



# SISTEMA

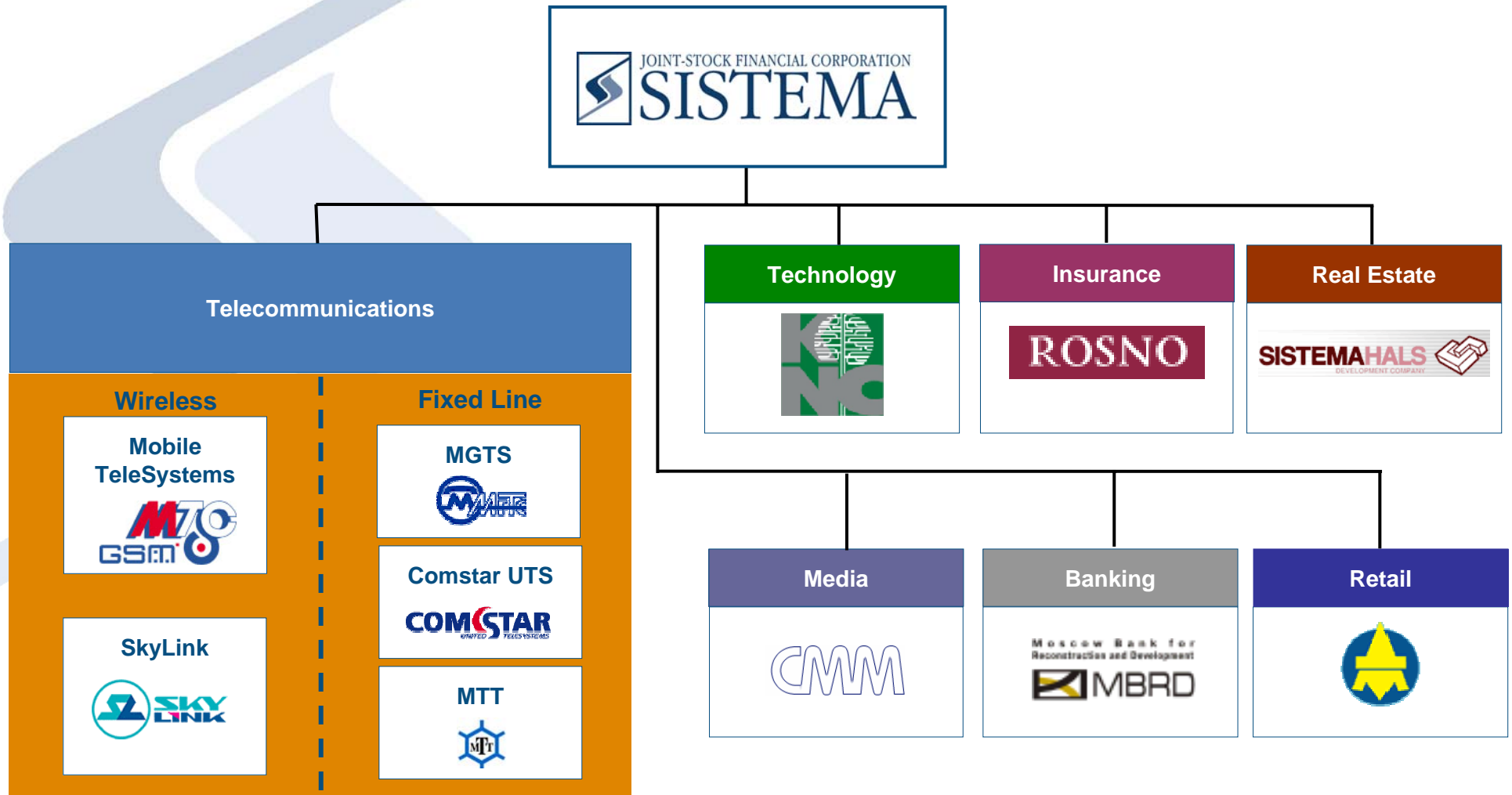
## Summary of 2004 Financial Results

June 8, 2005

# Disclaimer

Some of the information in this presentation may contain projections or other forward-looking statements regarding future events or the future financial performance of Sistema Joint Stock Financial Corporation (“Sistema”). You can identify forward looking statements by terms such as “expect,” “believe,” “anticipate,” “estimate,” “intend,” “will,” “could,” “may” or “might,” the negative of such terms or other similar expressions. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. We do not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, general economic conditions, our competitive environment, risks associated with operating in Russia, rapid technological and market change in our industries, as well as many other risks specifically related to Sistema and its operations.

# Sistema - Leadership in Service-Based Industries



Control and consolidation of high-growth service-based businesses

# Key Highlights of 2004

## ■ Rapid growth across key business segments

- Consolidated revenue of \$5.7bn vs. \$3.8bn in 2003 (+50%)
- Consolidated OIBDA of \$2.5bn vs. \$1.6bn in 2003 (+50%)
- Market-leading customer base with over 45m customers across all business lines

## ■ Consolidation of control position in MTS

- Decrease in Deutsche Telekom's holding to 10% of MTS' share capital

## ■ Completion of restructuring of CLEC portfolio and creation of integrated Comstar UTS

## ■ Step-change in the growth of Sistema Technology

- Implementation of restructuring program and acquisition of Kvazar-Micro

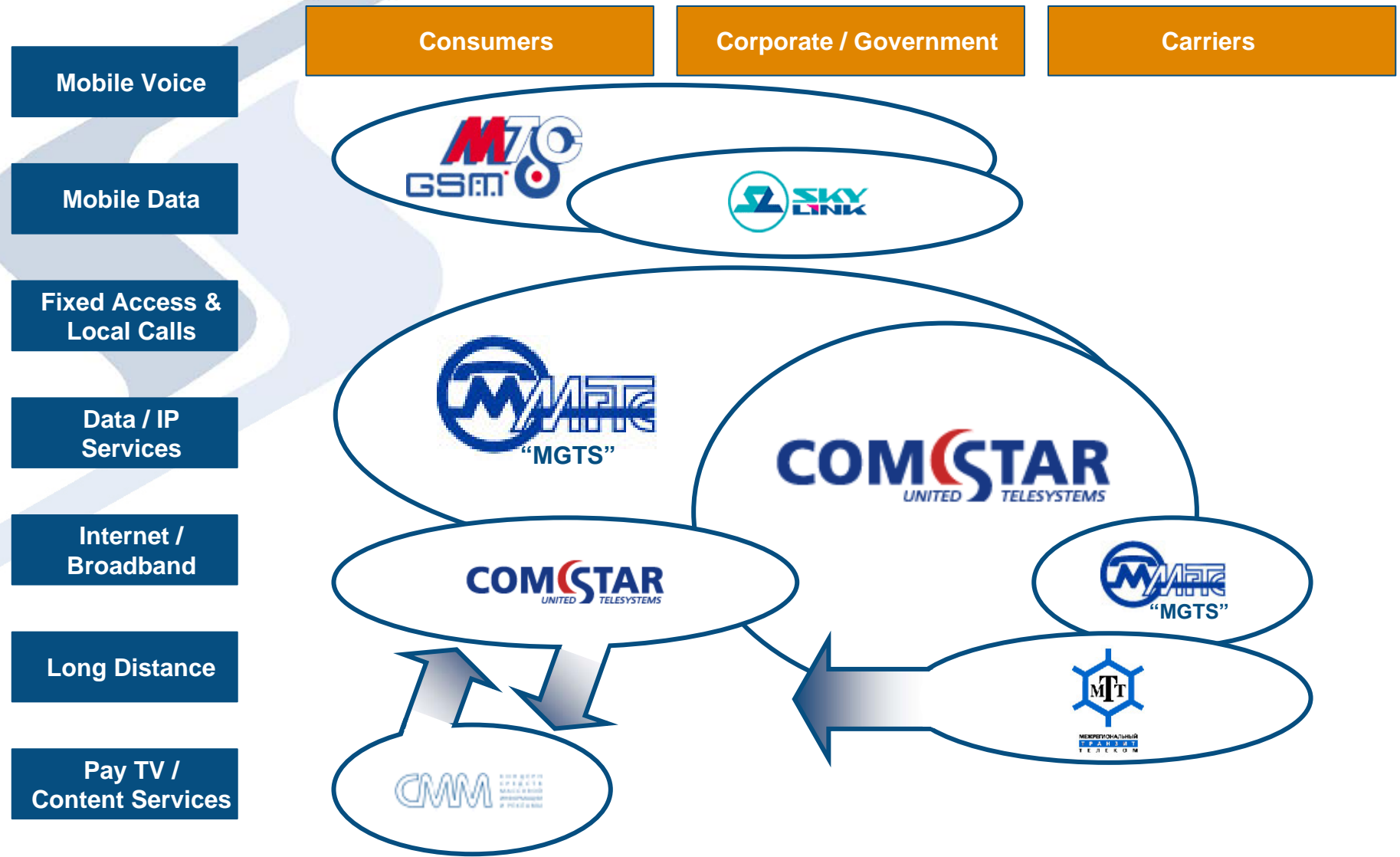
## ■ Successful strategic initiatives at Rosno

- Value-creating add-on acquisitions, launch of life insurance and asset management business

**Continued development of CIS' leading consumer-oriented businesses**



# Telecommunications – Consolidation of Leadership Position



Potential to become Russia's integrated operator

# Wireless – MTS: Leading Wireless Operator in EMEA

## ■ Operating Highlights

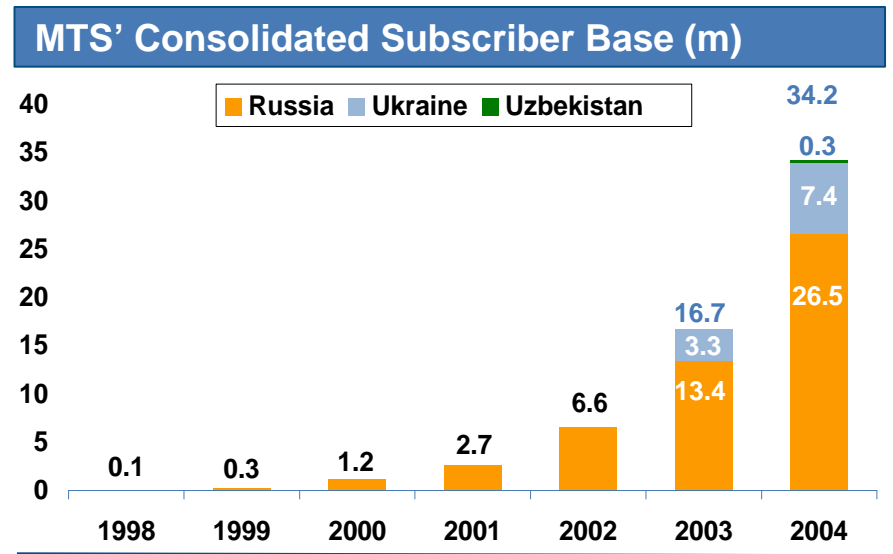
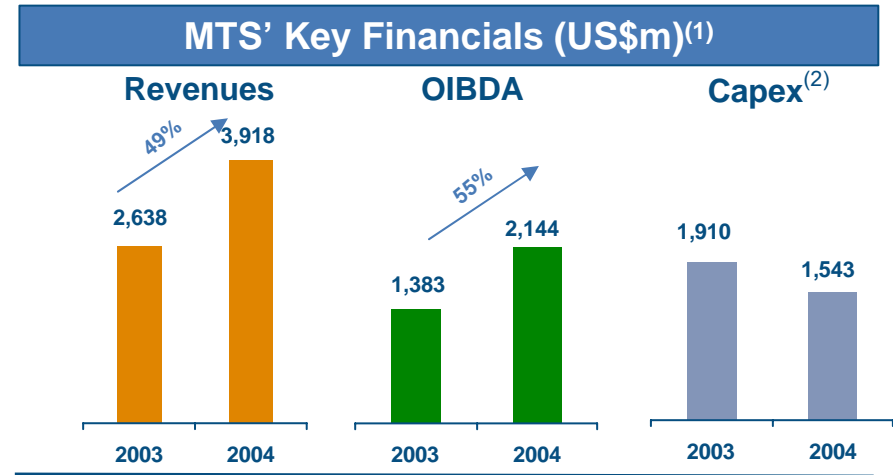
- Consolidated subscriber base more than doubled by 17.5m to 34.2m at YE 2004
- #1 position retained in Russia and Ukraine
- #1 position gained in Belarus
- New licenses received for 11 regions in Russia (14.3m POPs)
- Footprint extended to 77 Russian regions from 60 (YE 2003)
- Leading wireless operator acquired in Uzbekistan
- As of May 31, 2005, subscriber base reached 42.3m customers

## ■ Financial Highlights

- FY 2004 revenues up 49% YoY to \$3.9bn
- OIBDA up 55% to \$2.1bn; an all-time high annual OIBDA margin of 54.7%
- Significantly improved cash-flow generation

## ■ Consolidation of control position in MTS

- Decrease in DT's holding to 10% of MTS' share capital



Unique story of value creation by Sistema

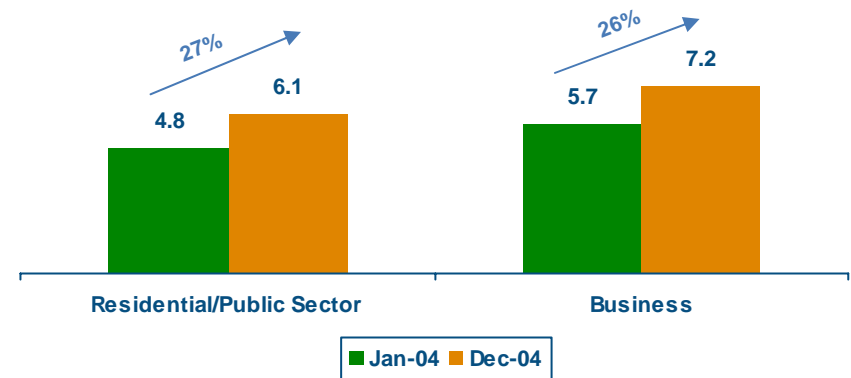
(1) Sistema consolidated financials (differs marginally from MTS reported due to consolidation differences)

(2) Includes acquisitions

# Fixed Line – MGTS: Growing Moscow City PTO

- **Growth driven by operational improvements, tariff increase and introduction of new services**
  - Solid revenue growth of 27%
  - More than 20% local access tariffs increase in October 2004
  - Introduction of new value-added services
  
- **Sharpened focus on network restructuring and cost-cutting programs**
  - Achieved digitalisation levels of 22% at YE 2004
  - Shifting to a success-based capex program with YE 2004 level of \$165m
  - Commitment to efficiency improvement with lines/employee of 213 (a 5% increase YoY)
  
- **As a result of Comstar UTS restructuring MGTS will own a 46% stake in Comstar UTS**
  
- **Aleksey Goltsov appointed as a CEO of the Company**

2004 Local Access Tariff Evolution (\$)<sup>(1)</sup>



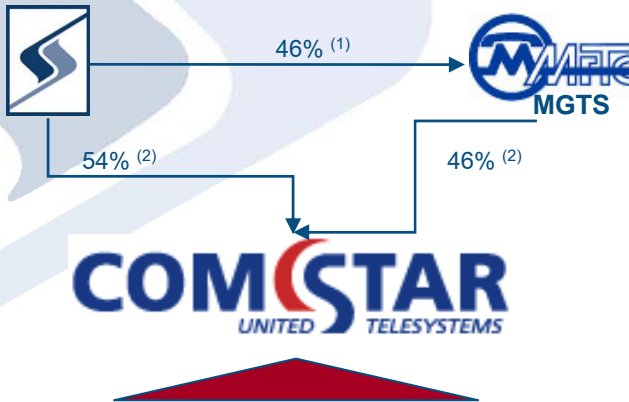
US GAAP Standalone/\$m	2001	2002	2003	2004
Total Revenues	274	303	380	482
Growth %		10.4	25.5	26.6
OIBDA	126	123	134	168
Margin %	45.9	40.5	35.2	34.8
Operating Income	66	70	83	100
Margin %	24.2	23.2	21.7	20.7
Capex	100	83	99	165
Net Debt	171	143	111	160

**Incumbent operator in the most attractive Russian telecom market**

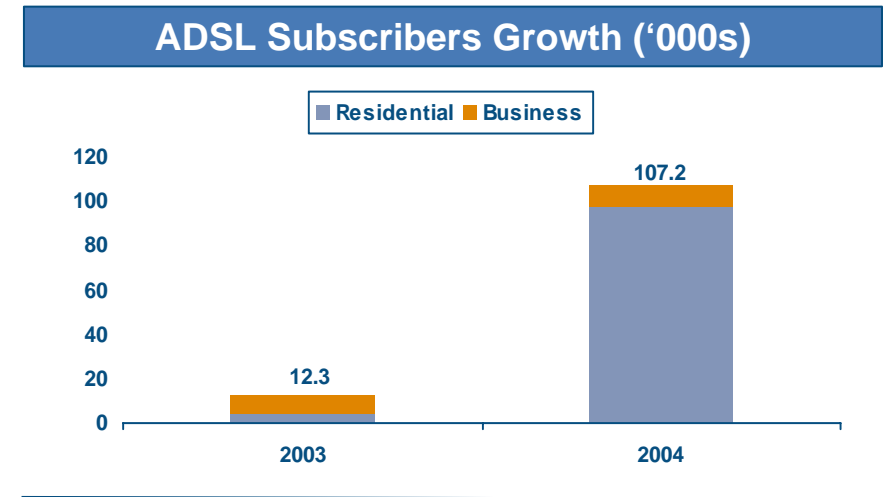
(1) Subscription fees only; assuming Rub/\$ exchange rate as of 1-Jan-04 and 31-Dec-04 of 29.2 and 27.7 respectively

# Fixed Line – Comstar UTS: Moscow’s Broadband Future

- Integration through voice, data and Internet providers in the Moscow region
  - Operational integration since spring 2004
  - Legal merger expected to be completed in 2005
- Selective acquisitions possible in 2005



Key US GAAP Financials <sup>(3)</sup>		
US\$m	2003	2004
Revenue	248	283
Growth		14,1%
OIBDA	90	87
Margin	36,1%	30,6%
Operating Income	57	55
Margin	23,1%	19,4%
Capex	60	26
Net Debt	12	4



(1) Sistema has a 46% beneficial interest and a 56% voting interest in MGTS

(2) Anticipated ownership structure following completion of Comstar UTS restructuring

(3) Sistema consolidated financials (differs marginally from Comstar actual due to consolidation differences)





# Technology – Step-Change in Growth Profile



**Telecom Equipment and Software**

- 173% revenue growth fuelled by Russian telecoms growth
- Began production of switches at Sistema's Russian premises



**"Kvazar-Micro" Hardware Distribution and Systems Integration**

- Acquisition of 51% in Kvazar Micro to enter systems integration space
- Refocusing from hardware distribution towards systems integration



**Semiconductor Design & Manufacturing**

- 22% revenue growth
- Started outsourced semiconductor production on domestic market



**Electronic Devices & Consumer Electronics**

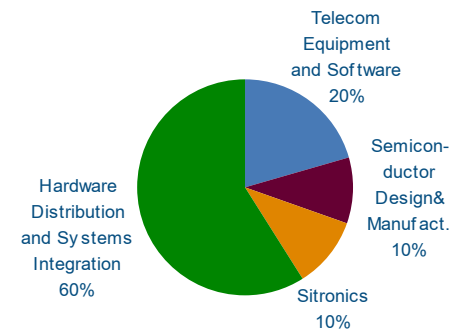
- More than 7-fold growth driven by Russian consumer strength and favourable market dynamics
- Breakeven at OIBDA level

## Financial Performance (US\$m)<sup>(1)</sup>

US\$m	2001	2002	2003	2004
Revenue	30	76	86	498
Growth %		153.3%	13.2%	780.0%
OIBDA	1	9	(0)	49
Margin %	4.3%	11.2%	nm	9.9%
Op. Income	(1)	6	(3)	46
Margin %	nm	7.9%	nm	9.2%
Capex	2	5	9	12

## 2004 Revenue Breakdown

Revenue of \$498MM



**Growth driven by restructuring, telecom equipment, consumer electronics**

(1) Based on Technology accounts as consolidated within Sistema

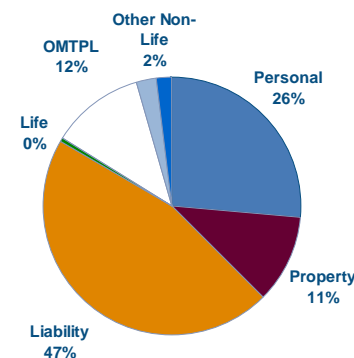
# Insurance – Successful Strategic Initiatives

- **Strategic priorities – on track to creating a market leader**
  - Continued premiums growth
  - Add-on acquisitions and launch of asset management arm
- **Financial highlights - continued growth**
  - GPW growth of 69%
  - VMI and Property insurance growth of 13% and 32%
  - 19% growth in number of customers
- **Operating highlights**
  - Acquisition of Leader
  - Allianz Life & Finance Rus agency to enhance life insurance sales
  - Launch of Allianz-ROSNO Asset Management
  - Expansion into Ukraine (rep office opened in May 2005)

## Financial Performance<sup>(1)</sup>

US\$m	2001	2002	2003	2004 <sup>(2)</sup>
Total GPW	\$131	\$158	\$218	\$368
<i>Growth %</i>		20,5%	38,1%	68,5%
Reinsurance outwards	(\$14)	(\$19)	(\$47)	\$40
Change in provisions	(\$37)	(\$13)	(\$8)	\$50
Net premiums earned	\$80	\$126	\$163	\$278
Net Profit	(\$11)	\$1	\$9	\$18

## 2004 Gross Written Premiums by Product



**Focus on growth and development of a balanced and profitable insurance portfolio**

(1) Based on Rosno accounts as consolidated within Sistema

(2) Converted at 2004 average Rub/\$ fx rate of 28.8



# Other Businesses – Building Platform for Further Growth

## ■ Banking

- Agreement to sell a 25%+1 stake in MBRD to Sabre Capital
- Business expansion: two new branches (Krasnodar and Ekaterinburg), an office in Syktyvkar, 11 mini-offices in Moscow and 68 cash machines added to the network
- Launch of joint branding credit card programme with MTS

## ■ Retail

- Continued roll-out of the retail chain: 13 stores at YE 2004 and 15 currently

## ■ Real Estate

- Valuation of assets by international appraiser (Cushman & Wakefield)

## ■ Sistema Multimedia

- Commercial launch of StreamTV, ADSL-based pay-TV offering in May 2005

- **Strong growth** of other business divisions driven by continued expansion of Banking, Retail and successful completion of Real Estate projects
- **Segmental financial statements include Sistema's corporate overhead**



## Financial Performance<sup>(1) (2)</sup>

US\$m	2003	2004
Net Revenue	307	451
<i>Growth %</i>		46,8%
OIBDA	(5)	(12)
Operating Income	(14)	(21)
Net Debt	652	782
Total Assets	1 247	1 164
Capital Expenditure	44	63

(1) Based on segment accounts as consolidated within Sistema

(2) Includes Banking, Corporate and Other segments

# Highlights of Sistema's Consolidated Financials

US GAAP, US\$m	2001	2002	2003	2004
<b>Profit &amp; Loss</b>				
Revenues	721	890	3,760	5,711
<i>Growth (y-o-y)</i>	-	23.5%	322.7%	51.9%
Depreciation and amortisation	(60)	(72)	(521)	(800)
Operating Income <sup>(1)</sup>	241	296	1,106	1,665
<i>Growth (y-o-y)</i>	-	22.8%	273.9%	50.5%
<i>Margin</i>	33.4%	33.3%	29.4%	29.2%
Net Income from Cont. Oper.	147	171	231	447
<i>Growth (y-o-y)</i>	-	16.0%	35.0%	93.4%
Net Income	135	166	387	411
<i>Growth (y-o-y)</i>	-	22.7%	133.2%	6.3%
<i>Margin</i>	18.8%	18.7%	10.3%	7.2%
OIBDA <sup>(2)</sup>	301	368	1,627	2,465
<i>Margin</i>	41.8%	41.4%	43.3%	43.2%
<b>Balance Sheet</b>				
Total Assets	1,969	2,343	6,819	8,779
Total Debt	525	608	2,685	3,065
Net Debt	433	451	2,402	2,561
Minority Interest	364	388	1,357	1,851
Shareholders' Equity	414	595	989	1,436
<b>Cash Flow</b>				
Cashflow from Operations	82	136	986	1,904
Cashflow from Investments	(168)	(140)	(2,365)	(2,064)
Cashflow from Financing	118	69	1,505	381

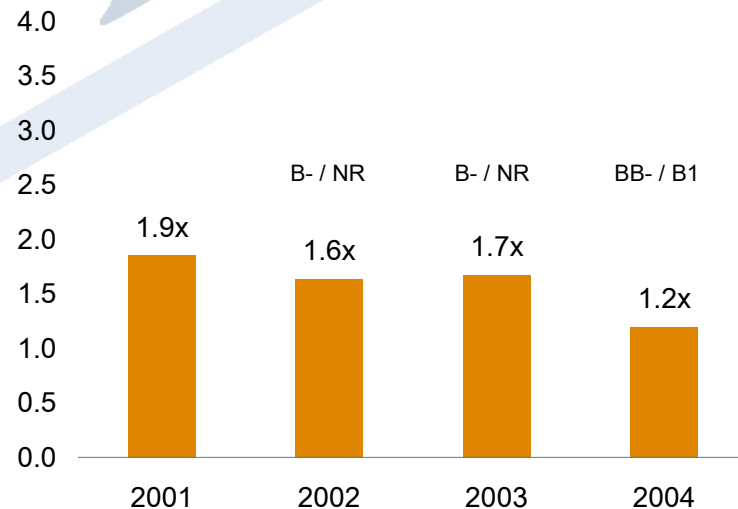
(1) Operating Income is calculated as revenues less operating costs, plus income from equity investees and net gain or loss on sale of subsidiaries

(2) OIBDA represents the sum of operating income, depreciation and amortisation

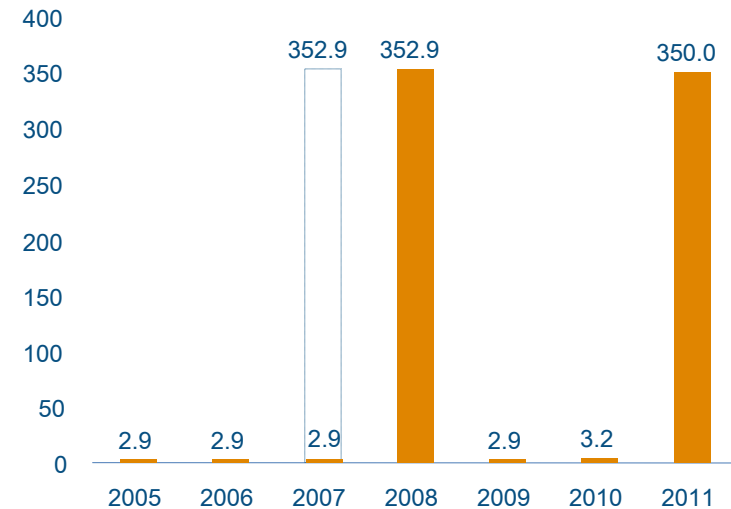
# Strong Financial Position of Sistema

- **Sistema has a strong liquidity position**
  - Bolstered by net IPO proceeds of \$1.28bn in February 2005
  - High and growing dividend from MTS (\$207m in 2005) compared with c. \$70m of annual interest costs
- **Solid credit profile confirmed by recent rating upgrades**
  - To B+ by Fitch in Feb-05 and to BB- by S&P in Mar-05
- **Maturity profile does not imply significant repayments until 2007 or 2008**

## Consolidated Total Debt/OIBDA



## Corporate Level Debt Maturity Profile (1)



**Strong financial position confirmed by recent upgrades from the agencies**

(1) \$350m 2011 bond has put option for Sistema in 2007

# 2005 - Capital Allocation Strategy

Business Segment	USES OF CASH		SOURCES OF CASH		SISTEMA'S Holdco Cash Impact
	Capex	Acquisitions	Operating FCF	Access to Third Party Capital	
MTS	High	Continued	+++	Established	+
MGTS	Tariff Driven	None	+	Established	+
Comstar UTS	Moderate	Possible	++	None	+
Technology	Moderate	Possible	Break-even	Possible	-
Insurance	Moderate	Yes	Break-even	Possible	-
Real Estate	High	Yes	++	Established	+ -
Banking	High	Possible	Break-even	Established	-
Retail	High	Possible	Negative	Established	-
Media	High	Possible	Negative	None	-

# 2005 – M&A Outlook

## ■ Svyazinvest privatisation

- Sistema is actively monitoring the status of Svyazinvest privatisation process
- Limited visibility on timing and valuation

## ■ Potential acquisition of Deutsche Telekom’s remaining 10% stake in MTS

- DT lock-up expires in mid-August 2005
- Not a “must” investment for Sistema - attractive price is key
- Ongoing discussion with DT on potential value-creating approaches to opportunity

## ■ Potential acquisition of Aircel TeleVentures Ltd. (“ATVL”) in India

- Ongoing negotiations with the seller; no agreement concluded to date
- Sistema is seeking to obtain attractive debt financing for the potential acquisition

**Focus on Svyazinvest privatisation and growth in other business segments**

# A Winning Model for Emerging Markets



**Financial  
Control &  
Targets (KPI)**



**M&A Support**



**Access to  
Capital**



**Government &  
Regulatory  
Support**



**Management  
Talent**



**Strategic  
Partnerships**



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