



JOINT-STOCK FINANCIAL CORPORATION

**SISTEMA**

# **JSFC Sistema**

## **Telecom Industry in Current Market Conditions**

UBS Annual Investment Conference

Russia/CIS: to prosperity through partnership

Moscow, October 30, 2008

Leonid Melamed, President, Chief Executive Officer

# Disclaimer



Matters discussed in this presentation may constitute forward-looking statements. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events revenues or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words “believe,” “expect,” “anticipate,” “intends,” “estimate,” “forecast,” “predict”, “could”, “plan”, “project,” “will,” “may,” “should” and similar expressions identify forward-looking statements. Forward-looking statements include statements regarding: strategies, outlook and growth prospects; future plans and potential for future growth; liquidity, capital resources and capital expenditures, financing needs, plans or intentions relating to acquisitions, our competitive strengths and weaknesses, growth in demand for our products; economic outlook and industry trends; developments of our markets; legal trends and the impact of regulatory initiatives; and the strength of our competitors.

The forward-looking statements in this presentation are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control and we may not achieve or accomplish these expectations, beliefs or projections. In addition, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the achievement of the anticipated levels of revenues, profitability and growth, cost and synergy of our recent acquisitions and restructuring, the timely development and acceptance of new products, the impact of competition and competitive pricing, the ability to obtain necessary regulatory approvals and the ability to fund our future operations and capital needs through borrowing or otherwise, the ability to successfully implement any of our business strategies, the ability to integrate our business and to realize anticipated cost savings and operational benefits from such integration, our expectations about growth in demand for our products and services, the effects of inflation, interest rate and exchange rate fluctuations, and our success in identifying other risk to our business and managing the risk of the aforementioned factors, the condition of the economy and political stability in Russia and the other markets of operations and the impact of general business and global economic conditions.

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The information and opinions contained in this presentation are provided as at the date of this presentation and are subject to change without notice.



1. Group overview
2. Macroeconomic environment and telecom industry overview
3. Sistema's telecom assets profile

# 1.1 Sistema Portfolio



## Established, publicly-held companies

<p style="text-align: center;"><b>Telecoms</b></p> <div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">  <ul style="list-style-type: none"> <li>• Wireless</li> <li>• GSM</li> </ul> </div> <div style="text-align: center;">  <ul style="list-style-type: none"> <li>• Fixed-line</li> <li>• ILEC &amp; CLEC</li> </ul> </div> </div>	<p style="text-align: center;"><b>Technology</b></p> <p style="text-align: center;"><b>SITRONICS</b></p> <ul style="list-style-type: none"> <li>• Telecom solutions</li> <li>• IT solutions</li> <li>• Microelectronic solutions</li> </ul>	<p style="text-align: center;"><b>Real Estate</b></p> <p style="text-align: center;"><b>SISTEMAHALS</b> <small>DEVELOPMENT COMPANY</small></p>  <ul style="list-style-type: none"> <li>• Class A offices</li> <li>• Class A retail</li> <li>• Premium residential housing</li> </ul>
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## Fast-growing, privately-held companies

<p style="text-align: center;"><b>Banking</b></p> <p style="text-align: center;"><small>Moscow Bank for Reconstruction and Development</small> <b>MBRD</b></p> <ul style="list-style-type: none"> <li>• Corporate banking</li> <li>• Retail banking</li> <li>• Leasing</li> </ul>	<p style="text-align: center;"><b>Media</b></p> <p style="text-align: center;"><small>АДК «Система»</small> <b>СММ</b></p> <ul style="list-style-type: none"> <li>• Pay TV</li> <li>• Content</li> </ul> <p style="text-align: center;"><b>RVS</b> Movie production</p>	<p style="text-align: center;"><b>Retail</b></p> <p style="text-align: center;"><b>Детский мир</b> <small>ДЕТСКИЙ МИР</small></p> <p style="text-align: center;">Toys &amp; children goods retailer</p>	<p style="text-align: center;"><b>Health Care</b></p> <p style="text-align: center;"> <b>МЕДСИ</b></p> <p style="text-align: center;">Private health care facilities</p>	<p style="text-align: center;"><b>Radar &amp; Aerospace</b></p> <p style="text-align: center;"> Radar and communication solutions for B2G and B2B</p>	<p style="text-align: center;"><b>Travel</b></p> <p style="text-align: center;"> <b>Intourist</b></p> <ul style="list-style-type: none"> <li>• Tour operator</li> <li>• Hotels</li> <li>• Retail</li> </ul>	<p style="text-align: center;"><b>Pharma</b></p> <p style="text-align: center;"> <b>БИННОФАРМ</b> <small>компания АДК «Система»</small></p> <ul style="list-style-type: none"> <li>• Manufacturing</li> <li>• Distribution</li> </ul>	<p style="text-align: center;"><b>Telecoms</b></p> <p style="text-align: center;"><b>SHYAM</b></p> <p style="text-align: center;">Wireless in India</p>
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## Financial investments

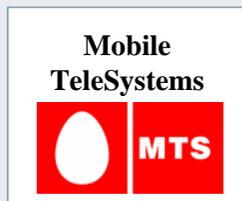
<p style="text-align: center;"><b>Telecoms</b></p> <div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">  <p>CDMA</p> </div> <div style="text-align: center;">  <p>Long-distance</p> </div> </div>	<p style="text-align: center;"><b>Oil &amp; Petrochemicals</b></p> <div style="text-align: center;">  <p>25%+ stakes (Bashkiria, Russia)</p> </div>
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**Sistema has a balanced portfolio of established and fast-growing businesses**

## 1.2 Sistema Telecommunication Assets Portfolio



### *Established, publicly-held companies*



**Leading mobile GSM/UMTS operator in Russia/CIS with over 91 million subscribers**



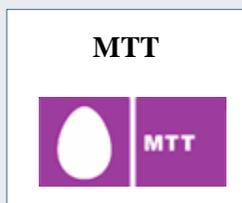
**Fixed-line and broadband provider in Russia/CIS. Through incumbent operator MGTS, Comstar UTS services more than 4.3 million lines**

### *Fast-growing, privately-held company*



**Pan-Indian universal telecom license owner. Launched operations on one of world's fastest-growing mobile communications market.**

### *Financial investments*



**Russian domestic long distance and international telecommunications operator with over 80,000 km of lines**



**Mobile voice/broadband CDMA450 (CDMA 2000) provider with operations in 31 of total 81 regions in Russia**

**Telecommunications represents a core, long-term business for Sistema. Sistema's telecom companies cover fixed, mobile, voice and broadband areas**

## 1.3 “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:**

- Delivering 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. Following strict fiscal discipline based on:**

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

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

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

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

**Sistema remains focused on the unlocking of the substantial potential of the Group’s assets and achieving a return on invested capital of over 25% within five years and beyond**

# 1.4 Development of the Telecom and Media Assets Structure



## “1,2,3,4” Plan

1	<i>Client</i>	One goal – client, for whose benefit we work
2	<i>Players</i>	Development of two players, two businesses – Content and Telecommunication. Telecommunication – provision of network capabilities and services on the basis of existing Telecom assets. Content - includes media content production, aggregation and distribution on the basis of SMM and RWS (which is soon expected to be part of SMM)
3	<i>Services</i>	Leadership in three key products: voice, broadband and TV
4	<i>Screens (terminals)</i>	Content optimized to run on four screens (terminals): TV, mobile devices, PCs and in movie theatres

**We simplify ownership structure and enhance management efficiency of Telecom and Media assets**



1. Group overview

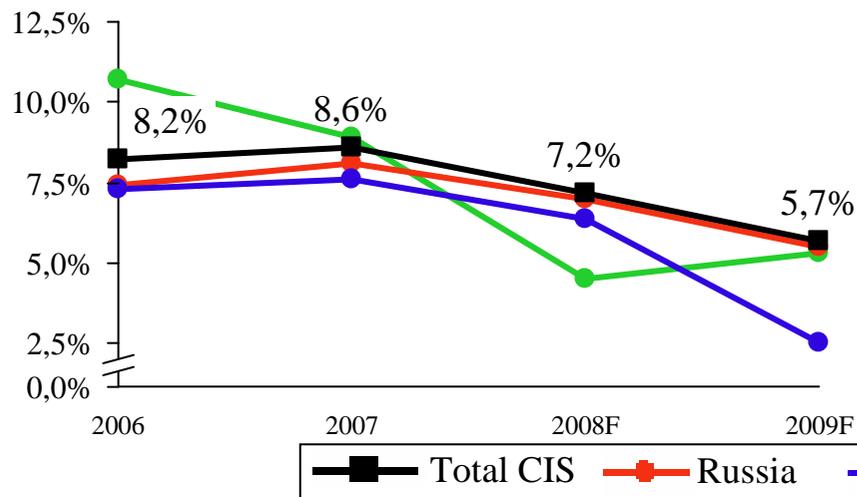
2. Macroeconomic environment and telecom industry overview

3. Sistema's telecom assets profile

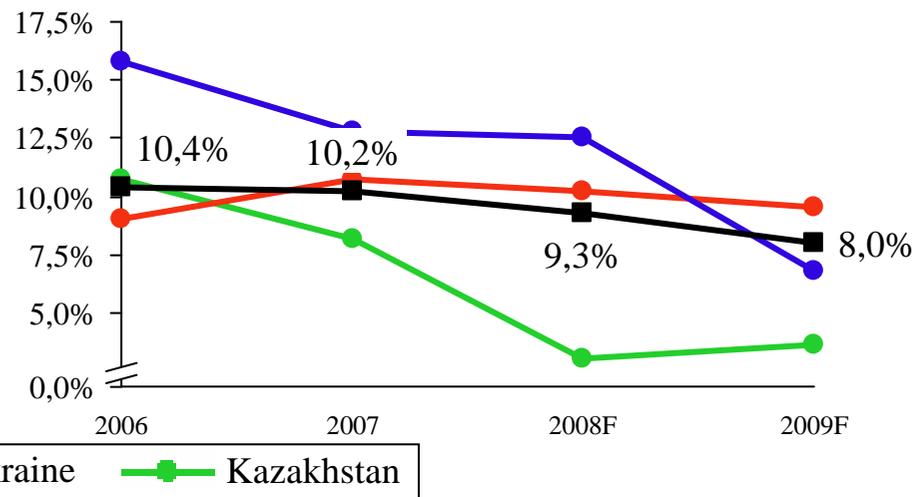
# 2.1 Macroeconomic Situation in Russia/CIS: Updated Forecasts



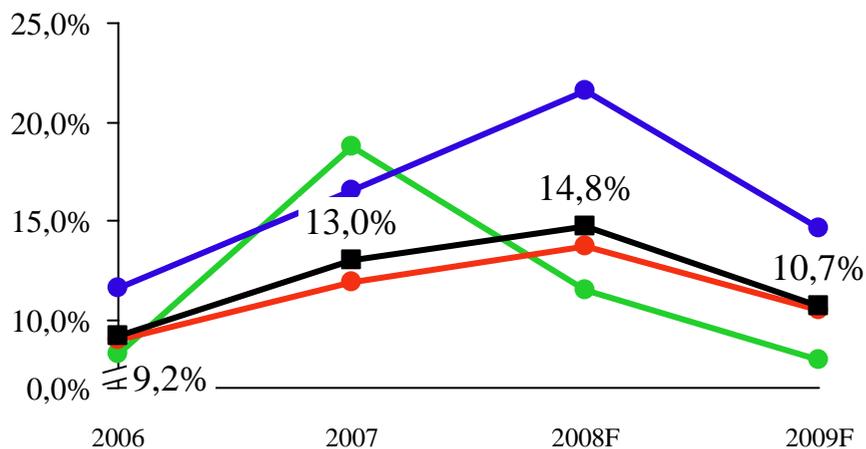
### REAL GDP GROWTH



### REAL DISPOSABLE INCOME GROWTH



### INFLATION RATE, CPI



### HIGHLIGHTS

1. International Monetary Fund revised its forecasts downward regarding GDP growth and inflation rates of all the major economies as at October 2008
2. Real disposable income growth in Russia is slowing due to decline in energy and commodity prices and credit-related slow down in other sectors of the economy

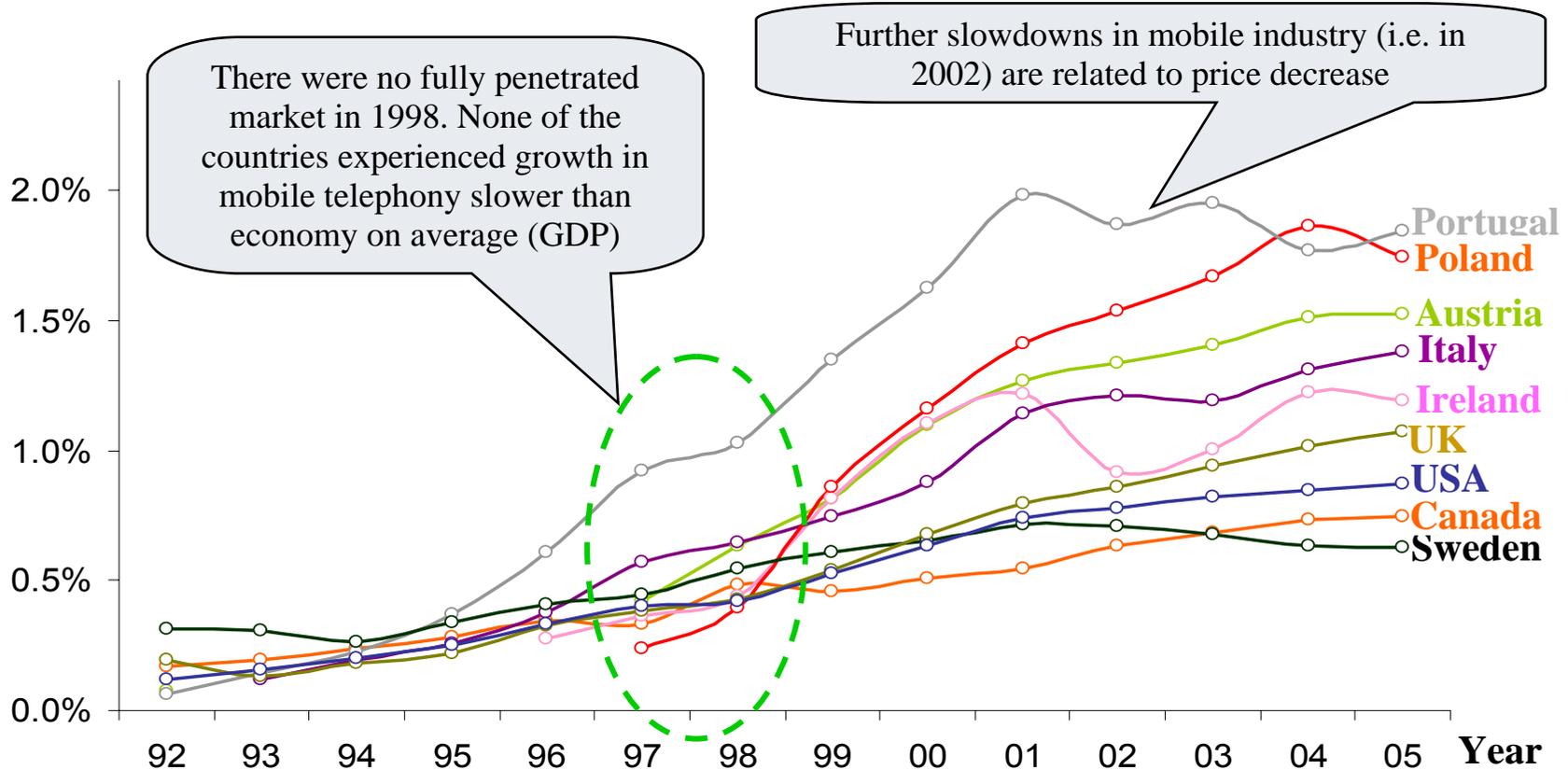
Source: IMF, FSSS, CBR, MED, Renaissance, IERPC, Concorde Capital

**Macroeconomic environment is worsening all over the world. Russia is not an exception. IMF estimates that CIS with GDP growth 7.2% and 5.3% in 2008 and 2009 respectively will be number 3 in terms of growth in the world after China (9.7% and 9.3%) and India (7.9% and 6.9%).**

## 2.2 Lessons from Economic Crisis of 1998

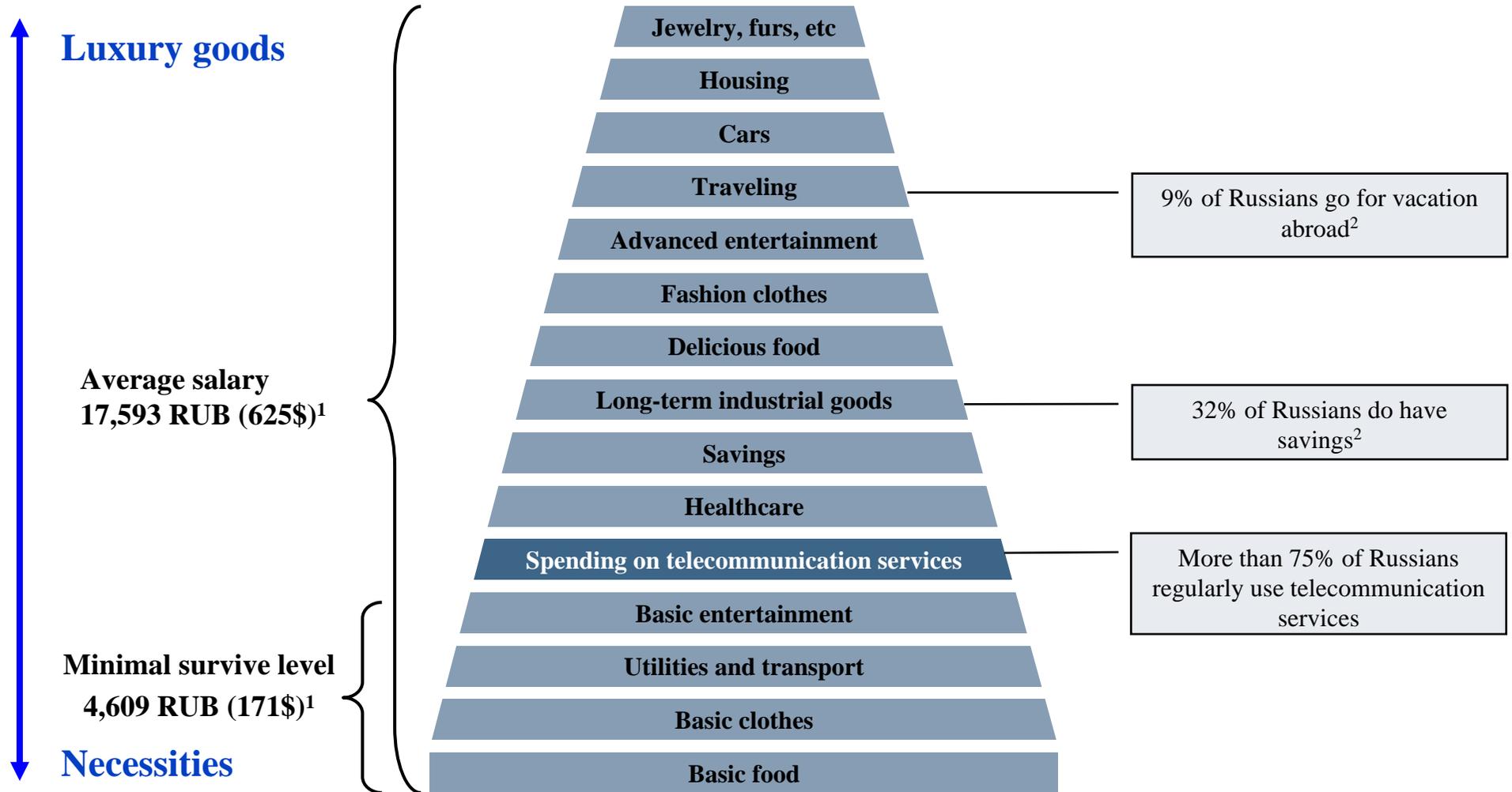


Spending on mobile telecommunications as a share of GDP (1992-2005), %



Markets which are not fully penetrated and demonstrate growth in subscribers (like some countries in the CIS today) are not very sensitive to GDP or consumption slowdown – they will anyway grow faster than economy on average

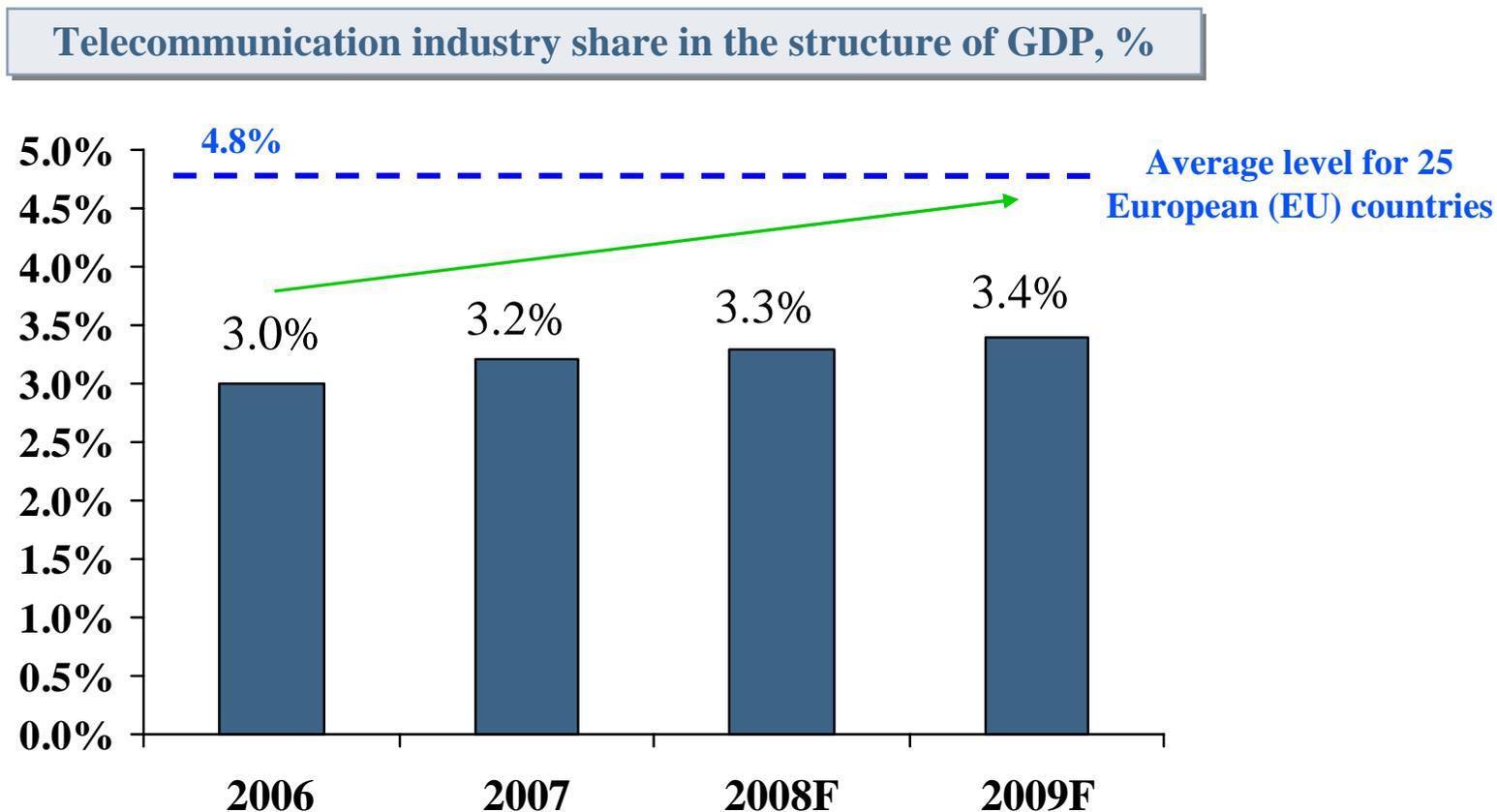
## 2.3 Consumption Hierarchy



1. Forecast of social-economic development for 2008 by Ministry of economic development and trade. Exchange rate 27 RUB/\$
2. Russian public opinion research center, 2008

**Spending on telecommunication services are closer to necessities, so even in fully penetrated countries telecom services demand is relatively inelastic to income**

## 2.4 Russian Telecom Sector Growth



Source: Ministry of Economic Development, Ministry of Telecommunications, Comstar UTS analysis

**In the long run telecom industry will grow faster to reach the level of EU countries. In the short term relative inelasticity to income (or GDP) will prevent it from relative slow-down even despite the crisis. It is unlikely that industry will not grow faster than economy on average**



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# 3.1 Sistema Response to the Crisis



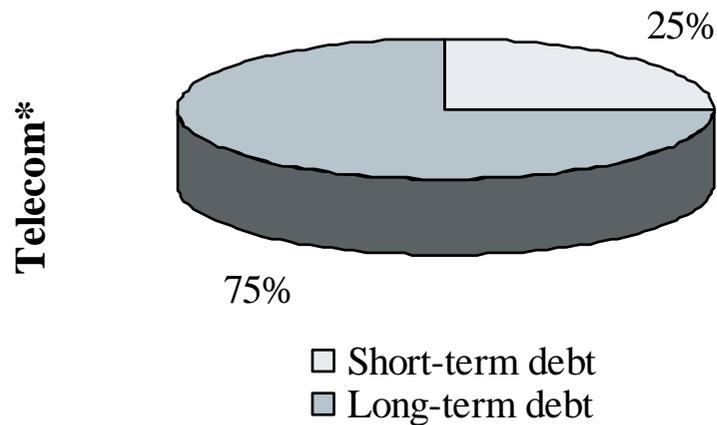
Previously Announced Goals	Current Market Situation	Sistema Response
<p data-bbox="107 287 627 372"><b>Existing Management Goals</b> <b>«5X5&gt;25»</b></p> <ol data-bbox="107 489 611 1282" style="list-style-type: none"><li>1. Increase value of all assets through:<ul data-bbox="107 579 611 743" style="list-style-type: none"><li>- Strong management of assets</li><li>- Partnerships with leading companies</li><li>- Diversification of risks</li></ul></li><li>2. Strict financial discipline</li><li>3. Optimization of corporate structure</li><li>4. Leadership in asset management</li><li>5. Best in class in investor relations and corporate governance</li></ol>	<p data-bbox="903 287 1166 322"><b>Global Trends</b></p> <ol data-bbox="779 489 1203 786" style="list-style-type: none"><li>1. Lack of liquidity</li><li>2. Credibility gap between financial intermediaries</li><li>3. Slowdown in global economic development</li></ol>	<p data-bbox="1413 287 1976 429"><b>Implementation of the strategy</b> <b>«QUANTITY INTO QUALITY»</b></p> <ol data-bbox="1413 489 1976 1288" style="list-style-type: none"><li>1. Focus on increasing efficiency levels<ul data-bbox="1413 579 1976 743" style="list-style-type: none"><li>- Strict financial targets (KPIs) for all subsidiaries</li><li>- Revenue growth</li><li>- Cost reduction</li></ul></li><li>2. Adapting investment policy<ul data-bbox="1413 853 1976 1153" style="list-style-type: none"><li>- Focus on the most profitable investment projects</li><li>- Close attention on capital intensive projects</li><li>- CAPEX and other investments are subject to availability of liquidity</li></ul></li><li>3. Partnerships in projects with long term pay back periods</li></ol>

**Existing corporate and telecom strategy and management goals remain the same with tactics being adjusted to address the current market conditions.**

## 3.2 Sistema Telecom Assets: Debt Profile

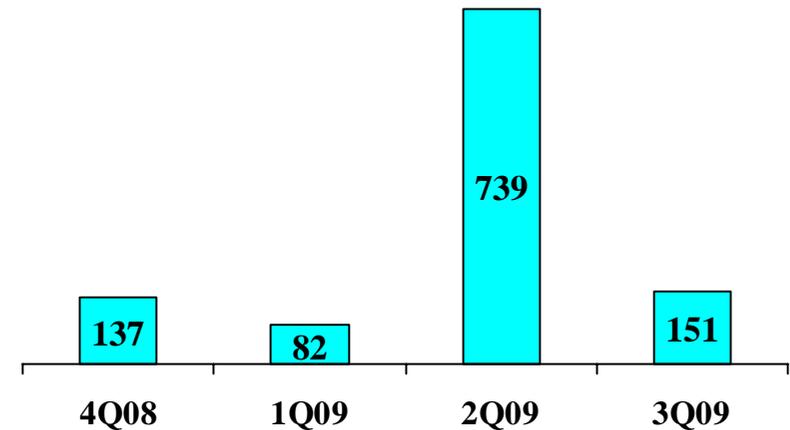


Current and Long-term Liabilities, 2Q 2008



\* Including MTS, Comstar UTS, Shyam Telelink

Debt Maturity Profile, \$ mln

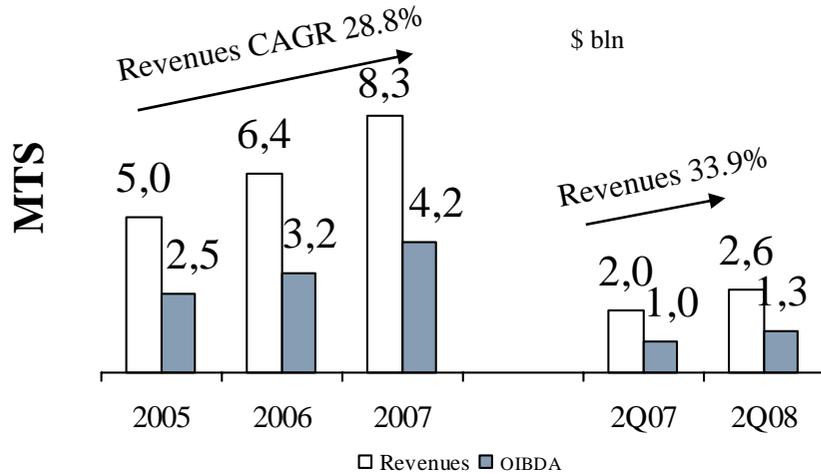


**Telecom segment of Sistema has mostly long-term debt. Shares of Sistema, MTS and Comstar UTS are pledge-free, except 0.4% of MTS's outstanding shares have been recently pledged by Sistema as collateral in connection with a \$35 million credit facility, which will be repaid in November of 2008.**

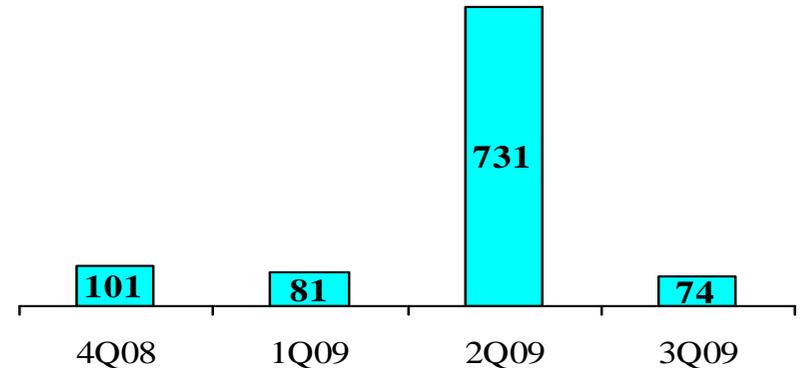
# 3.3 MTS and Comstar UTS Debt Profile



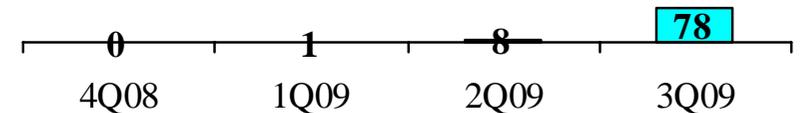
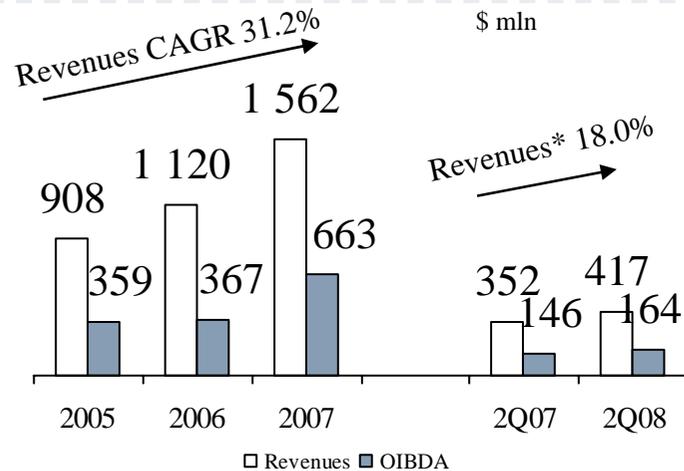
**Financial Results**



**Debt Maturity Profile, \$ mln**



**Comstar UTS**



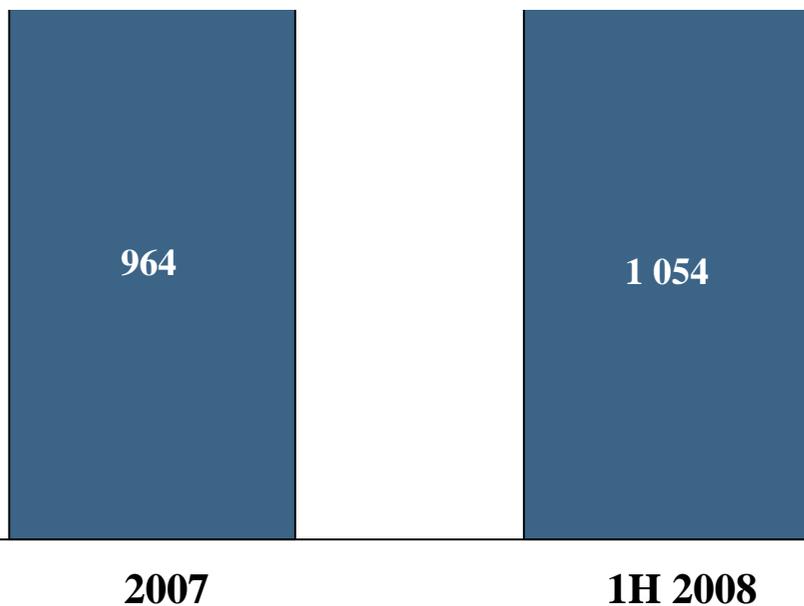
\* Revenues and OIBDA excluding US\$ 27.0 million of non-recurring compensation payments received from the Federal Budget in Q2 2007 and US\$ 4.2 million of accruals relating to the long term employee incentive programme for the period from April 1, 2008 assuming a 20% annual increase in the Comstar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

**MTS has a number of options to redeem or refinance the debt in 2Q 2009.**  
**Comstar UTS debt maturity profile is mostly spread-out beyond 2009**

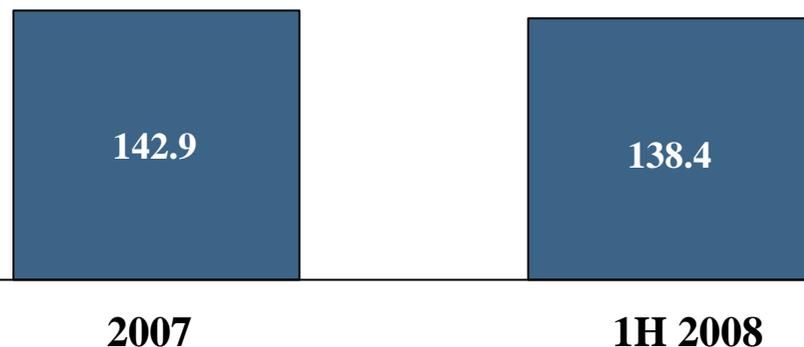
## 3.4 MTS and Comstar UTS Free Cash Flow



FCF of MTS, \$ mln



FCF of Comstar UTS, \$ mln



**MTS and Comstar UTS has positive and improving FCF and are able to finance all necessary activities**



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