using the equity method of accounting.

During the nine months ended September 30, 2005, MGTS owned 51% of voting common shares of Mediatel, with the remaining shares owned by Concern SITRONICS, a subsidiary of Sistema. Mediatel, a company incorporated in the RF, is providing support and maintenance services related to telecommunication equipment and software, primarily to the Combined Entities. MGTS has entered into an agreement with Concern SITRONICS in respect of corporate governance of Mediatel that provides that control over operating and financial policies of Mediatel (including, but not limited to, the rights to establish its operating and capital decisions, including budgets, and the rights to select and set the compensation of management responsible for implementation of these decisions) is transferred to Concern SITRONICS. The Group's investment in Mediatel was accounted for using the equity method of accounting (Note 25).

Investments in corporate shares where the Group owns more than 20% of share capital, but does not have the ability or intent to control or exercise significant influence over operating and financial policies, as well as investments in corporate shares where the Group owns less than 20% of share capital, are accounted for at cost of acquisition. Management periodically assesses realizability of the carrying values of such investments.

The promissory notes purchased by the Group are carried at amortized cost. A provision is made, based on management assessment, for notes that are considered uncollectible.

Income taxes—Income taxes have been computed in accordance with the laws of the RF. Income tax rate in the RF equals 24%. In July 2004, amendments to Russian income tax legislation were enacted to increase the income tax rate on dividends paid within Russia to 9% (previously 6%) effective January 1, 2005.

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

Retirement benefit and social security costs—In Russia, all social contributions, including contributions to the pension fund, are substituted with the unified social tax ("UST") calculated by the application of a regressive rate from 26% to 2% (from 35.6% to 2% before January 1, 2005) of the annual gross remuneration of each employee. UST is allocated to three social funds, including the pension fund, where the rate of contributions vary from 20% to 2% (from 28% to 2% before January 1, 2005), respectively, depending on the annual gross salary of each employee. The contributions are expensed as incurred.

MGTS has historically offered its employees certain benefits upon and after retirement. The cost of such benefits is recognized during an employee's years of active service (Note 16). The Group accounts for pension plans following the requirements of SFAS No. 87 "Employers' Accounting for Pensions". In December 2003, FASB issued a revision of SFAS No. 132, "Employers' Disclosure about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106" ("SFAS No. 132R"). SFAS No. 132R revised employers' disclosure about pension plans and other postretirement benefit plans. It requires additional disclosures about the plan assets, benefit obligations, cash flows and net periodic benefit cost of defined benefit plans and other defined postretirement plans. It does not change the measurement or recognition of those plans required by previous Financial Accounting Board Standards. Following the application of SFAS No. 132R, the Group included the required disclosures in the combined financial statements for the nine months ended September 30, 2005 (Note 16).

Borrowing costs—Borrowing costs were recognized as an expense in the period in which they were incurred. Borrowing costs for assets that require a period of time to get them ready for their intended use are capitalized and amortized over the related assets' estimated useful lives. The capitalized borrowing costs for the nine months ended September 30, 2005 and 2004 amounted to $0.3 million and $0.2 million, respectively.

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

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

Minority interests—Minority interests represent shares in book value of net assets of the Combined Entities proportional to equity interests in those entities owned, directly or indirectly, by shareholders other than Sistema and its subsidiaries.

Distributions to shareholders—Dividends are recognized at the date they are declared. Distributable retained earnings of the Group are based on amounts extracted from statutory accounts of individual entities and may differ from amounts calculated on the basis of U.S. GAAP.

Recently adopted accounting pronouncements—In July 2004, the Emerging Issues Task Force ("EITF") issued EITF No. 02-14, "Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock." A consensus was reached regarding an investor that has the ability to exercise significant influence over the operating and financial policies of the investee. This type of investor should apply the equity method of accounting only when it has an investment(s) in common stock and/or an investment that is in-substance common stock. The Task Force also reached a consensus on the definition of in-substance common stock and related guidance. EITF No. 02-14 is effective for reporting periods beginning after September 15, 2004. The adoption of EITF Issue No. 02-14 did not have a material impact on the Group's financial position and results of operations.

In September 2004, the EITF issued a final consensus on EITF Issue No. 04-1, "Accounting for Preexisting Relationships between the Parties to a Business Combination". In this issue the EITF reached a consensus that a business combination between two parties having a preexisting relationship is a multiple-element transaction with one element being the business combination and the other element being the settlement of the preexisting relationship. This Issue requires certain additional disclosures for business combinations between parties with a preexisting relationship. EITF Issue No. 04-1 is effective for reporting periods beginning after October 13, 2004. The adoption of EITF Issue No. 04-1 did not have a material impact on the Group's financial position and results of operations.

In September 2004, the U.S. Securities and Exchange Commission ("SEC") staff issued the EITF Topic D-108, "Use of the Residual Method to Value Acquired Assets Other Than Goodwill", which requires the companies to use the direct value method to determine the fair value of the intangible assets acquired in business combinations completed after September 29, 2004. The SEC staff also announced that companies that currently apply the residual value approach for valuing intangible assets with indefinite useful lives for purposes of impairment testing, must use the direct value method by no later than the beginning of their first fiscal year after December 15, 2004. The adoption of the above SEC guidance was not material to the Group's results of operations and financial position.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets", an amendment of APB Opinion No. 29, "Accounting for Nonmonetary Transactions". SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets set in the APB Opinion No. 29 and replaces it with a general exception for exchanges that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective prospectively for nonmonetary exchanges occurring after June 15, 2005. The adoption of SFAS No. 153 did not have a material impact on the Group's results of operations and financial position.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS No. 123R"), a revision of SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS No. 123R supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and requires all entities to recognize compensation cost in an amount equal to the grant-date fair value of share-based payments to employees. That cost will be recognized over the period during which an employee is required to provide service in exchange for an award of equity instruments. For public entities (other than those filing as small business issuers) SFAS No. 123R is effective in the first interim or annual reporting period of the first fiscal year that begins after June 15, 2005. For nonpublic entities SFAS No. 123R is effective in the first annual reporting period that begins after December 15, 2005. At that time companies can select whether they will apply the standard retroactively by restating their historical financial statements or prospectively for new stock-based compensation arrangements and the unvested portion of existing arrangements. The adoption of SFAS No. 123R did not have a material impact on its financial position, cash flows and results of operations.

In March 2005, the U.S. Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin 107, "Share-Based Payments", or SAB 107. The interpretations in SAB 107 express views of the SEC staff regarding the interaction between SFAS No. 123R and certain SEC rules and regulations, and provide the SEC staff's views regarding the valuation of share-based payment arrangements for public companies. In particular, SAB 107 provides guidance related to share-based payment transactions with nonemployees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS No. 123R in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS No. 123R, the modification of employee share options prior to adoption of SFAS No. 123R.

In June 2005, the EITF reached a consensus on EITF Issue No. 05-2, "The Meaning of 'Conventional Convertible Debt Instrument' in EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." Issue No. 00-19 is used to evaluate whether embedded derivatives should be bifurcated under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. Specifically, Statement 133 provides guidance as to when an issuer is required to bifurcate a conversion option that is embedded in convertible debt. However, Issue 00-19 does not define "conventional convertible debt instrument." Given the development of numerous contractual terms that may be included in a convertible debt instrument, it is not clear when a convertible debt instrument is "conventional." The consensus reached by EITF No. 05-2 is effective for new instruments entered into and instruments modified in reporting periods after June 29, 2005. The adoption of EITF No. 05-2 did not have a material impact on the Group's financial position and results of operations.

In June 2005, the EITF reached a consensus on EITF Issue No. 05-6, "Determining the Amortization Period for Leasehold Improvements." As part of a business combination, the acquiring entity will often assume existing lease agreements of the acquired entity and acquire the related leasehold improvements. The issues are whether the "lease term" should be reevaluated at consummation of a purchase business combination and whether the amortization period for acquired leasehold improvements should be reevaluated by the acquiring entity in a business combination. The consensus reached by EITF No. 05-6 is effective for leasehold improvements that are purchased or acquired in reporting periods beginning June 29, 2005. The adoption of EITF No. 05-6 did not have a material impact on the Group's financial position and results of operations.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

New accounting pronouncements—In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143." This Interpretation clarifies that the term "conditional asset retirement obligation" as used in FASB Statement No. 143, "Accounting for Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity, in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists to make a reasonable estimate of the fair value of the obligation. Interpretation No. 47 is effective for the Group beginning January 1, 2006. The Group is currently in the process of assessing effects of Interpretation No. 47 on its financial position and result of operations.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections", which replaces APB Opinion No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements". SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle and is applicable to all voluntary changes and to changes required by an accounting pronouncement if such pronouncement does not specify transition provisions. SFAS No. 154 requires retrospective application to the prior periods' financial statements of changes in accounting principle. In cases when it is impracticable to determine the period-specific or cumulative effects of an accounting change, the statement provides that the new accounting principle should be applied as of the earliest period for which retrospective application is practicable or, if impracticable to determine the effect of a change to all prior periods, prospectively from the earliest date practicable. This Statement shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

3. DISCONTINUED OPERATIONS

During 2003, Sistema made a decision to discontinue operations of P-Com, subsidiary of the Group. In August 2004, the Group sold its 83.25% of P-Com's voting common shares to Sky-Link, an affiliate of Sistema, for cash consideration of $16.0 million.

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the combined financial statements of the Group reflect P-Com business as discontinued operations for the nine months ended September 30, 2004. Accordingly, income and expense items of P-Com have been excluded from the respective captions in the statement of operations and have been reported as gain or loss from discontinued operations, net of applicable taxes, for the nine months ended September 30, 2004.

Revenues from discontinued operations and income from discontinued operations before income taxes and minority interest for the nine months ended September 30, 2004 (prior to the date of disposal) are presented as follows:

	Nine months ended September 30, 2004
Revenues from discontinued operations	32,419
Income from discontinued operations before income taxes and minority interest	8,421

(Amounts in thousands of U.S. dollars, unless otherwise stated)

4. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATES

In February 2005, the controlling shareholder of the Group acquired an additional 20% equity stake in Telmos from Rostelecom for a cash consideration of $8.5 million, increasing the controlling shareholder's voting power in Telmos to 100%. In September 2005, Comstar UTS purchased the 20% stake in Telmos from the controlling shareholder for a cash consideration of $12.8 million. The excess of purchase price over the share in net assets of Telmos of $4.3 million was recorded as decrease in additional paid-in capital.

In September 2005, Comstar UTS completed the purchase of 45% stake in Metrocom, a leading alternative fixed line operator in Saint-Petersburg, for a total cash consideration of $12.2 million. At September 30, 2005 Comstar UTS's investment exceeded its underlying equity in the net assets of Metrocom by $7.6 million. The purchase price allocation was not completed as of September 30, 2005.

In October 2004, MGTS sold shares of MCC to Sky-Link, an affiliate of Sistema, for $0.7 million in cash. As a result of this transaction, the Group recognized loss from disposal of an affiliate of $6.6 million.

Other acquisitions and disposals of subsidiaries

In June 2004, 100% of voting common shares of MTU-Inform Plus were sold to Sistema Mass Media for $0.2 million. Subsequent to the sale, the name of the company was changed to Sistema Multimedia. The Group retained control over and continued to combine Sistema Multimedia in its financial statements (Note 25).

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of September 30, 2005 and December 31, 2004 consisted of the following:

	September 30, 2005	December 31, 2004
Cash	$51,000	$32,837
Cash equivalents:		
Promissory notes	24,574	30,535
Deposits	437	3,935
Other	72	129
	25,083	34,599
Total	**$76,083**	**$67,436**

Promissory notes with original maturities less than three months, included in cash equivalents as of September 30, 2005 are comprised of Ruble-denominated promissory notes of $22.3 million and USD-denominated promissory notes of $2.3 million. The weighted average interest rate on promissory notes, included in cash equivalents as of September 30, 2005 was 1.8%.

Cash and cash equivalents with the Moscow Bank of Reconstruction and Development ("MBRD"), a subsidiary of Sistema, as of September 30, 2005 and December 31, 2004 amounted to $68.1 million and $45.5 million, respectively.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

6. SHORT-TERM INVESTMENTS

Short-term investments as of September 30, 2005 and 2004 consisted of the following:

	September 30, 2005	December 31, 2004
RUR-denominated time deposits in MBRD	$ 59,651	$ 19,821
USD-denominated time deposits in MBRD	4,600	4,600
Promissory notes from other subsidiaries and affiliates of the controlling shareholder:		
Sistema Telecom	25,118	34,828
Sky-Link	11,022	26,277
MBRD	12,376	12,081
P-Com	—	5,087
Other	4,841	1,188
	117,608	103,882
Promissory notes from third parties	4,122	1,431
Total	**$121,730**	**$105,313**

The interest rates of RUR-denominated time deposits in MBRD vary from 6.5% for a 4 months deposit to 7.9% for a 12 months deposit. USD-denominated time deposits in MBRD have the original terms of 5 and 6 months and bear interest of 4.8% and 5.9% per annum, respectively.

Promissory notes from other subsidiaries of the controlling shareholder bear interest rates varying from 0% to 11.0%.

As of December 31, 2004, Telmos held three RUR-denominated, substantially interest free, unsecured promissory notes of a party, related by means of common control. Two notes with the face value equivalent to $2.3 million and $2.2 million were repayable on demand but not earlier than March and June 2012, respectively. Another note with the face value equivalent to $1.0 million was repayable on demand but not earlier than November 2006. As repayment of those notes was considered doubtful, the Group has recognized impairment loss in amount equal to the carrying value of the promissory notes. In September 2005, the notes were disposed to a subsidiary of Sistema for a cash consideration of $5.5 million. The gain from disposal was recorded in additional paid-in capital.

Interest income received from related parties is disclosed in Note 23.

7. TRADE RECEIVABLES, NET

Trade receivables, net of provision for doubtful debts, as of September 30, 2005 and 2004 consisted of the following:

	September 30, 2005	December 31, 2004
Trade receivables	$84,316	$69,563
Provision for doubtful receivables	(8,743)	(6,059)
Total	**$75,573**	**$63,504**

Trade receivables as of September 30, 2005 and December 31, 2004 include receivables from subsidiaries and affiliates of Sistema of $15.4 million and $13.5 million, respectively, of which receivables from Sky-Link's subsidiaries (P-Com and MCC) amounted to $12.6 million and $11.0 million, respectively.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

8. OTHER RECEIVABLES AND PREPAID EXPENSES

Other receivables and prepaid expenses as of September 30, 2005 and December 31, 2004 consisted of the following:

	September 30, 2005	December 31, 2004
VAT recoverable	$36,282	$34,718
Other taxes receivable	11,710	4,555
Prepayments for services	12,944	8,670
Other receivables	14,093	12,726
Total	**$75,029**	**$60,669**

9. INVENTORIES AND SPARE PARTS

Inventories and spare parts as of September 30, 2005 and December 31, 2004 consisted of the following:

	September 30, 2005	December 31, 2004
Equipment for resale	$ 8,243	$ 5,888
Spare parts and other materials	16,908	17,116
Total	**$25,151**	**$23,004**

10. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as of September 30, 2005 and December 31, 2004 consisted of the following:

	September 30, 2005	December 31, 2004
Buildings and site improvements	$ 210,605	$ 206,577
Switches and transmission devices	874,614	815,698
Other fixed assets	173,944	170,256
Construction in progress and equipment for installation	156,249	135,661
Property, plant and equipment, cost	1,415,412	1,328,192
Less: accumulated depreciation	(343,079)	(296,435)
Total	**$1,072,333**	**$1,031,757**

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

Depreciation charge for the nine months ended September 30, 2005 and 2004 amounted to $66.8 million and $53.7 million, respectively.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

11. INTANGIBLE ASSETS, NET

Intangible assets, net of accumulated amortization, as of September 30, 2005 and 2004 consisted of the following:

	September 30, 2005			December 31, 2004		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Licenses	$ 4,130	$ (815)	$ 3,315	$ 4,130	$ (401)	$ 3,729
Billing systems and other software	57,040	(26,900)	30,140	44,897	(22,532)	22,365
Other	2,151	(366)	1,785	4,542	(396)	4,146
Total intangible assets, net	**$63,321**	**$(28,081)**	**$35,240**	**$53,569**	**$(23,329)**	**$30,240**

Amortization expense recorded on intangible assets for the nine months ended September 30, 2005 and 2004 amounted to $4.8 million and $3.4 million, respectively. Based on the intangible assets existing at September 30, 2005, the estimated amortization expense for each of the five succeeding years and thereafter is as follows:

Year ended September 30,	
2006	$ 7,191
2007	7,631
2008	6,397
2009	2,768
2010	2,500
Thereafter	8,753
Total	**$35,240**

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

12. LONG-TERM INVESTMENTS

Long-term investments as of September 30, 2005 and December 31, 2004 consisted of the following:

	September 30, 2005		December 31, 2004	
	Ownership, %	Investment	Ownership, %	Investment
Metrocom	45%	$12,244	—	—
MBRD	6%	5,569	6%	$ 5,720
Other investees, at cost	various	2,254	various	1,451
Sistema Telecom RUR-denominated promissory notes		24,890		—
MBRD RUR-denominated deposits		10,640		—
P-Com RUR-denominated promissory notes		3,860		3,964
Interest free loans to investees		132		155
Total long-term investments		**$59,589**		**$11,290**

Sistema Telecom RUR-denominated promissory notes mature in 2006 and bear interest rates at 0.7% to 4.4% per annum.

MBRD RUR-denominated deposits mature in 2007-2008 and bear interest rate at 9.3% per annum.

P-Com RUR-denominated promissory notes mature on demand, but not earlier than December 2006 and bear interest rates at 16% per annum.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued payroll and other current liabilities as of September 30, 2005 and December 31, 2004 consisted of the following:

	September 30, 2005	December 31, 2004
Accrued payroll and applicable taxes	$12,337	$13,300
Accrued interest	3,921	3,664
Dividends payable	4,623	344
Other current liabilities	8,369	6,312
Total	**$29,250**	**$23,620**

14. DEBT OBLIGATIONS

The Group's debt obligations as of September 30, 2005 and December 31, 2004 consisted of the following:

	Currency	Annual interest rate (Actual at September 30, 2005)	September 30, 2005	December 31, 2004
MGTS Bonds 3rd issue	RUR	—	—	$ 36,038
MGTS Bonds 4th issue	RUR	10.0%	$ 52,634	54,057
MGTS Bonds 5th issue	RUR	8.3%	52,634	—
Total corporate bonds			105,268	90,095
ABN Amro	USD	LIBOR+3.0% (7.2%)	20,039	—
Citibank	USD	LIBOR+1.6% (5.8%)	19,583	15,144
MBRD	USD	11.0%	11,344	5,000
Vneshtorgbank	Euro	highest of 7.5% or EURIBOR+5.4% (7.6%)	7,895	9,908
Vneshtorgbank	Euro	EURIBOR+5.0% (7.2%)	6,296	—
Vneshtorgbank	USD	LIBOR+4.9% (9.1%)	2,920	7,073
Commerzbank	Euro	4.0%	2,912	—
Alfa Bank	USD	12.5%	275	1,517
Sberbank	RUR	—	—	12,613
Sistema Mass Media	RUR	—	—	6,994
Raiffeisenbank	USD	—	—	3,750
Vnesheconombank	USD	—	—	2,216
Long-term portion of vendor financing	various	various	7,762	14,996
Short-term portion of vendor financing	various	various	12,649	18,570
Other	various	various	—	2,222
Total debt			196,943	190,098
Less: amounts maturing within one year			(83,232)	(85,616)
Total debt, net of current portion			**$113,711**	**$104,482**

Corporate bonds—In February 2003, MGTS issued 2-year RUR-denominated bonds (third issue) with the face value of RUR 1,000 million (equivalent of $35.1 million as of September 30, 2005) due in 2005. The bonds carry coupon of 12.3% during the first year of trading and 17.0% during the second year. MGTS has fully repaid the bonds in February 2005.

In April 2004, MGTS issued 5-year RUR-denominated bonds (fourth issue) with the face value of RUR 1,500 million (equivalent of $52.6 million as of September 30, 2005). The bonds carry a coupon of 10.0% per annum. MGTS made an unconditional offer to repurchase the bonds at par value in April 2006.

In May 2005, MGTS issued 5-year RUR-denominated bonds (fifth issue) with the face value of RUR 1,500 million (equivalent of $52.6 million as of September 30, 2005). The bonds carry a coupon of 8.3% per annum. MGTS made an unconditional offer to repurchase the bonds at par value in May 2010.

As of September 30, 2005, the fair value of the bonds was approximately $107.6 million and ranged from 102.0% to 102.4% of the principal amount.

ABN Amro—In September 2005, Comstar UTS entered into credit line with ABN Amro Bank limited to $20.0 million. The credit line bears interest of LIBOR+2.95% per annum and is repayable in seven equal consecutive installments with the last payment in September 2007. The credit line was opened to finance acquisitions. The credit line is fully and unconditionally guaranteed by MTU-Inform. As of September 30, 2005, the amount outstanding under the credit line was $20.0 million.

The credit line is subject to certain restrictive covenants including, but not limited to, limitations on the amount of dividends paid, loans issued to parties other than Sistema Telecom and acquisitions and investments made at terms different from the market. In addition, Interest Cover Ratio of the Group should not be less than 3:1 and Total Debt to EBITDA should not exceed 3:1.

Citibank—During the nine months ended September 30, 2005 and the years ended December 31, 2004 and 2003 MGTS entered into four credit facilities with Citibank for a total amount of $25.1 million. All facilities bear interest of LIBOR+1.6% and are repayable in 8 semi-annual installments every six months with the last payments in 2008-2010. Credit facilities were opened to finance acquisitions of equipment from STROM Telecom, a subsidiary of Sistema. The facilities are collateralized by equipment with approximate carrying amount of $9.6 million as of September 30, 2005, a deposit of $2.3 million in Citibank and are guaranteed by Export Guarantee and Insurance Corporation of the Czech Republic. As of September 30, 2005, the amount outstanding under these facilities was $19.6 million.

Based on restrictive covenants of the Citibank loan agreements, the Debt to Equity ratio and Debt Service to Earnings before Interest and Taxes (“EBIT”) ratio of MGTS should not exceed 3:1 and its aggregate debt may not exceed $250.0 million. The written approval of Citibank is required for MGTS to obtain borrowings individually exceeding $30.0 million (apart from the Sberbank loan, Raiffeisenbank loan and MGTS bonds) or alienate more than 10% of its assets.

MBRD—In March and July 2005, Sistema Multimedia entered into two credit facilities with MBRD for the total of $13.7 million. The balance under the facilities as of September 30, 2005 was $11.3 million. Both facilities are guaranteed by Sistema, bear interest of 11.0% per annum and mature in 2008-2011.

Vneshtorgbank—In July 2004, MGTS entered into two credit agreements for a total amount of Euro 7.3 million (equivalent of $8.8 million as of September 30, 2005) to finance equipment acquisition. The interest rate is the highest of EURIBOR+5.4% or 7.5% per annum. Equipment with approximate carrying amount of $7.6 million is pledged to collateralize the outstanding balance under the agreements. As of September 30, 2005, the amount outstanding under the agreements was $7.9 million.

In March 2005, MGTS entered into credit agreement with Vneshtorgbank for an amount of Euro 5.3 million (equivalent of $6.4 million as of September 30, 2005) to finance acquisition of equipment. The interest rate is EURIBOR+5.0% per annum. Equipment with approximate carrying value of $5.9 million is pledge to collateralize the outstanding balance under the agreement. As of September 30, 2005, the amount outstanding under the agreement was $6.3 million.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

During the year ended December 31, 2002, the Group received a number of loans from Vneshtorgbank to finance working capital. As of September 30, 2005, amount of $2.9 million was outstanding under these loans. The loans are collateralized by equipment with approximate carrying amount of $3.3 million. The loans bear interest of LIBOR+4.9% per annum and mature in 2006.

Commerzbank—In December 2004, Sistema Multimedia entered a credit line agreement with Commerzbank limited to Euro 5.5 million (equivalent of $6.6 million as of September 30, 2005). The loan bears interest of 4.0% per annum and matures in 2010. As of September 30, 2005, $2.9 million was outstanding under this credit line.

Alfa Bank—In December 2002, Golden Line obtained a USD-denominated credit facility from Alfa Bank bearing annual interest at the rate of 12.5%. The facility limit was $4.0 million. MTU-Inform guaranteed this credit facility and pledged equipment with the fair value of $4.7 million. As of September 30, 2005, $0.3 million was outstanding under the facility. The facility was fully repaid in November 2005.

Vendor financing—Foreign suppliers of telecommunication equipment provide uncollateralized commercial credit to the Group denominated in various currencies on short-term and long-term basis, mostly interest free. The present value of the obligations under vendor financing agreements as of September 30, 2005 was determined using the Group's incremental borrowing rate of 10.0%.

The loan repayments over future periods are as follows:

Year ended September 30,	
2006	$ 83,232
2007	29,103
2008	15,080
2009	9,943
2010	59,191
Thereafter	394
Total	**$196,943**

As of September 30, 2005, the Group is in compliance with all covenants contained in its credit facilities.

15. CAPITAL LEASE OBLIGATIONS

Capital lease obligations as of September 30, 2005 and December 31, 2004 consisted of the following:

	September 30, 2005	December 31, 2004
Capital lease obligations	$21,310	$26,699
Less: current portion	(8,289)	(6,782)
Total capital lease obligations, net of current portion	**$13,021**	**$19,917**

MGTS and Telmos enter into contracts for the lease of telecommunication equipment with Raiffeisen Leasing, MMB-Leasing and InvestSvyazHolding, a subsidiary of Sistema. The agreements expire in 2006-2009 and assume transfer of ownership for equipment to the Group after the last lease payment is effected.

The net book value of leased assets comprised $40.1 million and $42.7 million as of September 30, 2005 and December 31, 2004, respectively. Interest expense accrued on capital lease obligations for the nine months ended September 30, 2005 and 2004 amounted to $2.0 million and $1.9 million, respectively.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

The following table presents future minimum lease payments under finance leases together with the present value of the net minimum lease payments as of September 30, 2005:

Year ended September 30,	
2006	$10,167
2007	8,172
2008	5,499
2009	640
Total minimum lease payments (undiscounted)	24,478
Less: amount representing interest	(3,168)
Total present value of net minimum lease payments	**$21,310**

16. POSTRETIREMENT BENEFITS

MGTS has historically provided certain benefits to employees upon their retirement and afterwards. Currently the main features under the defined benefit pension program include the following:

Monthly regular pension—Employees retiring with at least fifteen years of service receive lifetime payments varying from RUR 3,600 (equivalent of USD 126 as of September 30, 2005) to RUR 50,400 (equivalent of USD 1,768 as of September 30, 2005) per year depending on employee's actual years of service and qualification;

Death-in-service—Lump-sum payment of RUR 15,000 (equivalent of USD 526 as of September 30, 2005), payable upon death of an employee, irrespective of past service;

Lump-sum upon retirement—Lump-sum payment upon retirement of employees with at least five years of service varying from RUR 3,700 (equivalent of USD 130 as of September 30, 2005) to RUR 22,200 (equivalent of USD 779 as of September 30, 2005) depending on employee's actual years of service;

Monthly telephone subsidy—Qualifying pensioners (those who served more than 30 years at MGTS) get 50% subsidy (approximately USD 4 per month as of September 30, 2005) for their monthly telephone bills from MGTS;

Death-while-pensioner—MGTS pays lump-sum benefits to relatives of deceased pensioners of up to RUR 10,000 (equivalent of USD 351 as of September 30, 2005)

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

Discount rate	9.2%
Future salary increases	9.2%
Future pension increases	0.0%
Average life expectancy of members from date of retirement	17 years

(Amounts in thousands of U.S. dollars, unless otherwise stated)

The change in the projected benefit obligation and the change in plan assets are prepared in the following table:

	Nine months ended September 30,	
	2005	2004
Projected benefit obligation, beginning of the period	$13,550	$ 6,034
Service cost	1,978	1,399
Interest cost	1,216	453
Plan amendments	—	4,488
Actuarial losses	4,080	529
Benefit payments	(501)	(319)
Currency translation effect	(356)	(303)
Projected benefit obligation, end of the period	19,967	12,281
Less: fair value of plan assets	(2,681)	(1,807)
Unfunded status of the plan, end of the period	**$17,286**	**$10,474**

The increase in projected benefit obligation due to plan amendment in the nine months ended September 30, 2004 relates to the increase in the base rate used to determine the monthly payments to the retired employees. The increase in the projected benefit obligation due to actuarial losses for the nine months ended September 30, 2005 and 2004 relates primarily to the reduction in the discount rate and employees turnover assumptions.

The accumulated benefit obligation as of September 30, 2005 and 2004 was $16.9 million and $10.4 million, respectively.

The components of the net periodic benefit costs for the nine months ended September 30, 2005 and 2004 are as follows:

	Nine months ended September 30,	
	2005	2004
Service cost	$1,978	$1,399
Interest cost	1,216	453
Net periodic benefit cost	**$3,194**	**$1,852**

The Group's management expects contributions to the plan during the year ended September 30, 2006 to amount to $0.9 million.

The future benefit payments to retirees under the defined benefit plan are expected as follows:

Year ended September 30,	
2006	$ 5,037
2007	1,492
2008	1,425
2009	1,364
2010	1,222
2011-2015	4,916
Thereafter	1,830
Total	**$17,286**

The plans assets for lifetime payments to employees retiring after January 1, 2004, are managed by Sistema Pension Fund, a subsidiary of Sistema.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

17. PROPERTY, PLANT AND EQUIPMENT CONTRIBUTIONS

In the course of its business, in accordance with the regulations of the Moscow City Government, MGTS receives telecommunication infrastructure which is intended to operate as an integral part of the city wireline network from the real estate constructors free of charge. Property, plant and equipment contributions received by the Group as of September 30, 2005 and December 31, 2004 were as follows:

	Nine months ended September 30, 2005	Year ended December 31, 2004
Property, plant and equipment, beginning of the period	$103,822	$ 88,388
Contributions received during the period	4,571	13,597
Currency translation effect	(2,753)	4,993
Property, plant and equipment amortized	(2,707)	(3,156)
Property, plant and equipment, end of the period	**$102,933**	**$103,822**

18. SHARE CAPITAL

Share capital as of September 30, 2005 and December 31, 2004 is comprised of the share capitals of the Combined Entities as follows:

	Number of shares, authorised, issued and outstanding		Par value, Rubles		Amount	
	September 30, 2005	December 31, 2004	September 30, 2005	December 31, 2004	September 30, 2005	December 31, 2004
MGTS:						
Preferred stock	15,965,850	15,965,850	40	40	$ 22,538	$ 22,538
Common stock	79,829,200	79,829,200	40	40	112,462	112,462
Comstar UTS	23,021,000	23,021,000	1	1	10,088	10,088
MTU-Inform	1,000	1,000	10	10	1	1
Telmos	15,370	15,370	2,000	2,000	11,335	11,335
MTU-Intel	21,457	21,457	5	5	5	5
Sistema Multimedia	1,050	—	10	—	—	—
Less: cross holdings and minority interests					(84,296)	(84,296)
Total					**$ 72,133**	**72,133**

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

(Amounts in thousands of U.S. dollars, unless otherwise stated)

As of September 30, 2005, the common voting shares of the Combined Entities were held as follows:

	MGTS	Comstar UTS	MTU-Inform	Telmos	MTU-Intel	Sistema Multimedia
Sistema	56%	—	—	—	—	—
ECU GEST S.A., subsidiary of Sistema	—	50%	—	—	—	—
MGTS	—	50%	—	—	—	—
United TeleSystems, subsidiary of Sistema	—	—	48%	40%	70%	—
MGTS United TeleSystems	—	—	51%	40%	30%	—
Sistema Mass Media	—	—	—	—	—	100%
OJSC Svyazinvest	28%	—	—	—	—	—
Comstar UTS	—	—	—	20%	—	—
Others	16%	—	1%	—	—	—
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

In February 2005, Sistema purchased 20% of voting common shares of Telmos from Rostelecom (Note 4).

In 2005, Sistema Mass Media issued additional shares with par value of 500 RUR. The shares were purchased by Sistema Mass Media for a cash consideration of $7.0 million. The excess of the purchase price over the par value of shares was recorded as an increase of additional paid-in capital.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

19. OPERATING REVENUES

Operating revenues for the nine months ended September 30, 2005 and 2004 consisted of the following:

	Nine months ended September 30,	
	2005	2004
Alternative fixed line communications		
Corporates		
Voice	$ 50,609	$ 50,455
Data and internet	47,390	41,500
Value-added services	4,157	3,496
Other	2,639	1,198
Residential		
Voice	1,023	633
Data and internet: broadband	27,898	5,044
dial-up	15,253	18,850
Other	4,194	1,103
Operators	82,820	75,887
Other	10,308	9,268
	246,291	**207,434**
Traditional fixed line communications		
Residential		
Voice	163,465	109,800
Payphones	1,938	4,147
Additional telecommunication services	6,593	3,855
Other	2,137	1,728
Corporates		
Voice	94,708	88,661
Access node / Trunks rental	26,707	14,479
Additional telecommunication services	9,021	6,392
Other	6,451	5,405
Operators	79,512	68,677
	390,532	**303,144**
Total	**$636,823**	**$510,578**

MGTS does not provide domestic long-distance and international long-distance, or DLD/ILD, telecommunication services directly to its subscribers, but must route such traffic through a DLD/ILD licensed operator. As a result, DLD/ILD traffic originated by MGTS' subscribers is carried by Rostelecom, which bills MGTS' subscribers directly. During nine months ended September 30, 2005, MGTS had an agreement with Rostelecom pursuant to which Rostelecom paid MGTS approximately $2.4 million per month of its DLD/ILD revenues generated by MGTS' subscribers.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

20. OPERATING EXPENSES

Operating expenses for the nine months ended September 30, 2005 and 2004 consisted of the following:

	Nine months ended September 30,	
	2005	2004
Employee costs	$167,218	$142,961
Depreciation and amortization	68,861	54,607
Repairs and maintenance	52,774	48,588
Network traffic	31,317	28,318
Taxes other than income taxes	17,558	21,471
Utilities and energy	13,434	11,675
Rent	11,292	11,972
Selling and marketing	11,259	12,574
Bank charges	7,918	6,333
Insurance	5,957	5,408
Transportation	3,714	2,189
Allowance for doubtful accounts	3,472	(519)
Damages from fire, net of insurance coverage	(5,806)	—
Cost of equipment sold	3,562	3,114
Other	43,495	33,806
Total	**$436,025**	**$382,497**

In February 2003, a fire occurred in one of MGTS' switching stations, significantly damaging Telmos's and MGTS' equipment. As a result of the fire, 40,000 telephone lines were damaged. The net book value of the damaged equipment and equipment that became obsolete as a result of replacement of the damaged equipment amounted to $9.7 million, including the net book value of leased equipment of $1.4 million. The damaged equipment of Telmos was insured by Rosno, a subsidiary of Sistema, and Rossia Insurance Co ("Rossia"). Telmos received insurance coverage of $1.7 million from Rosno and entered in coverage litigation with Rossia seeking compensation of damages in amount of $5.8 million. Additionally, MGTS has filed a claim against a third party seeking compensation of damages caused by a fire in the amount of approximately $8.7 million. Moscow arbitration court and, subsequently, courts of appeal ruled in favour of the Group in its litigation with Rossia regarding the insurance coverage for the equipment damaged as a result of the fire. During the third quarter of 2005, the Group has collected insurance recovery in amount of $5.8 million and recognized a gain in the same amount.

21. INCOME TAX EXPENSE

The Group's provision for income taxes for the nine months ended September 30, 2005 and 2004 was as follows:

	Nine months ended September 30,	
	2005	2004
Current expense	$47,788	$31,385
Deferred tax expense	2,516	3,298
Total	**$50,304**	**$34,683**

(Amounts in thousands of U.S. dollars, unless otherwise stated)

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

	Nine months ended September 30, 2005	Nine months ended September 30, 2004
Income tax charge computed on income before taxes at standard rate applicable to the Group of 24%	$46,829	$27,444
Change in valuation allowance	(672)	707
Foreign currency transactions differences	(490)	118
Non-deductible expenses	4,637	6,414
Total	**$50,304**	**$34,683**

Temporary differences between the tax and accounting bases of assets and liabilities give rise to the following deferred tax assets and liabilities as of September 30, 2005 and 2004:

	September 30, 2005	December 31, 2004
Deferred tax assets		
Deferred connection fees	$ 38,128	$ 36,220
Property, plant and equipment contributions	24,549	24,917
Valuation of property, plant and equipment	3,501	3,471
Allowance for doubtful accounts	667	3,758
Accrued operating expenses	1,380	3,164
Post-retirement benefits	4,241	2,763
Tax losses carryforward	1,527	1,607
Other	1,473	2,272
Less: valuation allowance	(1,130)	(1,802)
Total	**74,336**	**76,370**
Deferred tax liabilities		
Depreciation of property, plant and equipment	$(68,056)	$(70,210)
Other	(5,196)	(3,590)
Total	**$(73,252)**	**$(73,800)**
Net deferred tax assets, current portion	$ 13,993	$ 15,693
Net deferred tax assets, long-term portion	2,448	6,274
Net deferred tax liabilities, long-term portion	(15,357)	(19,397)

Deferred tax assets relating to tax losses carried forward in the amount of $1.5 million as of September 30, 2005 expire in 2012 and are attributable to MTU-Inform.

22. SEGMENT INFORMATION

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", established standards for reporting information about operating segments in financial statements. Operating segments are defined as components of an enterprise engaging in business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Group's management evaluates performance of the segments based on operating income.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

An analysis and reconciliation of the Group's business segment information to the respective information in the combined financial statements for the nine months ended September 30, 2005 and 2004 is as follows:

	As of September 30, 2005 and for the nine months then ended		
	Alternative fixed line communication services	Traditional fixed line communication services	Total
Net sales to external customers	$ 246,291	$ 390,532	$ 636,823
Intersegment sales	480	72,476	72,956
Depreciation and amortization	(18,872)	(49,989)	(68,861)
Operating income	53,224	149,211	202,435
Interest income	3,077	2,372	5,449
Interest expense	(968)	(11,200)	(12,168)
Income tax expense	(15,078)	(35,226)	(50,304)
Segment assets	438,241	1,148,171	1,586,412
Cash and cash equivalents	47,826	28,257	76,083
Indebtedness[(a)]	(41,311)	(176,942)	(218,253)
Capital expenditures	32,710	117,551	150,261

	As of December 31, 2004 and for the nine months ended September 30, 2004		
	Alternative fixed line communication services	Traditional fixed line communication services	Total
Net sales to external customers	$ 207,434	$ 303,144	$ 510,578
Intersegment sales	536	44,816	45,352
Depreciation and amortization	(15,646)	(38,961)	(54,607)
Operating income	51,800	76,819	128,619
Interest income	3,720	2,758	6,478
Interest expense	(1,459)	(12,962)	(14,421)
Income tax expense	(15,027)	(19,656)	(34,683)
Segment assets	374,739	1,065,473	1,440,212
Cash and cash equivalents	38,688	28,748	67,436
Indebtedness[(a)]	(27,237)	(189,560)	(216,797)
Capital expenditures	28,813	128,631	157,444

(a)—Represents the sum of short-term and long-term debt and capital lease obligations

The reconciliation of segment operating income to the combined income before income tax and minority interests and reconciliation of segment assets to the combined segment assets are as follows:

	Nine months ended September 30,	
	2005	2004
Total segment operating income	$202,435	$128,619
Intersegment eliminations	(1,637)	(538)
Interest income	5,449	6,478
Interest expense	(12,168)	(14,421)
Foreign currency transactions gain	1,043	821
Loss from disposal of an affiliate	—	(6,610)
Combined income before income tax and minority interests	**$195,122**	**$114,349**

(Amounts in thousands of U.S. dollars, unless otherwise stated)

	September 30, 2005	December 31, 2004
Total segment assets	$1,586,412	$1,440,212
Intersegment eliminations	(25,396)	(21,764)
Combined assets	**$1,561,016**	**$1,418,448**

For the nine months ended September 30, 2005 and 2004, the Group did not have revenues from transactions with a single external customer amounting to 10% or more of the Group's combined revenues.

23. RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2005 and 2004, major transactions involving related parties (subsidiaries and affiliates of Sistema) were as follows:

Mobile Telesystems (MTS)

The Group has interconnection arrangements and line rental agreements with MTS, a subsidiary of Sistema. MTS also rents buildings for administrative, sales and marketing offices from the Group as well as premises for its switching and base station equipment. Amounts received by the Group under these agreements during the nine months ended September 30, 2005 and 2004 were approximately $27.5 million and $20.3 million, respectively.

Rosno

The Group purchases insurance services from Rosno. The insurance premium paid to Rosno during the nine months ended September 30, 2005 and 2004 amounted to $4.9 million and $5.3 million, respectively. Indemnity received from Rosno for the same periods amounted to $0.9 million and $3.1 million, respectively.

STROM Telecom and Mediatel

The Group purchases telecommunication equipment and software from STROM Telecom and Mediatel. The cost of equipment and software purchased from these entities during the nine months ended September 30, 2005 and 2004 was $13.1 million and $9.2 million, respectively. Related accounts payable as of September 30, 2005 and December 31, 2004 are amounted to $1.6 million and $12.1 million, respectively.

MBRD

During the nine months ended September 30, 2005 and 2004, the Group has received interest income on MBRD's promissory notes of $1.1 million and $2.6 million, respectively.

Sistema Telecom, Sky-Link

Interest income received by the Group on promissory notes of Sistema Telecom and Sky-Link for the nine months ended September 30, 2005 and 2004 amounted to $2.2 million and $0.3 million, respectively.

RA Maxima

During the nine months ended September 30, 2005, the Group purchased advertising from advertising agency RA Maxima, a subsidiary of Sistema. The amount of advertising purchased from RA Maxima during the nine months ended September 30, 2005 was $2.1 million.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

Invest-Svyaz-Holding

The Group enters into agreements with Invest-Svyaz-Holding, a subsidiary of Sistema, for leasing of network equipment and billing system. These leases were recorded as capital leases based on the requirements of SFAS No. 13, "Accounting for Leases". The net book value of assets leased under such agreements as of September 30, 2005 and December 31, 2004 was $27.1 million and $28.5 million, respectively. The interest rate implicit in the leases varied from 14.0% to 23.9%.

The following table summarizes the future minimum lease payments under capital leases to Invest Svyaz-Holding together with the present value of the net minimum lease payments as of September 30, 2005.

Year ended September 30,	
2006	$ 9,515
2007	8,080
2008	5,499
2009	640
Total minimum lease payments (undiscounted)	23,734
Less: amount representing interest	(3,119)
Present value of net minimum lease payments	20,615
Less: current portion of lease obligations	(7,683)
Non-current portion of lease obligations	**$12,932**

24. COMMITMENTS AND CONTINGENCIES

Operating leases—The Group leases land, buildings and office space from municipal organizations through contracts, which expire in various years through 2049. Rental expenses for the nine months ended September 30, 2005 and 2004, amounted to $13.7 million and $11.2 million, respectively.

Future minimum rental payments under operating leases in effect as of September 30, 2005, are as follows:

Year ended September 30,	
2006	$ 6,368
2007	5,323
2008	3,512
2009	3,180
2010	3,010
Thereafter	27,817
Total	**$49,210**

Capital commitments—In December 2003, MGTS announced its long-term investment program for the period from 2004 till 2012 providing for extensive capital expenditures including expansion and full digitalization of the Moscow telephone network. The program was approved by the resolution of the Moscow City Government in December 2003. At the inception of the investment program, capital expenditures were estimated to be approximately $1.6 billion and include reconstruction of 350 local telephone stations and installation of 4.3 million of new phone numbers.

In the course of completion of the investment program, in September-December 2004, MGTS entered into a series of agreements with Sistema-Hals, a subsidiary of Sistema, on project development and reconstruction of buildings of automatic telephone exchanges. The main part of work under the contracts is to be performed in 2006-2008. As of September 30, 2005, no obligations of the Group to Sistema-Hals exist except for the agent fee payable for the total amount of $0.5 million.

As of September 30, 2005 the Group has commitments to spend $6.1 million on network development and acquisition of new telecommunication equipment.

Licenses—Substantially all of the Group's revenues are derived from operations conducted pursuant to licenses granted by the Russian Government. These licenses expire in various years ranging from 2005 to 2013. The Group has no reason to believe that the licenses will not be renewed or that any license will be suspended or terminated.

Issued guarantees—In December 2004, MGTS became a guarantor under the credit facility between Sistema-Hals and WestLB Vostok Bank. The loan of $10.4 million matures in December 2006. The guarantee amounted to $8.0 million as of September 30, 2005.

In 2004, MGTS became a guarantor under the credit facility between Commerzbank (Eurasia) and Invest-Svyaz-Holding. The credit line for the total amount of $17.0 million matures in 2006. The guarantee amounted to $8.5 million as of September 30, 2005.

In July 2004, MTU-Inform issued guarantees to MBRD on behalf of Sky-Link for the total amount of $22.5 million. The guarantees have expired in the fourth quarter of 2005. No payments have been made by the Group in respect of these guarantees.

Under these guarantees the Group could be potentially liable for a maximum amount of $16.5 million in case of the borrowers' default under their obligations. As of the date of these financial statements, no event of default occurred under any of the guarantees issued by the Group.

Taxation environment—Russian tax legislation is subject to varying interpretations with changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three years.

The tax inspection has challenged the application by MGTS of certain provisions of the tax legislation, including application of the investment allowance for income tax purposes in 2001. The tax inspection assessment amounted to the equivalent of $5.4 million at the rate current as of September 30, 2005. In November 2004, the Group contested the assessment in Moscow Arbitrage. In March 2005, Moscow Arbitrage made a decision to disaffirm the tax inspection claims in part of application of the investment allowance. The Arbitrage considered the tax inspectorate's claims for the amount of $1.8 million to be valid.

In the first quarter of 2005, the Moscow Directorate of the Russian Ministry for Taxes and Levies filed a petition requiring MGTS to pay tax penalties in the amount of approximately $0.9 million relating to its VAT payment obligations in 2001 to 2002. The Moscow Arbitration Court has adjourned the proceedings until the case is first heard by the Appellate Court. The case is currently pending.

In June 2005, the tax inspectorate issued a tax assessment to Comstar UTS in the amount of approximately $0.6 million, including penalty interest. The Group challenged this claim in the Moscow Arbitration Court. In July 2005, the Arbitration Court ruled in favor of the Group and invalidated the assessment. In September 2005, the Arbitration Appellate Court upheld the Arbitration Court's decision. The tax inspectorate has appealed these lower court decisions in the Federal Arbitration Court of the Moscow District, which will review the appeal on November 24, 2005.

In October 2005, the tax inspectorate issued a tax assessment to Comstar UTS in the amount of approximately $0.7 million, including penalties. In November 2005, the Group challenged this claim in the Moscow Arbitration Court. This case is currently pending.

In August 2005, the tax inspectorate issued an assessment against MTU-Inform in the amount of approximately $1.0 million, including penalty interest. The Group filed a claim in the Moscow Arbitration Court seeking the partial invalidation of the claim. In October 2005, the Moscow Arbitration Court issued a decision to invalidate approximately $0.7 million. The Group intends to file an appeal seeking a further reduction in the tax assessment.

In September 2005, the tax inspectorate issued an assessment against Telmos seeking approximately $0.6 million in unpaid taxes. The Group filed a claim in the Moscow Arbitration Court seeking to invalidate the assessment. In September 2005, the Moscow Arbitration Court suspended the enforcement of the tax assessment, a ruling that was subsequently appealed by the tax inspectorate. In November 2005, the Moscow Appellate Court dismissed the tax inspectorate's appeal and upheld the ruling of the Moscow Arbitration Court.

An accrual has been made for the amount of $4.6 million in the combined financial statements with respect of the above mentioned claims.

Russian environment and current economic situation—Over the past decade Russia has undergone substantial political and social changes. As an emerging market, Russia does not possess a fully developed business and regulatory infrastructure that would generally exist in a more mature market economy. The current government is attempting to address these issues; however it has not yet fully implemented the reforms necessary to create banking and judicial systems that usually exist in more developed markets. As a result, operations in Russia involve risks that typically do not exist in more developed markets.

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

Regulations on telecommunications—On January 1, 2004, a new Communications Law came into effect in Russia. The law sets the legal basis for the telecommunications business in Russia and defines the status that state bodies have in the telecommunications sector.

The Communications Law introduces a Universal Services Reserve Fund (USRF) which will result in higher costs for all operators, including the Group. Under the Communications Law, all telecommunications operators must contribute to the USRF. The USRF is designed to fund socially important but economically unviable projects. In April 2005, Russian government approved several provisions clarifying how the USRF will be collected and administered. Starting July 1, 2005, the amount of the universal service charge is 1.2% of the total revenues received from the usage of public telecommunication network less connection fees and revenues received from interconnection services provided to other operators. For the nine months ended September 30, 2005, the related expense of $3.4 million was recorded in other operating expenses.

Recently, the Russian government has issued several implementing acts under the Communications Law, such as Resolution No. 87, dated February 18, 2005, approving the list of licensed telecommunication activities, and Resolution No. 68, dated February 11, 2005, regarding the rules applicable to the state registration of telecommunication infrastructure such as real property. However, it is presently not yet clear how these regulations would be implemented. Thus, the uncertainty related to the Communications Law continues.

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

In February 2005, MGTS filed a claim against Mospromstroi seeking compensation in the amount of approximately $8.4 million for damages caused by a fire at one of its telephone stations. On

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October 31, 2005, MGTS motioned the Moscow Arbitration Court to increase the damages to a total of approximately $11.1 million.

During the first half of 2005, MGTS filed seven claims in the Moscow Arbitration Court against the Ministry of Labor and Social Development of the Russian Federation for the recovery of losses it incurred in connection with the provision of communications services in 2003 to 2004 to Russian veterans at a reduced rate. Pursuant to the Federal Law on Veterans, MGTS is seeking full reimbursement from federal funds totaling approximately $15.8 million. In the second half of 2005, the Arbitration Court ruled in favor of MGTS for the full amount. Although writs of execution have been obtained with respect to four of the seven claims, MGTS has not yet received any payments.

25. SUBSEQUENT EVENTS

In October 2005, Comstar UTS acquired 89.4% of the common shares and 31.9% of the preferred shares of Tyumenneftegazsvyaz, a leading alternative fixed line telecommunications services provider operating in the Tyumen region, including the autonomous districts of Khanty-Mansi and Yamalo-Nenets. The purchase price amounted to $9.0 million.

In November 2005, Comstar UTS issued additional 255,919,860 common shares with par value of RUR 1 each to Sistema, its subsidiaries United TeleSystems and ECU GEST S.A., and MGTS United TeleSystems. The issue was settled by shares of MGTS, MTU-Inform, Telmos and MTU-Intel held by those entities. As a result of the restructuring, Comstar UTS obtained controlling interests in MGTS, MTU-Inform, Telmos and MTU-Intel. Comstar UTS' shareholders' structure upon completion of the restructuring is as follows:

Sistema	54.6%
United TeleSystems	20.6%
ECU GEST S.A.	4.1%
MGTS United TeleSystems	16.6%
MGTS	4.1%
Total	**100.0%**

In December 2005, Comstar UTS acquired 100% interests in Conversiya-Svyaz and Overta, two leading alternative fixed-line operators in the Saratov region. The purchase price amounted to $10.0 million.

In December 2005, shareholders of Comstar UTS approved issue of additional 150 million common shares with par value of RUR 1 each.

In December 2005, Comstar UTS sold 51% stake in Mediatel to Concern SITRONICS, a subsidiary of Sistema, for cash consideration of $1.9 million.

In December 2005, Comstar UTS announced the terms of its public share purchase offer to the holders of common shares of MGTS. The offer price was set at RUR 490 (equivalent of $17.2 as of September 30, 2005) per one common share of MGTS. Shareholders of MGTS may accept this offer within 30 days of receipt of official notification.

In December 2005, Sistema Multimedia was merged into MTU-Intel. Comstar UTS ownership interest in the merged entity is 51.82%. The remaining shares are held by Sistema.

In December 2005, Comstar UTS acquired 100% interest in CTK Contrast-Telecom, an alternative fixed-line operator in the Moscow region. The purchase price amounted to $5.5 million.

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