



JOINT-STOCK FINANCIAL CORPORATION

**SISTEMA**

# **JSFC Sistema**

## **1Q 2008 Results**

June 26, 2008

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## **1. Highlights and management goals**

2. Strategy execution

3. Financial results



# “5 X 5 > 25” Management Goal

## GOAL

*Return on Invested Capital (ROIC) - above 25% by the end of the next 5-year period and beyond*

## 5 TOOLS

### **1. Increase value of ALL assets by:**

- Continuing to deliver robust and transparent financial results
- Demonstrating excellent management of assets, including through partnerships with leading companies
- Diversifying risks and attracting capital, including through established partnerships with market leaders

### **2. Continue to follow strict fiscal discipline based on:**

- TSR and ROIC driven philosophy
- Transparent KPIs for all public and non-public companies

### **3. Simplify the Group’s capital structure**

### **4. Demonstrate execution leadership in portfolio strategy management and assets management**

### **5. Best in class in investor relations and corporate governance areas.**

# Q1 2008 Operational Highlights



## 1Q2008

- Placement of RUB 6 bln corporate bond and redemption of US\$ 350 mln Eurobond issue
- Acquisition of the controlling stake in Shyam Telelink. The company also has been awarded unified pan-Indian telecom licenses
- Completion of the acquisition of controlling stake in Dalcombank
- Sale of the stake in Perm Motors

## Recent developments

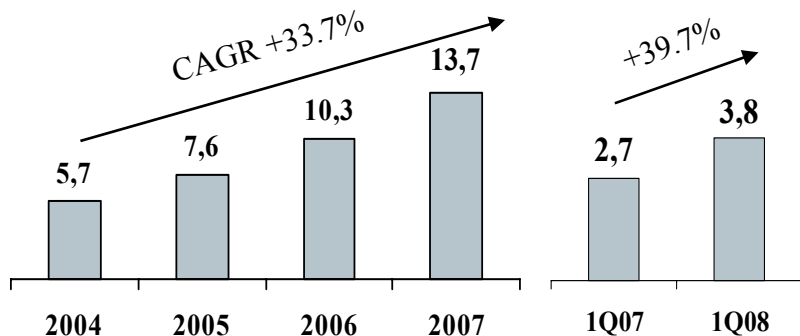
- Appointment of the new CEO of JSFC Sistema
- Placement of US\$ 613 mln syndicated loan
- Sistema's stake in Shyam Telelink increased to almost 74% and Shyam Telelink was awarded spectrum in 19 circles

# Financial Highlights

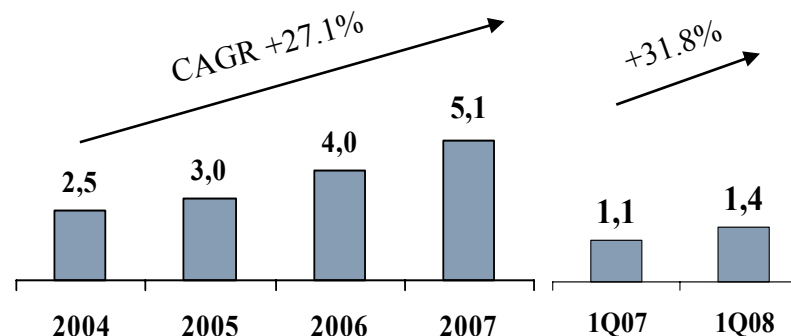
US GAAP, USD billion



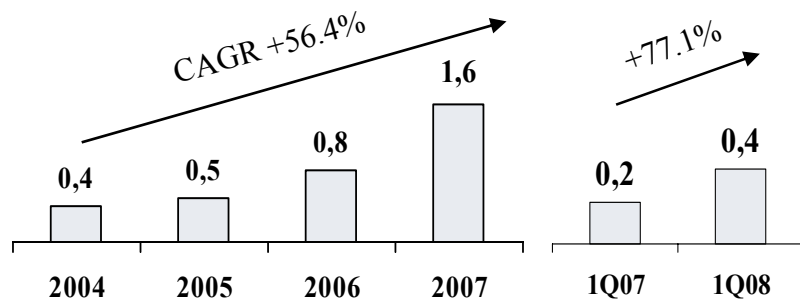
## REVENUES



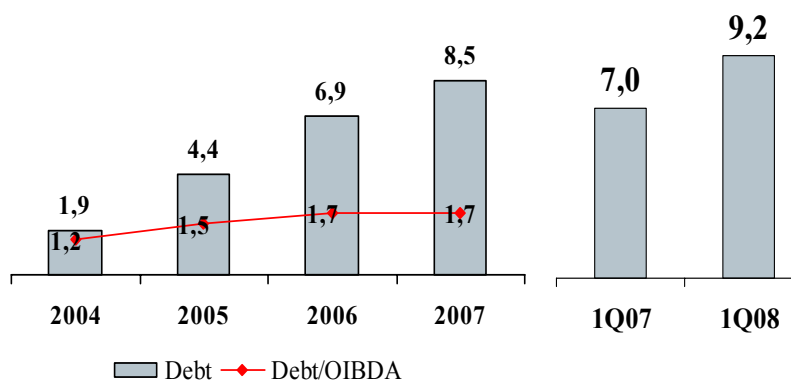
## OIBDA



## NET INCOME\*



## CONSOLIDATED DEBT



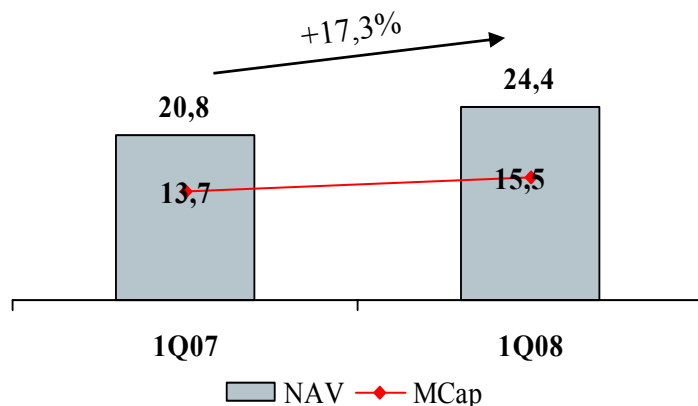
\* 1Q 2007 and 1Q 2008 - Income from continuing operations

**Accelerated growth while maintaining a sound financial position**

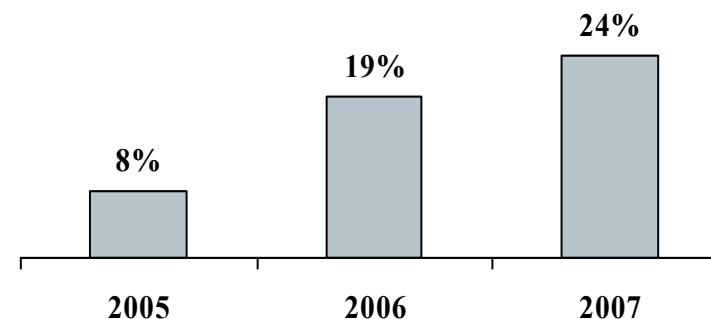
# Net Asset Value and ROIC



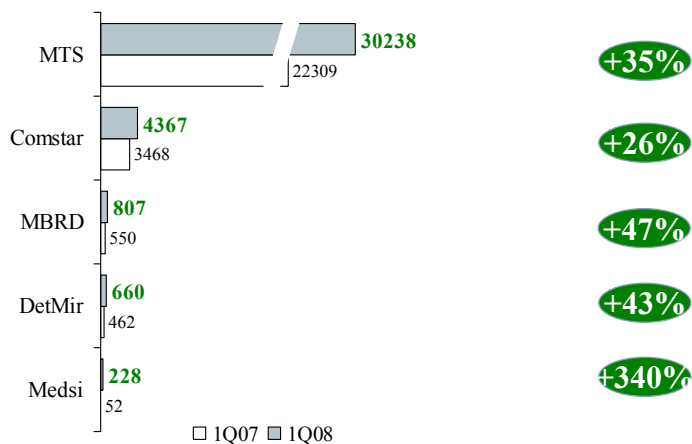
## Sistema NAV and MCap



## RETURN ON INVESTED CAPITAL



## Subsidiaries NAV and MCap



- Sistema NAV increased by 17.3% y-o-y in first quarter of 2008 to US\$ 24.4 billion whilst Market Capitalization increased by 13.1%
- According to Sistema estimates the value of non-public assets increased by 22.2% y-o-y to approximately US\$ 3.3 billion
- Public assets (including Bashkir oil companies) were up 19.6% y-o-y whilst at the same time the RTS index grew by 6.1%
- MBRD, DetMir and Medsi NAV grew by 47%, 43% and 340% y-o-y respectively

**Sistema NAV grew considerably year on year in the first quarter of 2008**

# Agenda



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# Strengthening leadership positions of public companies



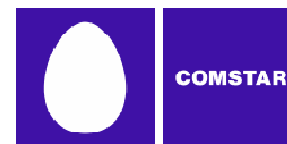
## MTS

- Revenues up 37% y-o-y to US\$ 2 379 million
- OIBDA up 30% y-o-y
- OIBDA margin 49.4%



## Comstar UTS

- Revenues up 27% y-o-y to US\$ 417 million
- OIBDA up 27% y-o-y
- OIBDA margin 40.7%



## Sistema-Hals

- Revenues up 311% y-o-y to US\$ 142 million
- OIBDA up 325% y-o-y
- OIBDA margin 21%



## Sitronics

- Revenues up 43% y-o-y to US\$ 446 million
- OIBDA margin 4.6%



**Sistema continued growing its core assets**

# Investing in Shoots of growth



## Banking

- Revenues up 89% y-o-y to US\$ 151 million
- The loan portfolio grew by 140.7% y-o-y to US\$ 3.6 billion as at March 31, 2008
- Acquisition of a leading Far Eastern bank – Dalcombank
- In March 2008 MBRD successfully repaid USD 150 million Eurobonds



## Retail

- Revenues up 70% y-o-y to US\$ 148 million
- The network of retail outlets grew by 30 stores to 97 in total as of March 31, 2008, while the aggregate retail space increased by 51% year on year to 177 thousand square meters
- Expansion into Ukraine starts in 2Q2008



## Mass-media

- Revenues up 68% y-o-y to US\$ 45 million
- The Stream-TV subscriber base increased by 11.8% year on year to 1.8 million subscribers, while its Internet subscriber base has nearly doubled to 144,000
- Securing the best thematic TV-content through own production and content aggregation



**The biggest non-public businesses maintain efficiency of operations and stability of growth**

# Investing in Shoots of growth



## Travel

- Revenues up 50% y-o-y to US\$ 73 million
- The company serviced 185 thousand customers in the first quarter of 2008 compared to 100 thousand for the corresponding period of 2007.
- The hotel group, which comprises 9 hotels, increased the total number of rooms by 17.1% to nearly 2,455 rooms as of March 31, 2008
- Strong organic growth (naturally low season but still Egypt was very good)
- In March took 5 star hotel Justiniano on lease in Turkey
- Acquisition of Orient (strong domestic operator + Sochi) in April



## Healthcare

- Revenues up 400% y-o-y to US\$ 27 million
- The chain of clinics grew from 2 to 26
- A leading private healthcare services company in Russia with comprehensive medical care
- Leveraging market expertise by acquisitions of well-run competitors and ability to become the consolidator of healthcare services market

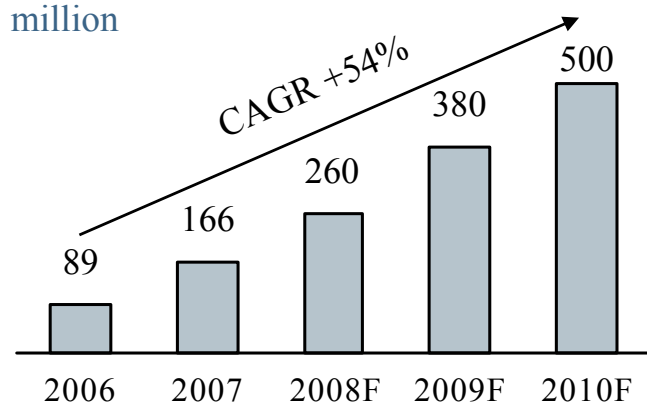


**Rapid development of the leaders on the consumer markets**

# Investing in opportunities in emerging markets: **SHYAM**



## INDIA MOBILE SUBSCRIBERS



## MARKET OUTLOOK

- Market size US\$ 30 billion in 2007
- Market grows 50% year-on-year
- Penetration 23% (March 2008), expected to reach 40% in 3-4 years

Source: TRAI, SOAI, AUSPI

## SISTEMA STRATEGY

- In Jan 2008 Sistema acquired for US\$ 90.6 million 41% in Shyam Telelink (STL), a provider of fixed-line and mobile (CDMA2000) telecommunication services in Rajasthan to 270,000 subscribers
- 3-year network rollout plan to cover 70% of Indian state capital cities, highways and railroads
- EBITDA positive in 2011, with ROIC over 25%
- 5-7% contribution to Group's revenue by 2012
- Target 35 million mobile subscribers or 7% of the market.












## DEVELOPMENTS

|              |   |
|--------------|---|
| January 2008 | STL receives Unified Access Telecommunication licenses for India  |
| May 2008     | Construction of Pan-Indian CDMA network began   |
| June 2008    | STL received frequencies for CDMA operations in 19 telecom circles covering more than 1 billion residents or 95% of the Indian population |

**Sistema is diversifying its core telecommunications business in the markets providing double digit growth opportunities after 2012**

# Indicators Measuring Value Creation



|                      | TSR  | ROIC <sub>adj</sub> *   | ROIC  |
|----------------------|--|---|---|
| <b>Definition</b>    | <ul style="list-style-type: none"> <li>Total Shareholder Return</li> <li>Measures yield of investment into equity</li> <li>Should exceed TSR of Index and Cost of Equity (COE) for the period of 2007-10</li> </ul>                            | <ul style="list-style-type: none"> <li>Return on Invested Capital (adjusted)</li> <li>Measures yield for fund providers</li> <li>Should exceed weighted average cost of capital (WACC*)</li> </ul>  | <ul style="list-style-type: none"> <li>Return on Invested Capital</li> <li>Measures yield for fund providers</li> <li>Should exceed weighted average cost of capital (WACC*)</li> </ul>   |
| <b>Calculation</b>   | $TSR = (P_1 - P_0 + D) / P_0 \times 100\%$ <p>                     P<sub>0</sub> – share price, year start<br/>                     P<sub>1</sub> – share price, year end<br/>                     D – dividend per share                 </p> | $ROIC_{adj} = (NOPAT + Cap_1 - Cap_0) / EV_{avg} \times 100\%$ <p>                     NOPAT – Net Operational Profit After Tax<br/>                     Cap – Market Capitalization (Conservative valuation by Sistema management)<br/>                     EV – Enterprise Value                 </p> | $ROIC = (Net\ Income + Interest\ Expense + Depreciation) / (Equity + Minority\ Interest + Total\ Debt)$   |
| <b>Applicability</b> |    |   |     |
|                      |   |   |      |

\*For financial institutions (MBRD) ROE<sub>adj</sub> and COE are used instead of ROIC and WACC respectively

**Sistema uses TSR and ROIC (adjusted) as major value creation measuring indicators**

# Efficiency Benchmarking



## ROICadj



30%



35%



26%



41%



15%\*



12%



11%



9%

Note: all ROICs are calculated by Sistema based on publicly available financial statements from the corporate Internet sites of Megafon, Vimpelcomm, GT and Regional Operators

## ROE



42%\*\*

Top 30 banks

27%\*\*

\* 2006 data (prior to Vimpelcom merger)

\*\* Net income divided by average book value of equity (RBC, Commersant)

**Sistema also uses accounting ROIC and ROE (not including MCap growth) as a benchmark of business operational efficiency**

# Agenda



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2. Strategy execution

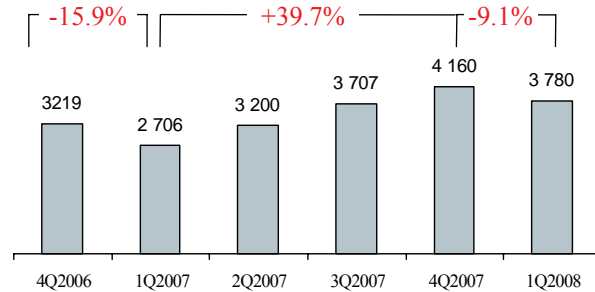
**3. Financial results**



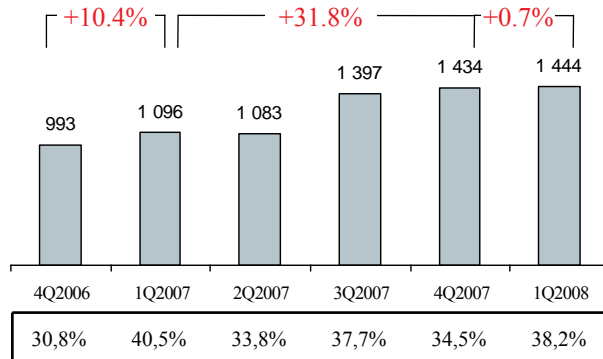
# Consolidated P&L

USD million

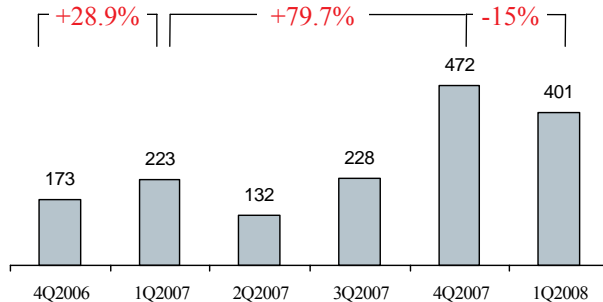
## Revenue



## OIBDA and margin



## Net Income/Income from continuing operations



- Revenue increase by 40% y-o-y was driven by non-telecom assets (technology, banking, retail, real estate, mass media, tourism and healthcare divisions)
- In 1Q08 revenue decreased compared to 4Q07 as revenue of Sitronics, Detsky Mir, RTI Systems and Intourist went down due to seasonality issues
- OIBDA increased by 32% y-o-y due to significant growth of profitability of banking, retail, real estate, mass media and healthcare divisions
- OIBDA margin grew by 3.7 p.p. q-o-q mainly because of telecoms, technology and banking divisions

**Sistema results were significantly up in 1Q08 y-o-y and slightly down compared to 4Q 2007 due to traditional recession at the beginning of the year compared to the highest season in 4Q**

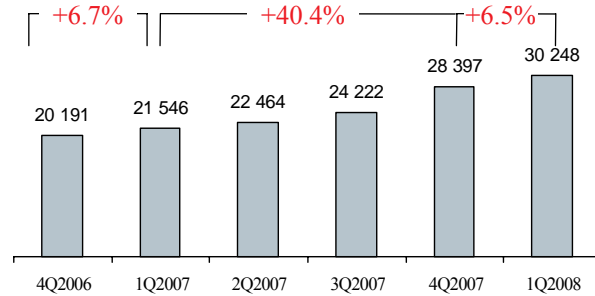




# Consolidated Balance Sheet

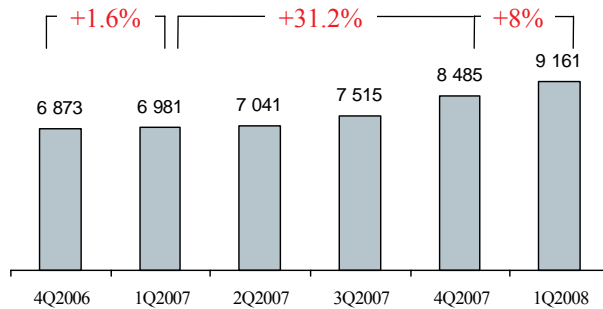
USD million

## Assets

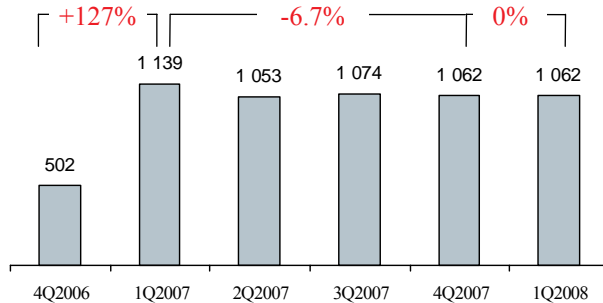


- Total assets have breached the 30 bln mark in 1Q08 mainly following the acquisition of Dalcombank
- Total debt increased slightly as Sistema placed 6 bln ruble bonds issue (approximately US\$ 251.6 million), MBRD issued US\$150 million Eurobond and Sitronics received a US\$75 million loan
- In 1Q08 total debt to OIBDA ratio remained at the same level as in 4Q07 – 1.7 According to covenants of Eurobond 2011 this ratio should be less than 4. It means that Sistema has a considerable debt capacity

## Total debt



## Cash

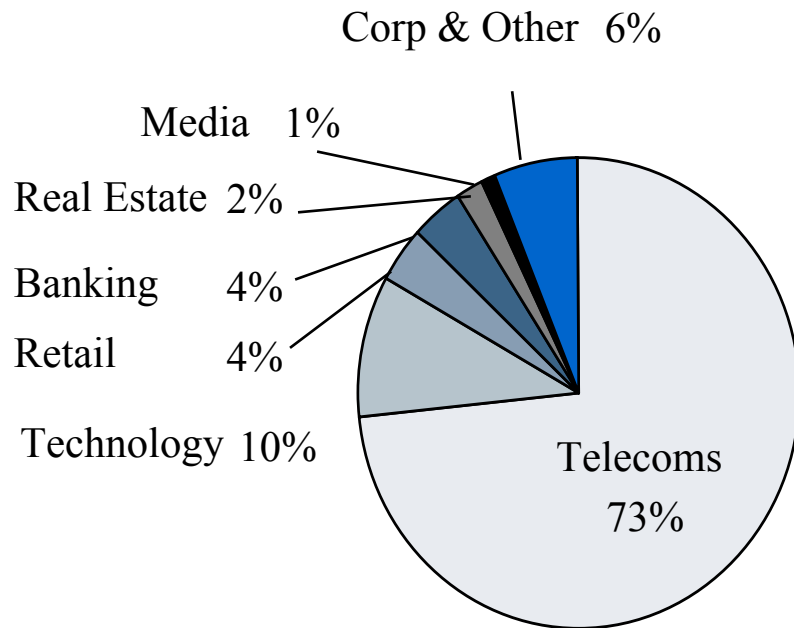


**Consolidated debt is on the rise but at the same time the Debt to OIBDA ratio is stable**

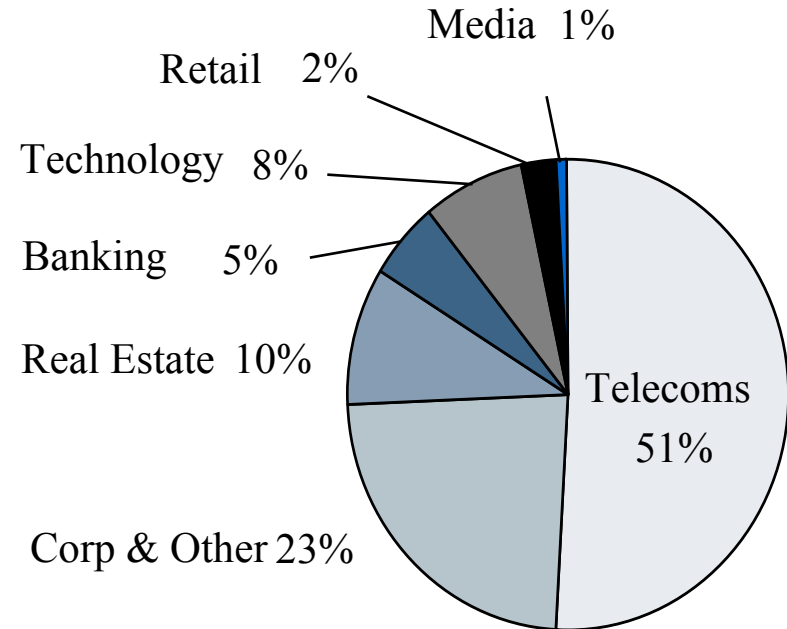
# Segment Analysis



## REVENUE\* (1Q08)



## TOTAL DEBT (1Q08)



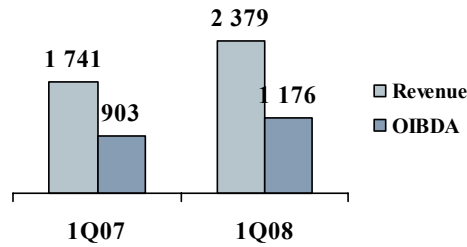
\* Revenue net of intersegment transactions

**Revenue breakdown is in line with debt allocation**

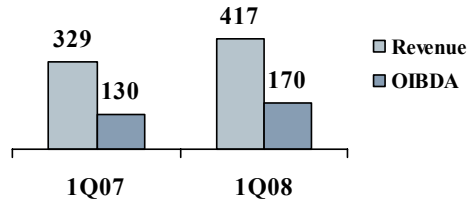
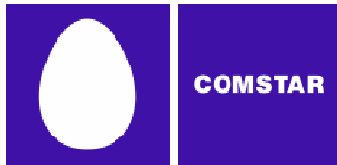


# Public Subsidiaries' Results

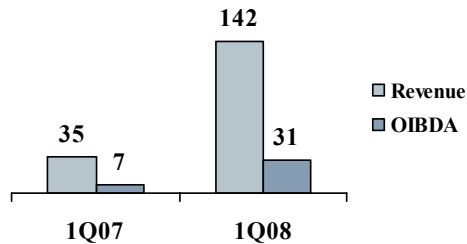
USD million



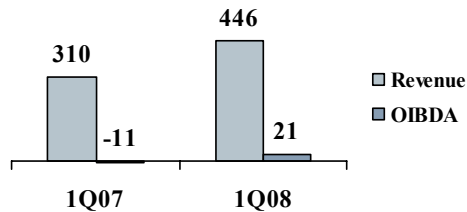
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- OIBDA margin 4.6%

**Major subsidiaries continue to strengthen their positions**

# Non-Public Subsidiaries' Results



USD million

|  | Revenue<br>1Q08* | Revenue<br>1Q07* | Y-o-Y<br>growth | Market<br>growth |
|--|------------------|------------------|-----------------|------------------|
|  <p>Moscow Bank for<br/>Reconstruction and Development</p>                  | 151.1            | 79.8             | 89.3%           | 43%              |
|  <p>Детский мир<br/>СЕТЬ МАГАЗИНОВ</p>                                      | 147.6            | 86.9             | 70.0%           | 22%              |
|  <p>АФК «Система»<br/>СММ</p>   | 45.1             | 26.9             | 67.6%           | 33%              |
|  <p>"Concern<br/>Radiotechnical<br/>and Informational<br/>Systems", JSC</p> | 90.2             | 70.3             | 28.2%           | 19%              |
|  <p>Intourist</p>  | 72.7             | 48.6             | 49.7%           | 7%               |
|  <p>МЕДСИ</p>   | 26.8             | 5.4              | 400%            | 8%               |

\* Total sales (including intersegment transactions)

**Privately-held companies significantly outperformed the market in 1Q 2008**



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