



SISTEMA

# **Sistema 2002 Results**


July 2003

# Participants

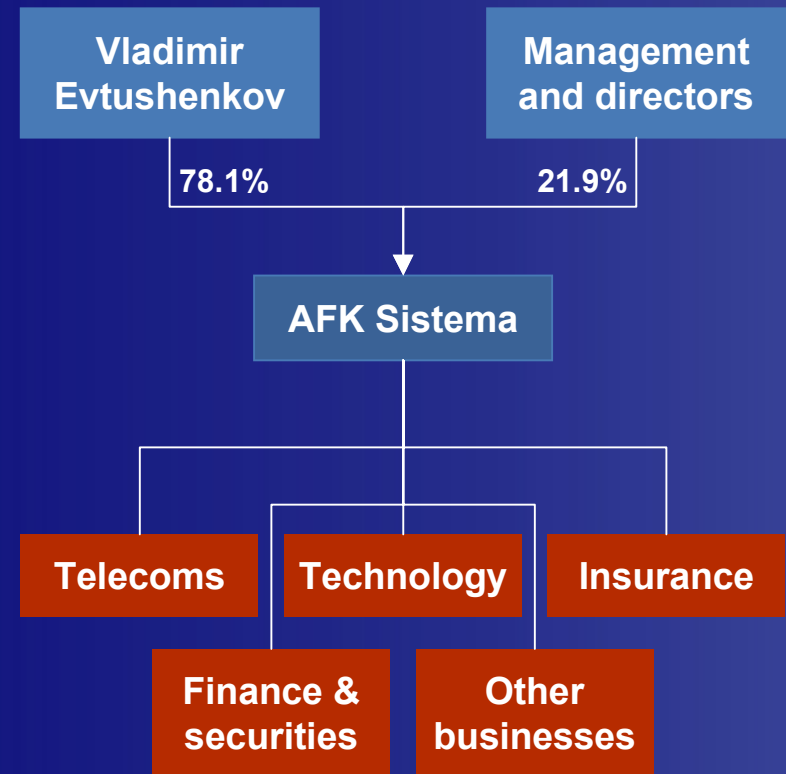
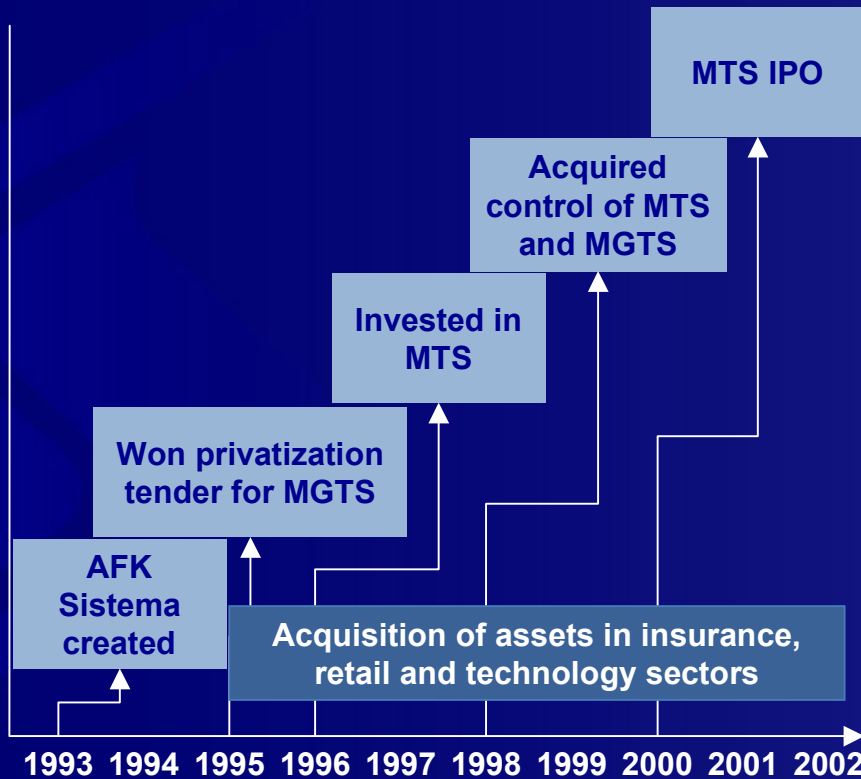
- **Evgeny Novitsky, President**
- **Alex Buyanov, First Vice-President, Finance**
- **Levan Vasadze, First Vice-President, Strategy**
- **Andre Bliznyuk, Head of Investor Relations**



# Contents

- **Business Description**
  - Operating Results
  - Financial Performance
  - Strategy and Plans
- 

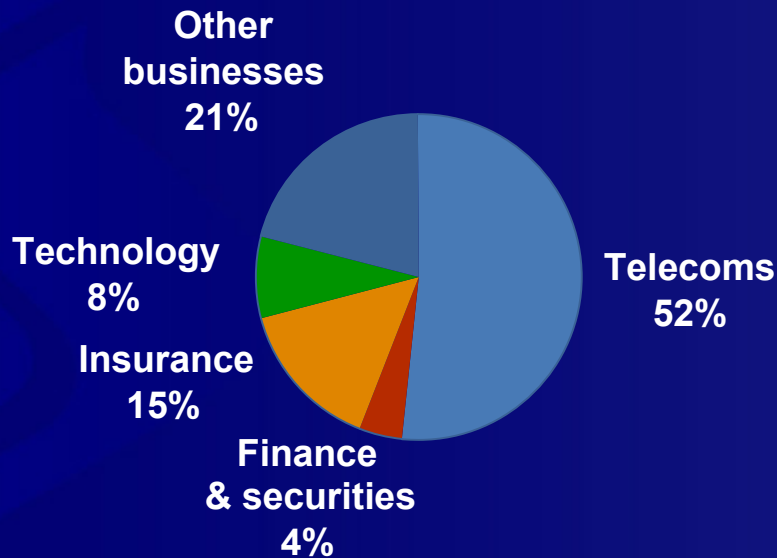
# History and ownership



Long history and diversified asset portfolio

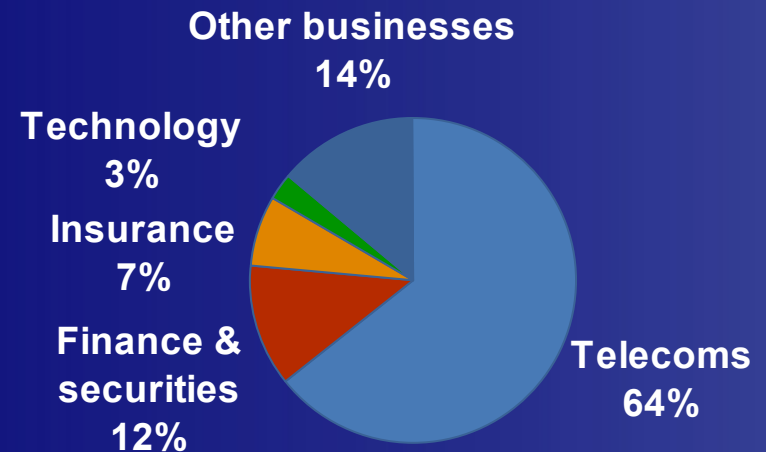
# Large-scale diversified operations

Revenue<sup>(1)</sup>



Total: US\$932 mln <sup>(2)</sup>

Total assets<sup>(1)</sup>



Total: US\$2,330 mln

**Sistema's businesses are not dependent on raw materials exports**

(1) Based on full-year 2002 consolidated results  
(2) Before inter-company eliminations

# Sistema's business strategy

## Key elements

## Objectives

Return-based investment strategy

- Invest in and develop companies with leading market positions
- Measure performance against revenue and profitability
- Dispose of underperforming assets

Diversification of business portfolio

- Build a balanced business portfolio
- Focus on technology, insurance, real estate and retail businesses

Partnership with strategic investors

- Involve strategic partners in developing core businesses
- Attract know-how, managerial experience and market knowledge

Management resources

- Recruit, train and motivate high-caliber managers

**Clear strategy to successfully develop Sistema's businesses**

# Streamlining the asset base

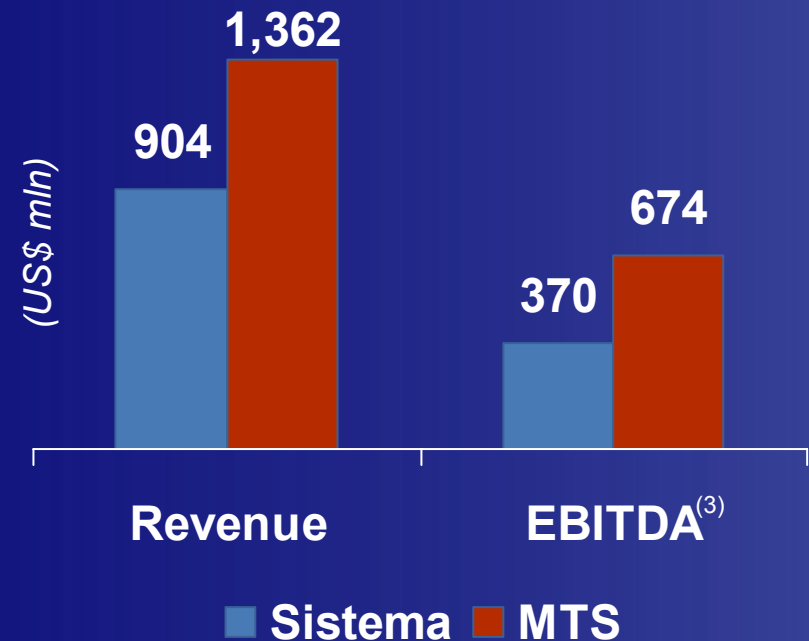
## 2002 acquisitions

- **Golden Line** – data transmission, 2002 revenue of US\$11.8 mln
- **Strom Telecom** – Czech producer of telecom equipment and software, 2002 sales of US\$27.7 mln

## 2002 divestitures

- **Kedr-M** chain of gas stations
- Businovskiy Meat-Processing Plant
- PremierVideoFilm
- Moscow Mechanical Plant #3


## Sistema and MTS<sup>(1)(2)</sup>



(1) As of December 31, 2002  
(2) MTS' results to be consolidated starting 1H 2003  
(3) EBITDA is calculated as operating income plus depreciation and amortization and includes Sistema's equity share in net income of investees



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# Capital markets

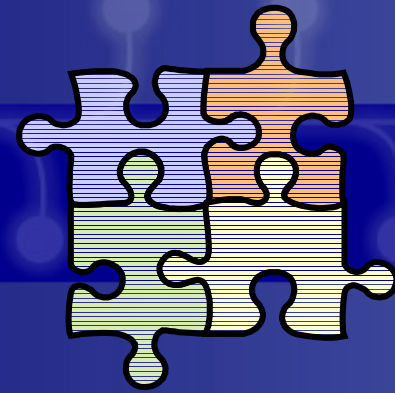
Key developments in 2002 on domestic and international capital markets:

- **October 2002** – international credit ratings obtained
  - Sistema rated **B-** by Standard&Poor's
  - Sistema rated **B** by Fitch Ratings
- **November 2002** – 1.2 bln ruble domestic bond issue
  - Lead manager – Raiffeisen Bank

# Key events of 1H 2003

- **February**: US\$100 mln, 1-year credit-linked notes issue
- **April**: US\$350 mln, 5-year Eurobond issue
- **April**: Purchase of an additional 10% stake in MTS from Deutsche Telekom, allowing Sistema to consolidate MTS in its financials starting 1H 2003
- **May**: Acquisition of 33% in Belkamneft, an oil extraction company in Udmurtia


# Corporate governance



- **Maintains high transparency standards, including disclosure of beneficial shareholders**
- **MTS rated #1 for disclosure by S&P, MGTS in the top 10**
- **2 out of 13 directors are independent**
- **Finance and Investment Committee reformed to oversee investment decisions**
- **International Consulting Council created to incorporate best management practices**
- **Investor Relations Department formed to respond to investor and analyst queries**
- **Public announcement of US GAAP financial reports initiated**

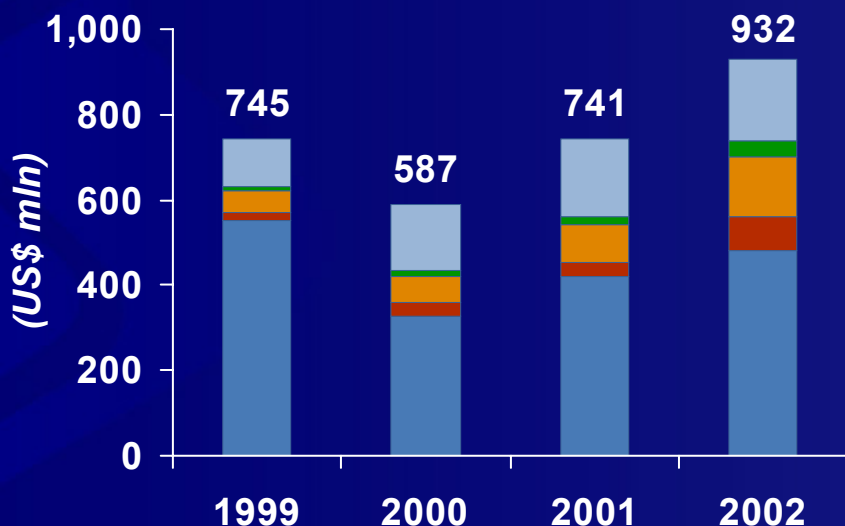


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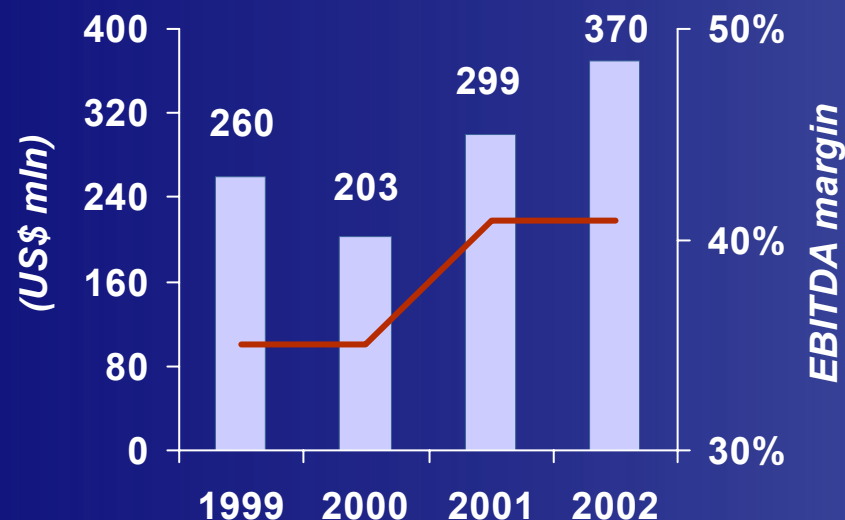
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# Key financial indicators

## Revenue<sup>(1)(2)</sup>



## EBITDA<sup>(3)</sup> and EBITDA margin



■ Telecommunications 
 ■ Technology 
 ■ Insurance 
 ■ Finance & securities 
 ■ Other businesses

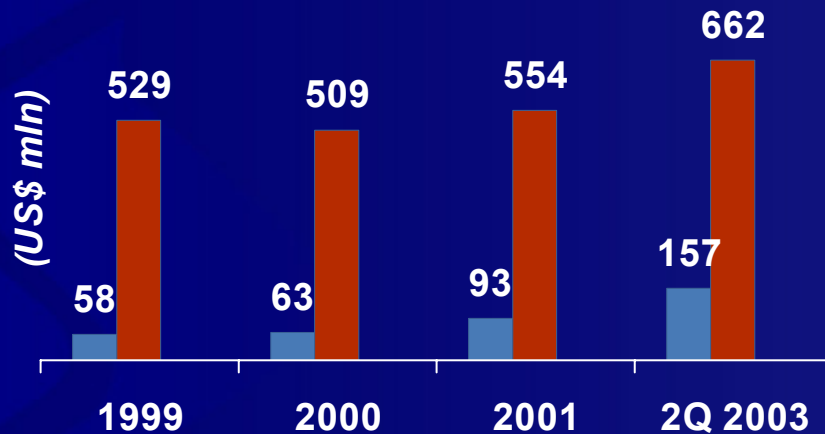
- (1) In 1999, MTS was our fully consolidated subsidiary, in 2000-2002 we accounted for MTS on an equity basis
- (2) Before inter-company eliminations
- (3) EBITDA is calculated as operating income plus depreciation and amortization and includes Sistema's equity share in net income of investees

# Financial performance

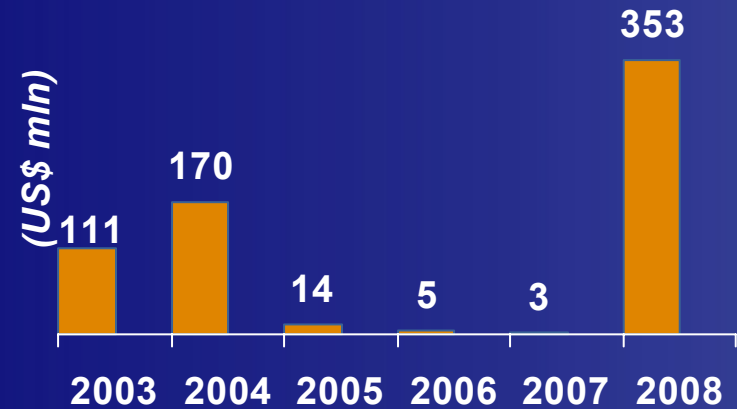
	US\$ mln	2002	2001	Change
<b>Revenues</b>		<b>904.1</b>	<b>730.8</b>	<b>23.7%</b>
<b>Cost of sales</b>		<b>(526.9)</b>	<b>(431.1)</b>	<b>22.2%</b>
<b>Selling, general &amp; administrative expenses</b>		<b>(146.4)</b>	<b>(96.4)</b>	<b>51.9%</b>
<b>Depreciation and amortization</b>		<b>(72.0)</b>	<b>(60.0)</b>	<b>20.0%</b>
<b>Equity in net income of investees</b>		<b>124.6</b>	<b>96.6</b>	<b>29.0%</b>
<b>Operating profit</b>		<b>297.6</b>	<b>238.6</b>	<b>24.7%</b>
<b>Net income</b>		<b>166.0</b>	<b>135.3</b>	<b>22.7%</b>
<b>EBITDA</b>		<b>369.6</b>	<b>298.6</b>	<b>23.2%</b>

# Debt management

## Total debt and cash<sup>(1)</sup>



## Repayment schedule<sup>(1)</sup>



- Cash and cash equivalents
- Total debt (long-term & short-term)

- Consolidated debt

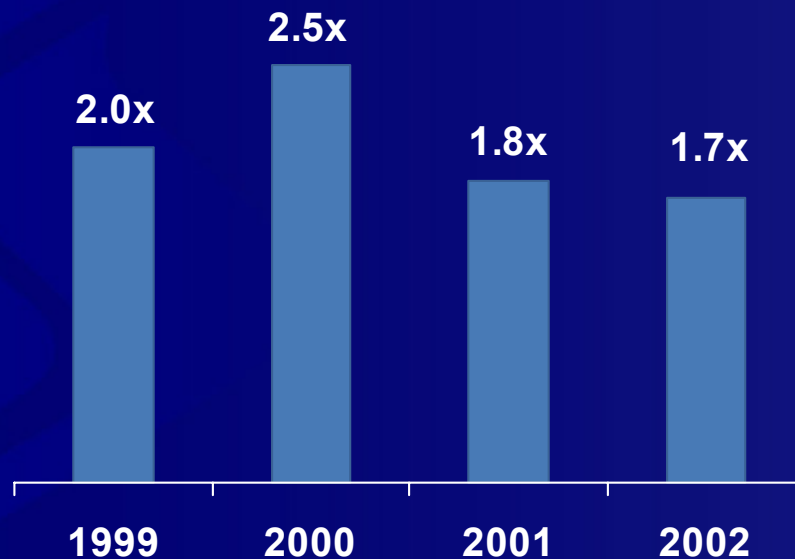
### Sources of repayment

- Dividend distributions (telecommunications: MGTS, MTS)
- Sale of assets (real estate, non-core businesses)
- IPO proceeds (MGTS, ROSNO, Sistema)

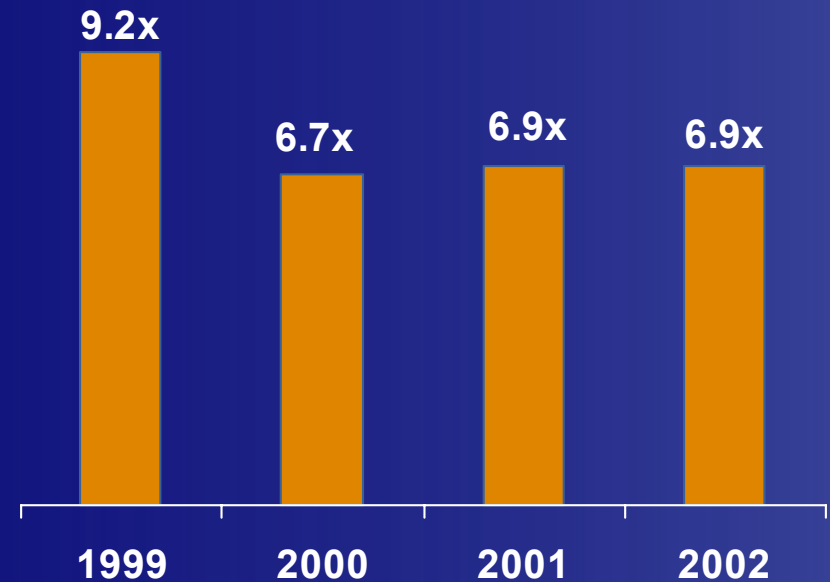
(1) As of 2Q 2003, after Eurobond placement, but before MTS consolidation

# Debt coverage ratios

Total debt/EBITDA<sup>(1)</sup>



EBITDA/interest expense<sup>(1)</sup>




(1) EBITDA is calculated as operating income plus depreciation and amortization and includes Sistema's equity share in net income of investees





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# Sistema's competitive advantages



**Sistema is one of the largest non-natural resources diversified companies in Russia**

# Telecommunications (I)

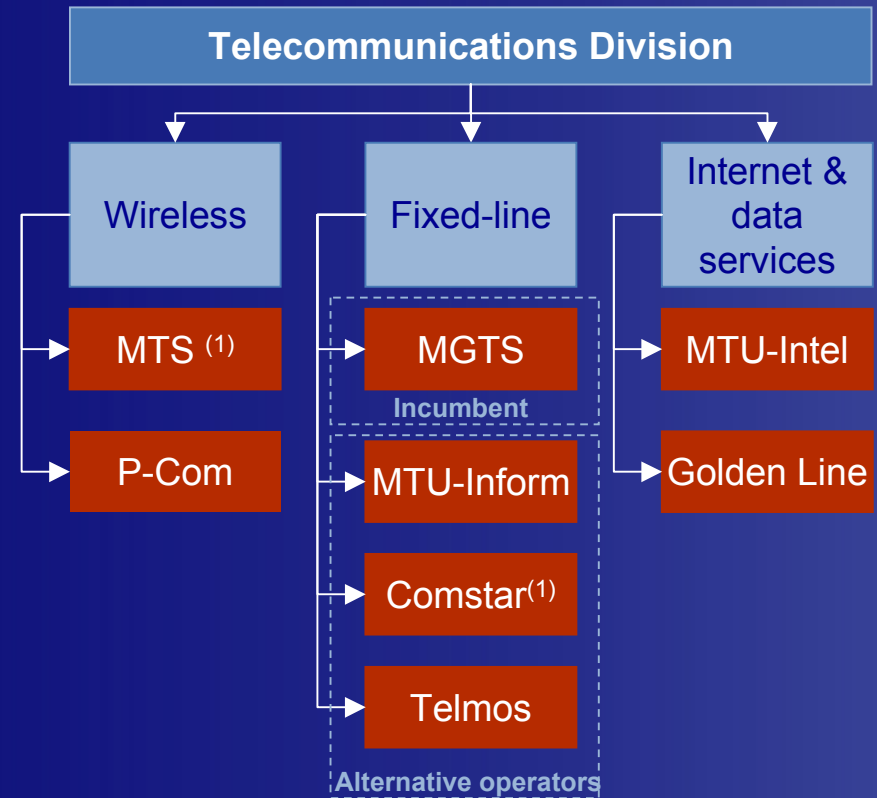


Sistema owns 50.4% of MTS, the largest mobile operator in Central and Eastern Europe with over 11.2 mln subscribers as of June 25, 2003

Sistema's telecom division is the leading telecom provider in the traditional and alternative fixed-line segments in Moscow with over 4.5 mln active lines in service and a market share of 62% in 2002

Sistema is Moscow's leading dial-up and broadband Internet services provider with a market share of 41% in 2002

The telecom division generates over 50% of consolidated revenue and 95% of consolidated EBITDA



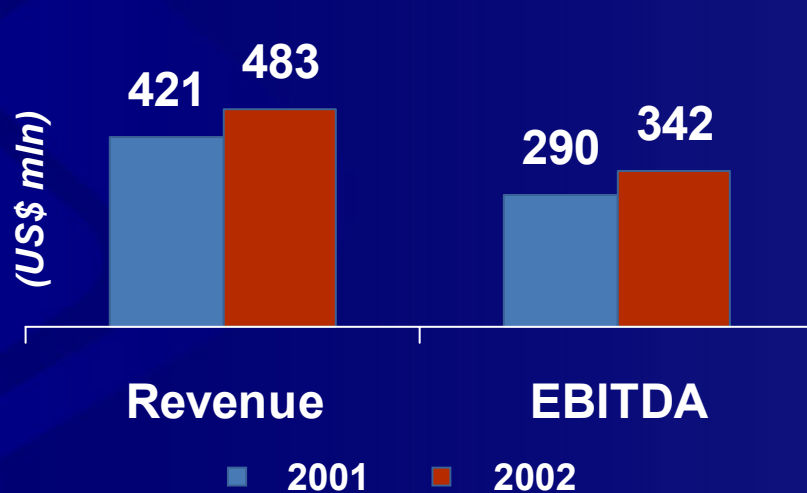
**Leading telecommunications services provider**

(1) Equity investees (as of December 31, 2002)

# Telecommunications (II)

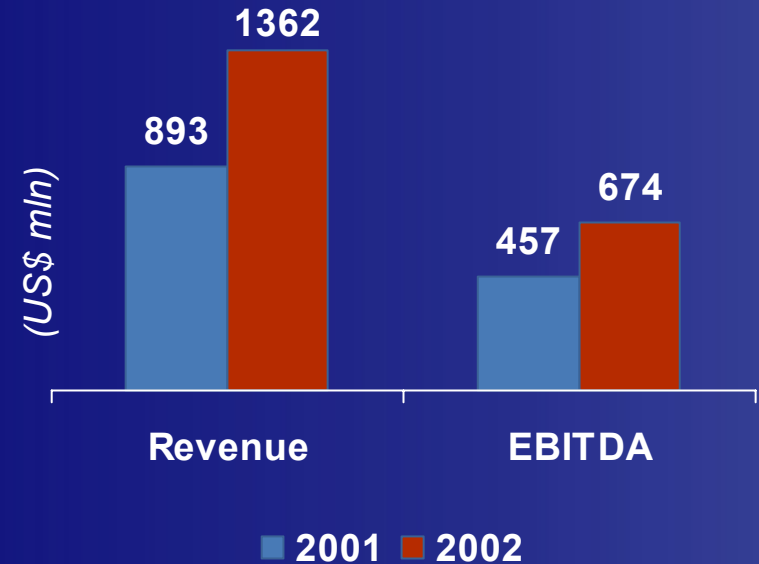
## Sistema-Telecom<sup>(1)</sup>

- Revenue growth of 14.6%
- EBITDA margin reaches 70.9%



## MTS<sup>(1)(2)</sup>

- Revenue growth of 52.5%
- EBITDA growth of 47.4%



Successfully capitalizing on the rapid development of the telecom sector in Russia

(1) As of December 31, 2002  
 (2) MTS' results to be consolidated starting 1H 2003

# Technology



Russia's leading semiconductor manufacturer in Zelenograd with more than 40-year history

High-quality manufacturing process is ISO-9001 certified

Mikron, our leading Russian semiconductor manufacturer, exports over 70% of products

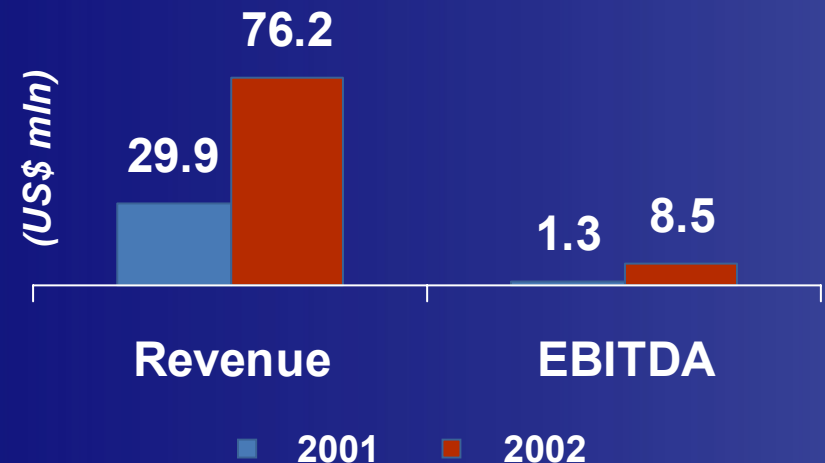
Extensive R&D capabilities, 500 scientists employed

Sitronics, Russia's consumer electronics umbrella brand in c. US\$4 bln market (2001)

Presence in the telecom equipment market in Russia (US\$3.1 bln in 2001) via recently acquired Czech manufacturer Strom Telecom

## Financial performance

- Revenue growth of 155%
- EBITDA margin increases to 15%



Leading diversified technology business in Russia

# Insurance

**POCHO**

One of the leading insurance companies in Russia in a high-growth market of US\$9.6 bln (in 2002)

Strategic partnership with Allianz AG (45.27% of ROSNO)

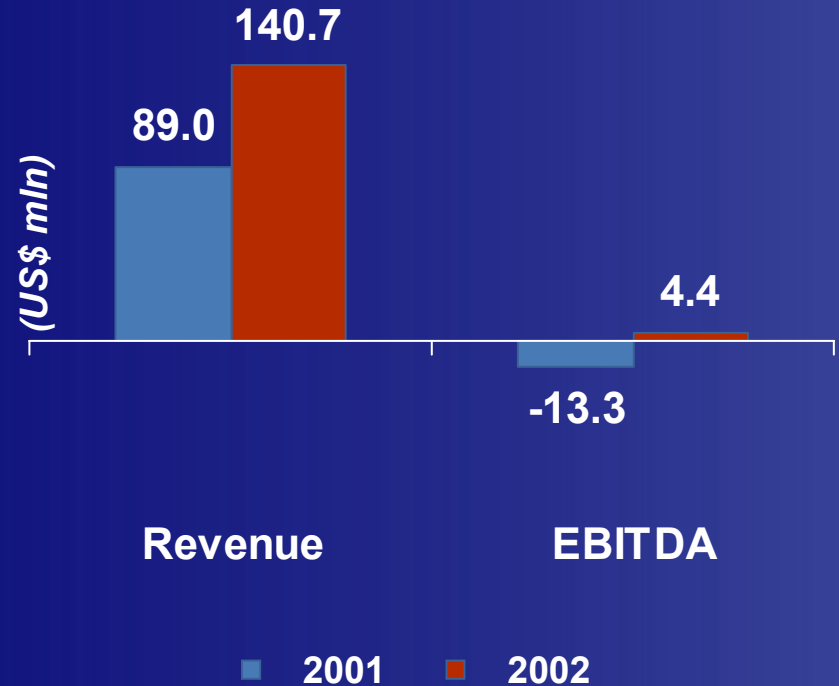
No 1 in voluntary medical insurance

1,000 own salespeople and 1,900 freelance agents

100 branches and 186 agencies nationwide

The only Russian insurance company to have an international actuarial audit

## Financial performance



**ROSNO – one of the leading providers of insurance services in Russia**

# Financial services



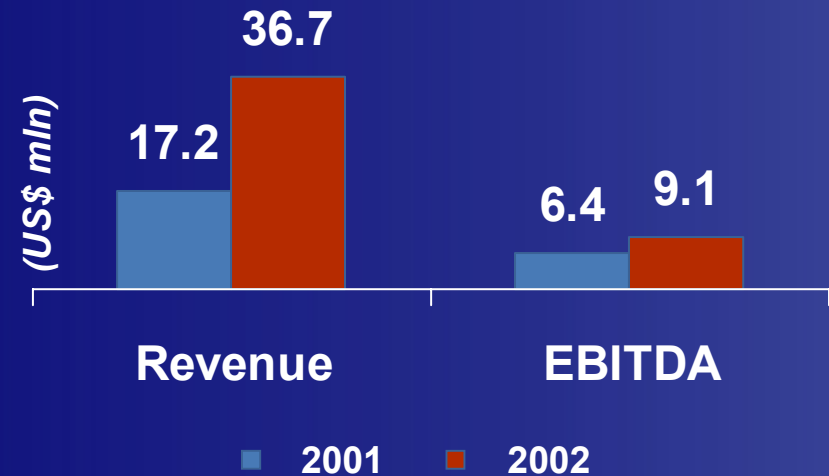
Full range of corporate and retail banking services

Rated “B” for ST borrowing and “B-” for LT borrowing (foreign currency) by Fitch Ratings in August 2002

Ability to develop retail banking services by capitalizing on access to the client base of Sistema’s businesses

Sistema bought 30% of East-West United Bank (Luxembourg) in 2002

## Financial Performance



MBRD is already in the top 30 Russian banks; considerable potential for future development



# Other businesses

## Retail



- Detsky Mir is the largest retailer in the Russian market for children's toys and clothes
- One of the most recognized brands and the only such nationwide brand in Russia
- One of the the largest stores in Moscow

**Strategy:** develop a nationwide retail network for children's toys and clothes in Moscow and other major Russian cities

## Travel services



- Intourist is the leading provider of travel services in Russia
- One of the most widely recognized brands and Russia's former monopoly in inbound travel services
- Extensive distribution network: 24 retail outlets in Moscow, 48 in the regions

**Strategy:** vertical integration in the inbound segment, development of nationwide network in outbound segment

## Real estate



- Sistema Hals is one of the leading real estate developers in Moscow with numerous international awards
- Specializes in developing premium offices, luxury apartments, retail space and cottages
- Has completed 16 projects with an overall area of 100,000 sq m
- Very attractive portfolio of projects in Moscow's booming real estate market

**Strategy:** creation and management of a diversified and balanced asset portfolio comprised of shorter-term projects for sale as well as longer-term properties for rent



# Sistema today and tomorrow



**Ambitious and clear goals for the future**



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