



JOINT-STOCK FINANCIAL CORPORATION  
**SISTEMA**

FOR IMMEDIATE RELEASE

October 4, 2007

## **SISTEMA ANNOUNCES FINANCIAL RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2007**

**Moscow, Russia** - October 4, 2007 – Sistema (the “Group”) (LSE: SSA), the largest private sector consumer services company in Russia and the CIS, today announced its unaudited consolidated US GAAP financial results for the six months ended June 30, 2007.

### **FIRST HALF YEAR HIGHLIGHTS**

- **Consolidated revenues up 36.1% year on year to US\$ 5.9 billion**
- **OIBDA up 34.6% year on year to US\$ 2.2 billion and OIBDA margin of 36.9%**
- **Operating income up 41.8% year on year to US\$ 1.4 billion and operating margin of 24.2%**
- **Net income nearly tripled year on year to US\$ 877.1 million**
- **Total assets up 29.9% year on year to US\$ 22.5 billion**

Alexander Goncharuk, President and Chief Executive Officer of Sistema, commented: “The 36% year on year increase in group revenues for the first six months of 2007 demonstrates the continued rapid growth, expansion and market share gains across our businesses. The non-telecommunications businesses in the group now account for more than a quarter of our total revenues, and our non-listed subsidiaries more than doubled their revenues year on year during the first half of 2007, following healthy organic growth and scale acquisitions. Group net income nearly tripled year on year, and reflected significantly improved operating profitability levels and the positive contribution of the investments that we have made. After the end of the period, we have now acquired a 10% stake in the Indian telecommunications operator Shyam Telelink. This acquisition is in line with our strategy to extend our footprint into exciting new high growth markets. We remain well positioned in our domestic markets, and have continued the regional expansion of our banking and retail networks through MBRD and Detsky Mir, respectively.”

## FINANCIAL SUMMARY<sup>1</sup>

<i>(US\$ millions)</i>	<b>Jan – June 2007 (unaudited)</b>	Jan - June 2006 (unaudited)	Year on Year Growth
Revenues	<b>5,905.9</b>	4,340.1	36%
OIBDA <sup>2</sup>	<b>2,179.4</b>	1,619.4	35%
Operating income	<b>1,427.9</b>	1,007.1	42%
Net income	<b>877.1</b>	310.1	183%
Basic and diluted earnings per share (US\$)	<b>93.7</b>	32.2	191%
Total assets	<b>22,464.2</b>	17,292.7 <sup>3</sup>	30%

Sistema's consolidated revenues increased by 36.1% year on year, which reflected the solid performance of the Group's Telecommunications businesses and high levels of revenue growth in the Group's Real Estate, Banking, Retail and Mass Media businesses. At the same time, the results of SITRONICS continued to illustrate the difficult market conditions that exist in its Telecommunications Solutions division, as a number of key projects were delayed into 2008. Non-telecommunications businesses accounted for 25.7% of the Group consolidated revenues for the first half, compared to 24.0% one year ago. The organic year on year revenue growth was 30.6%, and amounted to US\$ 1.3 billion in the first half of 2007, excluding businesses acquired or divested since the end of the first half of 2006.

The Group reported a 34.6% increase year on year in OIBDA. The Group OIBDA margin decreased year on year from 37.3% to 36.9%. MTS showed strong growth and, as a result of improving efficiency levels, expanded its OIBDA margin by 4 percentage points year on year to 51.7% in the first half of 2007. Comstar's OIBDA margin was up year on year from 40.5% to 42.9%. This reflected the healthy underlying development of the business, as well as the ongoing reorganization and optimization processes. The Group OIBDA margin in the first half of 2007 was, however, adversely impacted by the operating losses in the Telecommunications Solutions division of SITRONICS and in Sistema Hals.

Consolidated depreciation and amortization expense was up 22.7% year on year to US\$ 751.5 million following the increase in depreciation in the Group's telecommunication segment.

Selling, general and administrative expenses rose by 30.8%, or US\$ 253.2 million, year on year to US\$ 1.1 billion, which are in line with revenue growth and include a US\$ 98.0 million share bonus awarded under the share bonus program to the directors and management of Sistema Hals.

Group operating income was up 41.8% year on year in the first half, with an operating margin of 24.2%, compared to 23.2% for the same period of 2006.

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<sup>1</sup> ROSNO is accounted for as a discontinued operation for all periods presented. Thus, here and further, ROSNO's financial results are excluded from all the captions presenting the Group's consolidated results from continuing operations.

<sup>2</sup> See Attachment A for definitions and reconciliation of OIBDA and OIBDA margin and a reconciliation of OIBDA to their most directly comparable US GAAP financial measures.

<sup>3</sup> As at June 30, 2006.

The effective tax rate decreased to 34.3% in the first half of 2007, compared to 35.6% in the corresponding period of 2006. The Group recorded valuation allowance against deferred tax assets, which resulted from tax losses in the Telecommunication Solutions division of SITRONICS.

The net income from continuing operations before income tax was up 16.9% year on year to 354.2 million in the first half of 2007. The growth in net income from continuing operations resulted largely from the increase in profits of MTS and Comstar UTS, and was partly offset by the losses reported by Sistema Hals and SITRONICS. The sale of the Group's stake in ROSNO contributed an additional US\$ 522.0 million of net proceeds to the total net income for the first half of 2007. As a result, net income nearly tripled year on year.

The weighted average number of shares outstanding decreased year on year from 9,626,856 in 2006 to 9,358,307 in 2007, and the Group reported a 191.0% year on year increase in basic and diluted earnings per share from US\$ 32.2 to US\$ 93.7.

## **OPERATING REVIEW**

### ***TELECOMMUNICATIONS<sup>4</sup>***

<i>(US\$ millions)</i>	<b>Jan – June 2007 (unaudited)</b>	Jan - June 2006 (unaudited)	Year on Year Growth
Revenues	<b>4,385.4</b>	3,297.4	33%
OIBDA	<b>2,275.2</b>	1,551.1	47%
Operating Income	<b>1,584.0</b>	975.1	63%
Net Income <sup>5</sup>	<b>580.7</b>	316.7	83%

The Telecommunications segment, which comprises MTS, the largest mobile phone operator in Russia and the CIS, and Comstar UTS, the leading combined telecommunications operator in Russia and the CIS, generated 33.0% year on year revenue growth in the first half of 2007. The segment accounted for 74.2% of the Group's consolidated revenues in the first half of 2007 compared to 76.0% for the same period of 2006. The growth was primarily organic, with the exception of US\$ 8.8 million of revenue generated by businesses acquired after the end of the first half of 2006 by Comstar UTS (DG Tel and Technologic Systems in Ukraine, Cornet and Callnet in Armenia) and MTS (Dagtelecom). MTS continued to be the main contributor to the segment revenues and accounted for 85.4% of the segment's year on year growth in the first half of 2007.

MTS added approximately 10.6 million subscribers year on year to 74.7 million customers as at June 30, 2007. MTS generated 33.4% year on year revenue growth to US\$ 3,710 million in the

<sup>4</sup> Here and further, in the comparison of period to period results of operations, in order to analyze changes, developments and trends in revenues by reference to individual segment revenues, revenues are presented on an aggregated basis, which is revenues after the elimination of intra-segment (between entities in the same segment) transactions, but before inter-segment (between entities in different segments) eliminations, unless accompanied by the word "consolidated". Amounts attributable to individual companies, where appropriate, are shown prior to both intra-segment and inter-segment eliminations. SITRONICS' and Sistema Hals' financial results may differ from respective standalone values due to certain reclassifications and adjustments.

<sup>5</sup> Here and further net income / (loss) for the segments are presented after minority interest.

first half of 2007. This reflected an increase in average monthly service revenue per subscriber (“ARPU”) in Russia from US\$ 7.5 in the second quarter of 2006 to US\$ 9.2 in the second quarter of 2007. Russian subscribers’ monthly Minutes of Use (MOU) increased to 151 in the second quarter of 2007 from 128 in the second quarter of 2006. MTS’ OIBDA, as a result of the robust ARPU growth combined with the expansion of its subscriber base, rose by 39.5% year on year to US\$ 1,019 million.

Comstar UTS generated 32% year on year revenue growth to US\$ 708 million in the first half of 2007. This reflected high customer demand for the unlimited tariff plan introduced by MGTS from February 2007, and the healthy development of the Comstar-Direct broadband Internet and double-play offerings. In the first half of 2007, Comstar UTS also received US\$ 27.0 million compensation from the Federal Budget for discounts provided to certain categories of customers prior to 2005, which compares with US\$ 17.8 million of similar compensation received in the first half of 2006. Comstar-Direct, the largest broadband service provider in Moscow, had 426,400 residential subscribers, including 99,100 double-play (broadband Internet + IPTV) customers at the end of the first half of 2007. Comstar-Direct launched a new broadband offering structure and marketing campaign on September 1, 2007. Comstar UTS reported a 40% year on year increase in OIBDA to US\$ 303.6 million in the first half of 2007.

Segment OIBDA was up 46.7% year on year, with an increased combined OIBDA margin of 51.9% in the first half of 2007, up from 47.0% in the first half of 2006. This increase in margin primarily reflected the profitability improvements in the business. Segment net income for the first half of 2007 increased by 83.3 % year on year.

In June 2007, MTS announced the approval by its Board of Directors of an employee remuneration program. The program consists of two parts: a performance-based monetary award and a phantom share program based upon MTS’ American Depositary Receipts (ADRs). It will apply to up to 420 top- and mid-level managers.

In June 2007, MTS completed the acquisition of the remaining 26% stake in Uzdunrobta, the leading mobile operator in Uzbekistan.

In June 2007, Comstar UTS consolidated its ownership in Comstar-Ukraine, following the acquisition of the remaining 25% stake in its Ukrainian subsidiary.

## **TECHNOLOGY**

<i>(US\$ millions)</i>	<b>Jan – June 2007 (unaudited)</b>	Jan - June 2006 (unaudited)	Year on Year Growth
Revenues	<b>638.3</b>	696.6	(8%)
OIBDA	<b>(38.6)</b>	80.6	-
Operating (Loss)/Income	<b>(65.7)</b>	62.4	-
Net (Loss)/Income	<b>(61.4)</b>	33.7	-

The Technology segment comprises SITRONICS, a leading provider of telecommunications, IT and microelectronic solutions in Russia and the CIS, and with a growing presence in other EEMEA emerging markets. SITRONICS’s revenues declined 8.4% year on year in the first half

of 2007, following the previously announced delay in a number of projects in the Telecommunications Solutions segment till 2008. However, the IT Solutions and Microelectronic Solutions operating divisions continued to perform above expectations, with IT Solutions reporting substantial year on year revenue growth, and Microelectronic Solutions revenue more than doubling year on year.

The segment OIBDA was negative at US\$ 38.6 million in the first half of 2007, compared with a positive OIBDA of US\$ 80.6 million in the prior period, and reflected the operating losses in the Telecommunications Solutions division. IT Solutions and Microelectronic Solutions divisions contributed positively to the segment OIBDA in the first half of 2007, following the successful launch of new products and the completion of a number of large scale projects.

In the first half of 2007 SITRONICS also won a significant number of new contracts, which will be implemented over the next few years, and include the installation of SITRONICS' flagship product, FORIS NG Billing and Customer Care, for the Pakistan operator Wateen Telecom; a WiMAX network contract for the newly established Montenegrin mobile operator MTEL; a telecom equipment and services contract with the Bulgarian operator BTC Mobile; the delivery of TENNET equipment to MGTS for its NGN build-out; and a systems integration consulting services for a substantial World Bank-funded project in Ukraine.

## ***REAL ESTATE***

<i>(US\$ millions)</i>	<b>Jan – June 2007 (unaudited)</b>	Jan - June 2006 (unaudited)	Year on Year Growth
Revenues	<b>129.8</b>	106.5	22%
OIBDA	<b>(91.0)</b>	44.4	-
Operating (Loss)/Income	<b>(97.1)</b>	42.7	-
Net (Loss)/Income	<b>(79.4)</b>	9.3	-

Revenues in Sistema Hals, a leading Moscow-based real estate development, management and investment company, increased by 21.8% year on year in the first half of 2007, primarily as a result of significant growth in the real estate development division, while the segment's real estate developed for sale grew from US\$ 201.5 million to US\$ 408.2 million year on year. The division completed and sold "Sadovnicheskaya, 75", a business centre located in Moscow; it achieved higher than expected prices and sales volume of land plots for the "Aurora" project located in the Moscow region; and it completed "Yartsevskaya, 27v", a residential building in Moscow.

Revenues in the project construction management division increased 10% year on year to US\$ 14.6 million in the first half of 2007, as construction design work for the Moscow subway line and two new subway stations – Strogino and Mitino, and of the Krasnopresnenskiy Prospekt project, which included the tunnel in Serebryaniy Bor, was completed.

The asset management division, primarily as a result of the robust growth in house sales and the increase in rental income from single family houses, increased revenues by 59% year on year to US\$ 17.9 million in the first half of 2007. The "Serebryaniy Bor" development remained the largest source of rental income in the first half.

The negative OIBDA of US\$ 91.0 million in the first half of 2007 compared to a positive OIBDA of US\$ 44.4 million for the same period of 2006, and reflected lower results primarily due to the US\$ 98.0 million stock bonus awarded under the share option program to the Board of Directors and management of Sistema Hals.

## ***BANKING***

<i>(US\$ millions)</i>	<b>Jan – June 2007 (unaudited)</b>	Jan - June 2006 (unaudited)	Year on Year Growth
Revenues	<b>173.9</b>	87.8	98%
OIBDA	<b>17.2</b>	9.8	76%
Operating Income	<b>14.5</b>	8.6	68%
Net Income	<b>9.9</b>	3.4	195%

The Banking segment comprises the Moscow Bank for Reconstruction and Development (MBRD) and the East-West United Bank (EWUB). The segment provides corporate and retail banking services in Russia and Luxembourg. Segment revenues almost doubled year on year in the first half of 2007, following the acquisition of control over operations of EWUB in December 2006, and the growth of the segment's retail business and corporate lending. The loan portfolio grew by 72% year on year to US\$ 1.9 billion as at June 30, 2007, and interest income received from retail and corporate lending operations increased by 81% year on year to US\$ 135.9 million in the first half of 2007. The bank increased its interest income from non-Sistema clients by 135.9% year on year following the expansion of its retail business through the opening of 8 branches and 27 mini-offices since the end of first half of 2006. The bank's retail network included a total of 15 branches and 129 mini-offices as at June 30, 2007. Revenues from leasing activities increased three fold year on year, and contributed US\$ 11.7 million to the segment's revenues in the first half of 2007.

## ***RETAIL***

<i>(US\$ millions)</i>	<b>Jan – June 2007 (unaudited)</b>	Jan - June 2006 (unaudited)	Year on Year Growth
Revenues	<b>192.4</b>	117.9	63%
OIBDA	<b>(12.3)</b>	(7.4)	-
Operating Loss	<b>(16.1)</b>	(8.3)	-
Net Loss	<b>(21.5)</b>	(10.5)	-

The Retail segment comprises Detsky Mir, the largest children's goods retail store chain in Russia. Total revenues grew by 63.1% year on year, whilst retail revenues, which accounted for 87% of total revenues in the period, increased by 124% year on year to US\$ 166.8 million – this was as a result of significant growth in the total number of retail stores during the period. Wholesale and rental revenues represented the remaining share of total revenues.

Detsky Mir reported a net loss in the first half of 2007, which was largely due to the continued significant expansion of the retail network and the seasonality of its sales.

As at June 30, 2007 the network of retail outlets grew by 32 stores year on year to 74 in total, while the aggregate retail space increased by 93% year on year to 133 thousand square meters. As at October 4, 2007, Detsky Mir's retail network consisted of 79 retail outlets located in 39 Russian cities, with a total retail space of 142 thousand square meters. Since the beginning of 2007, the segment added six new locations in Lipetsk, Stavropol, Ulianovsk, Liubertsy, Cherepovets and Kemerovo.

## **MASS MEDIA**

<i>(US\$ millions)</i>	<b>Jan – June 2007 (unaudited)</b>	Jan - June 2006 (unaudited)	Year on Year Growth
Revenues	<b>54.2</b>	45.6	19%
OIBDA	<b>7.9</b>	9.9	-20%
Operating Income	<b>1.1</b>	2.8	-59%
Net Loss	<b>(0.7)</b>	(0.2)	-

The Mass Media segment, which comprises the Group's Pay-TV business, which operates under the brand name Stream-TV, advertising, print and other media operations, generated 18.9% year on year revenue growth in the first half. Stream-TV's revenues increased by 49.4% to US\$ 38.8 million in the first half of 2007. The Stream-TV subscriber base increased by 45% year on year to 1.46 million subscribers as at June 30, 2007, including 1.36 (0.94) million Pay-TV customers, 93,167 (53,972) Internet and 9,587 (9,119) IP telephony subscribers. The Maxima Group, an advertising agency, which operates in Russia, Ukraine, Kazakhstan and Belarus, contributed US\$ 14.1 million to segment revenues.

## **CORPORATE AND OTHER**

<i>(US\$ millions)</i>	<b>Jan – June 2007</b>	Jan - June 2006	Year on Year Growth
Revenues			
Radars and Aerospace	<b>127.0</b>	70.2	81%
Tourism	<b>150.7</b>	76.9	96%
Pharmaceuticals	<b>34.9</b>	4.2	740%
Healthcare Services	<b>29.4</b>	7.9	273%
Perm Motors Group	<b>146.5</b>	-	-
Other	<b>22.4</b>	35.3	-
Total	<b>510.9</b>	194.5	162%
OIBDA			
Radars and Aerospace	<b>21.4</b>	9.5	126%
Tourism	<b>12.5</b>	4.6	173%
Pharmaceuticals	<b>2.7</b>	0.5	489%
Healthcare Services	<b>3.5</b>	1.9	84%
Perm Motors Group	<b>7.2</b>	-	-
Other	<b>(41.9)</b>	28.5	-
Total	<b>5.4</b>	45.0	(88%)

The revenues of the Radars and Aerospace division, which comprises Concern RTI Systems, increased by 81.0% year on year in the first half of 2007, as a result of an increase in the volume of services performed under a number of government contracts. The Concern completed 65.0% of US\$ 115.4 million contract with the Ministry of Emergency Situations for the construction of the National Emergency Situations Center, and deployed an early-warning space control radar in Lechtusi, near St. Petersburg, during the first half of 2007.

RTI Systems' OIBDA more than doubled year on year in the first half of 2007, with OIBDA margin expanding to 16.9%.

RTI Systems won government defense tenders in the aggregate amount of US\$ 105 million in the first half of 2007, with work expected to be completed in 2008 – 2010.

The Tourism division's revenues nearly doubled year on year in the first half of 2007, and OIBDA increased nearly three fold year on year, as a result of the robust growth in its tour operator and hotel businesses.

The Pharmaceuticals division's revenues increased more than eight fold year on year in the first half and OIBDA rose nearly six fold year on year, reflecting the acquisition of Mapichem AG and the sale of other investments.

The Healthcare Services division's revenues increased nearly four fold year on year. The division, which comprises the Medsi and Medsi-II clinics, as well as the American Hospital Group, is developing into a leading private healthcare provider in Russia, with comprehensive medical care and a chain of private clinics. In first half of 2007, Medsi acquired the American Hospital Group, a leading medical centre for expatriates, located in Moscow, as well as MedExpress, a chain of private healthcare facilities in Russia. As a result of these acquisitions, the network of healthcare facilities has increased to over 24 hospitals. The operating income of the segment nearly doubled year on year in the first half of 2007.

Revenues of Perm Motors Group, a designer, developer and mass manufacturer of aero-engines, gas turbine power stations, helicopter gear boxes and transmissions, amounted to US\$ 146.5 million, and were consolidated in the Group results for the first half of 2007 following the acquisition of control over Perm Motors Group by Sistema.

## **FINANCIAL REVIEW**

Net cash provided by operating activities increased year on year to US\$ 1,093.4 million in the first half of 2007, from US\$ 690.5 million in the first half of 2006. This was largely as a result of growth in the operating income.

Net cash used in investing activities totalled US\$ 1,508.1 million in the first half of 2007, and included US\$ 863.8 million of capital expenditure, compared to US\$ 1,978.8 million and US\$ 999.7 million, respectively, for the corresponding period of 2006. The decrease in net cash used in investing activities was primary due to the receipt of proceeds from the sale of ROSNO in the first half of 2007. The Group spent US\$ 386.4 million on the acquisition of businesses during the first half of 2007, compared to US\$ 394.9 million in the first half of 2006.

Cash flows from financing activities amounted to US\$ 646.5 million in the first half of 2007, compared to US\$ 2,019.2 million for the corresponding period of 2006. Major sources of financing in the first half of 2007 included net proceeds received from the IPO of SITRONICS in



the amount of US\$ 356.4 million in February of 2007, US\$ 675.7 million under 5-year ruble-denominated credit facility signed by Comstar in June 2007 with the Savings Bank of the Russian Federation (Sberbank), a US\$ 50 million 2-year credit line obtained by MBRD from Dresdner Bank in May 2007, and a RUB 1 billion bond issue by Intourist in April 2007. In June 2007, SITRONICS redeemed US\$ 200 million of outstanding Eurobond notes.

Group cash balances totalled US\$ 832.4 million as at June 30, 2007, compared to US\$ 501.7 million as at December 31, 2006. Group net debt (short-term and long-term debt minus cash and cash equivalents) increased to US\$ 6.2 billion as at June 30, 2007, from US\$ 4.5 billion as at June 30, 2006.

In June 2007, Sistema announced its intention to purchase its own stock for a total amount of up to US\$ 150 million. The acquired shares are intended for the funding of the share option program and may also be used in future acquisition activities.

## **SIGNIFICANT EVENTS FOLLOWING THE END OF THE REPORTING PERIOD**

### ***Acquisitions***

#### **Telecommunications**

In September 2007, MTS acquired an 80% stake in International Cell Holding Ltd, the indirect owner of CJSC K-Telecom, the largest Armenian mobile phone operator. In addition MTS signed a call and put option agreement for the remaining 20% stake, to be exercised not earlier than July 2010.

In August 2007, Comstar UTS completed the acquisition of Sochitelecomservice, a leading alternative telecommunications operator in Sochi.

#### **Banking**

In August 2007, the Group completed the acquisition of a 20% stake in Dalcombank, a commercial bank based in the Far East of Russia, for a total cash consideration of US\$ 8.3 million.

#### **Real Estate**

In September 2007, Sistema-Hals acquired, for a total cash consideration of US\$ 100.4 million, a 74.9% stake in Gorki-8, which owns more than 35,000 square meters of real estate, including more than 70 townhouses and a retail mall, and nine hectares of land near the Rublevo-Uspenskoe highway, one of the most expensive and prestigious Moscow suburbs.

In July 2007, Sistema Hals acquired a further 28% stake in the Kamelia Health Spa, thus increasing its total holding to 95.6%.

#### **Corporate and other**

In September 2007, Sistema acquired a 10% stake in Shyam Telelink Ltd., an Indian telecommunications operator, for a cash consideration of US\$ 11.4 million. Sistema intends to increase its stake in Shyam Telelink Ltd. to 51%, after receiving approval from the Foreign Investment Promotion Board (FIPB) of India.

## ***Other significant events***

### **Real Estate**

In July 2007, the Board of Directors of Sistema Hals approved a US\$ 500.0 million credit line, which was obtained from Vneshtorgbank (VTB).

In July 2007, Sistema Hals received a "B1" long-term foreign currency Corporate Family Rating from Moody's Investors Service with a stable outlook, and a "B+" Issuer Default rating and "B" Short-term rating from Fitch Ratings with a stable outlook.

### **Technology**

In October 2007, SITRONICS announced the appointment of Sergey Aslanyan as President and Chief Executive Officer. Mr. Aslanyan previously held the position of Vice President for Network and Information Technology at Mobile TeleSystems.

In July 2007, the Board of Directors of SITRONICS approved two Ruble-denominated bond issues in the amount of RUB 3 billion (approximately USD 115.8 million) and RUB 2 billion (approximately USD 77.2 million), respectively, to be issued later in 2007. On September 25, 2007 Sitronics issued its first rouble-denominated bonds. The 3-year RUB 3 billion issue was priced at 100%, with an annual coupon of 10%, and a put option after 1.5 years at which time the coupon rate could be reset. Coupon payments will be made on a semi-annual basis.

In July 2007, Moody's Investors Service confirmed SITRONICS' long term foreign currency credit rating of "B3" with a stable outlook.

### **Banking**

In August 2007, MBRD signed an agreement with VTB Bank Europe, for a US\$ 35 million loan for a period of 3 years.

### **Retail**

In July 2007, Detsky Mir Centre, the managing company of Detsky Mir Group, signed a US \$30 million multicurrency loan agreement with International Moscow Bank (IMB) for a period of 4 years.

In July 2007, Detsky Mir's AGM approved the annual dividend of RUB 2.39 (approximately US\$ 0.09) per ordinary share.

### **Corporate and other**

In September 2007, the Board of Directors of Sistema approved the split of the nominal value of the Company's ordinary shares by 1,000 times. As a result of the share split, Sistema's share capital of RUB 868,500,000 will comprise 9,650,000,000 ordinary shares with a par value of RUB 0.09 per share.

In August 2007, Sistema announced changes to the share ownership by its Board of Directors in the Company. Each Director received an additional 76 shares, or 0.0008% of the 9,650,000 total outstanding shares, while two Directors were awarded 80 shares each.

In July 2007, Fitch Ratings upgraded Sistema's long-term foreign and local currency Issuer Default Ratings ("IDL") to 'BB-' from 'B+', with a stable outlook. Fitch also upgraded the Eurobonds and Medium-Term Notes programme issued by Sistema Capital S.A. and Sistema Finance S.A., both guaranteed by Sistema, to 'BB-' from 'B+'.

### **Conference call information**

Sistema management will host a conference call today at 10 am (New York time) / 3 pm (London time) / 4 pm (CET) / 6 pm (Moscow Time) to present and discuss the first half results.

The dial-in numbers for the conference call are:

UK/International: +44 (0)20 7138 0820  
US: +1 718 354 1361

A replay will then be available for 7 days after the conference call. To access the replay, please dial:

UK/International: +44 (0)20 7806 1970  
US: +1 718 354 1112

PIN number: 6881544#

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**For further information, please visit [www.sistema.com](http://www.sistema.com) or contact:**

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Sistema is the largest private sector consumer services company in Russia and the CIS, with over 80 million customers. Sistema develops and manages market-leading businesses in selected service-based industries, including telecommunications, technology, insurance, banking, real estate, retail and media. Founded in 1993, the company reported revenues of US\$ 5.9 billion for the first half of 2007, and total assets of US\$ 22.5 billion as at June 30, 2007. Sistema's shares are listed under the symbol "SSA" on the London Stock Exchange, under the symbol "AFKS" on the Russian Trading System (RTS), and under the symbol "SIST" on the Moscow Stock Exchange (MSE) and under the symbol "AFKS" on the Moscow Interbank Currency Exchange (MICEX).

*Some of the information in this press release may contain projections or other forward-looking statements regarding future events or the future financial performance of 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. In addition, there is no assurance that the new contracts entered into by our subsidiaries referenced above will be completed on the terms contained therein or at all. 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 JSFC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)**  
*(Amounts in thousands of U.S. dollars, except share and per share amounts)*

	Six months ended June 30, 2007	Six months ended June 30, 2006
Sales	\$ 5,740,793	4,266,341
Revenues from financial services	165,156	73,712
<b>TOTAL REVENUES</b>	<b>5,905,949</b>	<b>4,340,053</b>
Cost of sales, exclusive of depreciation and amortization shown separately below	(2,564,770)	(1,869,615)
Financial services related costs, exclusive of depreciation and amortization shown separately below	(68,641)	(40,203)
<b>TOTAL COST OF SALES</b>	<b>(2,633,411)</b>	<b>(1,909,818)</b>
Selling, general and administrative expenses	(1,075,628)	(822,455)
Depreciation and amortization	(751,489)	(612,259)
Provision for doubtful accounts	(52,763)	(59,923)
Other operating expenses, net	(87,123)	(93,761)
Equity in net income of investees	57,796	43,662
Gain on disposal of interests in subsidiaries and affiliates	64,570	121,600
<b>OPERATING INCOME</b>	<b>1,427,901</b>	<b>1,007,099</b>
Interest income	43,795	30,003
Change in fair value of derivative instruments	(26,500)	-
Interest expense, net of amounts capitalized	(217,675)	(165,511)
Currency exchange and translation gain/(loss)	63,965	7,390
Income before income tax, minority interests and income from discontinued operations	1,291,486	878,981
Income tax expense	(471,394)	(354,175)
Equity in net income of energy companies in the Republic of Bashkortostan	81,455	115,079
Income before minority interests and income from discontinued operations	\$ 901,547	639,885

**SISTEMA JSFC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
**(CONTINUED) FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)**  
*(Amounts in thousands of U.S. dollars, except share and per share amounts)*

	Six months ended June 30, 2007	Six months ended June 30, 2006
Minority interests	\$ (547,368)	(336,808)
Income from continuing operations	<u>354,179</u>	<u>303,077</u>
Income from discontinued operations	960	7,001
Income from disposal of discontinued operations	521,963	-
NET INCOME	<u>\$ 877,102</u>	<u>310,078</u>
Other comprehensive income/(loss):		
Unrealized gain on securities available for sale, net of income tax effect of \$163	-	585
Change in fair value of interest rate swaps, net of income tax effect of \$307 and \$360, respectively	973	1,520
Translation adjustment, net of minority interests of \$223,838 and \$36,157, respectively, and income tax effect of nil	255,114	50,576
Comprehensive income	<u>\$ 1,133,189</u>	<u>362,759</u>
Weighted average number of common shares outstanding	9,358,307	9,626,856
Earnings per share, basic and diluted:		
Income from continuing operations	\$ 37.85	31.34
Income from discontinued operations	55.88	0.88
Net income	93.73	32.22

**SISTEMA JSFC AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET AS AT JUNE 30, 2007 (UNAUDITED) AND DECEMBER 31, 2006**  
*(Amounts in thousands of U.S. dollars)*

	June 30, 2007	December 31, 2006
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 832,389	501,706
Short-term investments	1,052,468	554,157
Loans to customers and banks, net	1,766,278	1,290,082
Accounts receivable, net	1,152,795	1,069,706
Prepaid expenses, other receivables and other current assets, net	1,089,605	917,551
VAT receivable	411,357	450,703
Inventories and spare parts	930,059	661,568
Deferred tax assets, current portion	195,079	195,672
Assets of the discontinued operations	-	946,866
Total current assets	<u>7,430,030</u>	<u>6,588,011</u>
<b>NON-CURRENT ASSETS:</b>		
Property, plant and equipment, net	8,525,136	7,412,468
Advance payments for non-current assets	288,126	305,846
Goodwill	666,215	504,166
Licenses, net	461,075	452,372
Other intangible assets, net	1,155,231	1,222,676
Investments in affiliates	1,266,459	1,108,647
Investments in shares of Svyazinvest	1,390,302	1,390,302
Other investments	-	122,500
Loans to customers and banks, net of current portion	577,339	464,490
Debt issuance costs, net	74,519	80,220
Deferred tax assets, net of current portion	91,255	73,623
Other non-current assets	538,500	465,917
Total non-current assets	<u>15,034,157</u>	<u>13,603,227</u>
<b>TOTAL ASSETS</b>	<u>\$ <u>22,464,187</u></u>	<u><u>20,191,238</u></u>

**SISTEMA JSFC AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET AS AT JUNE 30, 2007 (UNAUDITED) AND DECEMBER 31, 2006**  
*(Amounts in thousands of U.S. dollars)*

	June 30, 2007	December 31, 2006
	<u>2007</u>	<u>2006</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 992,549	868,378
Bank deposits and notes issued, current portion	1,290,057	961,595
Taxes payable	205,365	148,849
Deferred tax liabilities, current portion	85,350	48,885
Subscriber prepayments, current portion	506,119	552,997
Derivative financial instruments	210,316	184,316
Accrued expenses and other current liabilities	1,696,764	988,810
Short-term loans payable	802,529	1,296,778
Current portion of long-term debt	941,169	280,427
Liabilities of the discontinued operations	-	869,534
	<u>6,730,218</u>	<u>6,200,569</u>
<b>LONG-TERM LIABILITIES:</b>		
Long-term debt, net of current portion	5,297,593	5,296,017
Subscriber prepayments, net of current portion	129,054	136,861
Bank deposits and notes issued, net of current portion	69,294	65,200
Deferred tax liabilities, net of current portion	343,026	287,125
Postretirement benefits obligation	16,080	16,391
Deferred revenue	130,759	129,120
	<u>5,985,806</u>	<u>5,930,714</u>
<b>TOTAL LIABILITIES</b>	<u>12,716,024</u>	<u>12,131,283</u>
Minority interests in equity of subsidiaries	3,965,108	3,459,245
Commitments and contingencies		
Puttable shares of SITRONICS	80,000	80,000
<b>SHAREHOLDERS' EQUITY:</b>		
Share capital (9,269,131 and 9,365,757 shares issued and outstanding as of June 30, 2007 and December 31, 2006, respectively, with par value of 90 Russian Rubles)	30,057	30,057
Treasury stock (380,869 shares as of June 30, 2007 and 284,243 shares as of December 31, 2006 with par value of 90 Russian Rubles)	(483,303)	(347,068)
Additional paid-in capital	2,428,971	2,196,475
Retained earnings	3,352,090	2,499,302
Accumulated other comprehensive income	375,240	141,944
	<u>5,703,055</u>	<u>4,520,710</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<u>5,703,055</u>	<u>4,520,710</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>\$ 22,464,187</u>	<u>20,191,238</u>



**SISTEMA JSFC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)**  
*(Amounts in thousands of U.S. dollars)*

	Six months ended June 30, 2007	Six months ended June 30, 2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 877,102	310,078
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	751,489	614,479
Loss on disposals of property, plant and equipment	2,922	1,516
Gain from disposal of discontinued operations	(521,963)	-
Income of discontinued operations	(960)	-
Currency exchange and translation gain from non-operating activities	(63,964)	(788)
Gain recognized on a real estate developed for sale	-	(34,935)
Gain on disposal of interests in subsidiaries and affiliates	(64,570)	(121,600)
Non-cash compensation to employees	97,966	90,778
Minority interests	547,369	344,095
Equity in net income of investees	(139,251)	(158,741)
Deferred income tax expense/(benefit)	2,883	(37,620)
Debt issuance cost amortization	14,167	13,518
Change in fair value of derivative financial instruments	26,500	-
Amortization of connection fees	(44,590)	(45,547)
Provision for doubtful accounts receivable	52,763	59,923
Provision for loan losses	14,286	14,669
Inventory obsolescence expense	27,677	6,185
Changes in operating assets and liabilities, net of effects from purchase of businesses:		
Trading securities	(157,450)	(87,350)
Loans to banks	(136,610)	(356,816)
Accounts receivable	(69,897)	(253,447)
Insurance-related receivables	-	(62,295)
Prepaid expenses, other receivables and other current assets	(144,825)	(111,106)
VAT receivable	45,142	97,555
Inventories and spare parts	(99,447)	(34,912)
Accounts payable	(65,488)	110,640
Insurance-related liabilities	-	180,405
Taxes payable	(96,334)	50,472
Subscriber prepayments	(10,094)	68,338
Accrued expenses and other liabilities	248,871	35,638
Postretirement benefits obligation	(311)	(2,592)
Net cash provided by operations	<u>1,093,383</u>	<u>690,540</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(733,916)	(878,984)
Purchases of intangible assets	(129,886)	(120,667)
Purchases of businesses, net of cash acquired	(386,387)	(394,880)
Proceeds from disposals of interests in subsidiaries and affiliates, net of cash disposed	636,683	65,387
Purchases of long-term investments	(26,318)	(1,679)
Proceeds from sale of long-term investments	20,000	-
Purchases of other non-current assets	(121,006)	(60,878)
Proceeds from sale of other non-current assets	50,000	-
Purchases of short-term investments	(411,338)	(410,336)
Proceeds from sale of short-term investments	47,946	124,910
Proceeds from sale of property, plant and equipment	12,361	2,281
Net increase in loans to customers	<u>(466,288)</u>	<u>(303,966)</u>
Net cash used in investing activities	<u>(1,508,149)</u>	<u>(1,978,812)</u>

**SISTEMA JSFC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)**  
*(Amounts in thousands of U.S. dollars)*

	Six months ended June 30, 2007	Six months ended June 30, 2006
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on short-term borrowings, net	(546,549)	(451,171)
Net increase in deposits from customers	380,000	40,125
Net (decrease)/increase in bank promissory notes issued	(6,218)	36,471
Proceeds from long-term borrowings, net of debt issuance costs	928,457	1,689,676
Principal payments on long-term borrowings	(321,350)	(222,737)
Principal payments on capital lease obligations	(8,021)	(1,610)
Purchases of treasury stock	(136,235)	(50,892)
Proceeds from capital transactions of subsidiaries	<u>356,463</u>	<u>979,343</u>
Net cash provided by financing activities	\$ <u>646,547</u>	<u>2,019,205</u>
Effects of foreign currency translation on cash and cash equivalents	\$ 2,227	788
INCREASE IN CASH AND CASH EQUIVALENTS	\$ 234,008	731,721
CASH AND CASH EQUIVALENTS, beginning of the period	<u>598,381(*)</u>	<u>482,647</u>
CASH AND CASH EQUIVALENTS, end of the period	\$ <u><u>832,389</u></u>	<u><u>1,214,368</u></u>
<b>CASH PAID DURING THE PERIOD FOR:</b>		
Interest	\$ (230,332)	(165,335)
Income taxes	(664,977)	(317,911)
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Property, plant and equipment contributed free of charge	\$ 1,763	-
Equipment acquired through vendor financing	1,281	2,000
Equipment acquired under capital leases	6,454	5,214

(\*) – including cash and cash equivalents of Rosno as of December 31, 2006

**SISTEMA JSFC AND SUBSIDIARIES**  
**SEGMENTAL BREAKDOWN FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)**  
*(Amounts in thousands of U.S. dollars)*

<b>For the six months ended June 30, 2007</b>	<b>Tele- commu- nications</b>	<b>Tech- nology</b>	<b>Banking</b>	<b>Mass Media</b>	<b>Real Estate</b>	<b>Retail</b>	<b>Corporate and Other</b>	<b>Total</b>
Net sales to external customers <sup>(a)</sup>	4,380,876	551,525	165,156	42,980	71,349	192,368	501,695	5,905,949
Intersegment sales	4,511	86,794	8,763	11,198	58,422	15	9,237	178,940
Income from equity affiliates	58,154	16	-	6,715	(74)	-	81,355	146,166
Interest income	23,701	10,744	-	610	12,524	24	35,876	83,479
Interest expense	(101,929)	(28,484)	-	(1,532)	(3,200)	(6,144)	(87,368)	(228,657)
Net interest revenue <sup>(b)</sup>	-	-	17,152	-	-	-	-	17,152
Depreciation and amortization	(691,223)	(27,147)	(2,632)	(6,758)	(6,054)	(3,763)	(13,912)	(751,489)
Operating income	1,584,013	(65,716)	14,520	1,158	(97,057)	(16,076)	(8,535)	1,412,307
Income tax expense	(405,369)	(2,070)	(5,539)	(387)	(10,241)	334	(24,765)	(448,037)
Income/(loss) before minority interests	1,131,923	(75,897)	8,981	(933)	(93,607)	(20,386)	12,407	962,488
Investments in affiliates	339,508	239	-	13,454	2,403	-	924,309	1,279,913
Segment assets	14,224,350	1,709,113	3,289,492	382,345	1,013,538	343,746	4,885,751	25,848,335
Indebtedness <sup>(c)</sup>	3,808,409	424,120	446,892	32,396	363,849	176,160	1,789,465	7,041,291
Capital expenditures	564,406	55,657	59,308	17,963	99,278	43,925	32,763	873,300

<sup>(a)</sup> – Interest income and expenses of the Banking segment are presented as revenues from financial services in the Group’s consolidated financial statements.

<sup>(b)</sup> – The Banking segment derives a majority of its revenue from interest. In addition, management primarily relies on net interest revenue, not the gross revenue and expense amounts, in managing that segment. Therefore, only the net amount is disclosed.

<sup>(c)</sup> – Represents the sum of short-term and long-term debt, including vendor financing, and capital lease obligations

<b>For the six months ended June 30, 2006</b>	<b>Tele- commu- nications</b>	<b>Tech- nology</b>	<b>Banking</b>	<b>Mass Media</b>	<b>Real Estate</b>	<b>Retail</b>	<b>Corporate and Other</b>	<b>Total</b>
Net sales to external customers <sup>(a)</sup>	3,292,847	547,520	73,120	33,397	102,765	117,903	167,865	4,335,417
Intersegment sales	4,505	149,084	14,708	12,181	3,771	19	26,631	210,899
Income from equity affiliates	43,686	16	-	-	-	-	87,421	131,123
Interest income	29,766	3,828	-	97	841	771	10,119	45,422
Interest expense	(100,807)	(16,382)	-	(1,422)	(2,599)	(3,104)	(50,538)	(174,852)
Net interest revenue <sup>(b)</sup>	-	-	13,181	-	-	-	-	13,181
Depreciation and amortization	(575,994)	(18,192)	(1,130)	(7,099)	(1,735)	(891)	(7,218)	(612,259)
Operating income	975,077	62,405	8,620	2,823	42,692	(8,321)	37,792	1,121,088
Income tax expense	(279,658)	(13,515)	(4,894)	(1,728)	(5,294)	274	(29,391)	(334,206)
Income/(loss) before minority interests	628,216	37,064	3,726	(239)	30,662	(9,654)	72,518	762,293
Investments in affiliates	258,019	-	17,749	5,100	-	-	771,289	1,052,157
Segment assets	11,742,137	1,580,357	1,904,791	303,460	393,009	164,693	2,701,704	18,790,151
Indebtedness <sup>(c)</sup>	(3,417,379)	(519,737)	(350,938)	(30,956)	(42,017)	(55,089)	(1,286,861)	(5,702,977)
Capital expenditures	881,182	41,266	3,354	20,642	42,540	8,953	8,928	1,006,865

<sup>(a)</sup> – Interest income and expenses of the Banking segment are presented as revenues from financial services in the Group’s consolidated financial statements.

<sup>(b)</sup> – The Banking segment derives a majority of its revenue from interest. In addition, management primarily relies on net interest revenue, not the gross revenue and expense amounts, in managing that segment. Therefore, only the net amount is disclosed.

<sup>(c)</sup> – Represents the sum of short-term and long-term debt, including vendor financing, and capital lease obligations

## Attachment A

*Non-GAAP financial measures.* This press release includes financial information prepared in accordance with accounting principles generally accepted in the United States of America, or US GAAP, as well as other financial measures referred to as non-GAAP. The non-GAAP financial measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with US GAAP.

*Operating Income Before Depreciation and Amortization (OIBDA) and OIBDA margin.* OIBDA represents operating income before depreciation and amortization. OIBDA margin is defined as OIBDA as a percentage of our net revenues. Our OIBDA may not be similar to OIBDA measures of other companies; is not a measurement under accounting principles generally accepted in the United States and should be considered in addition to, but not as a substitute for, the information contained in our consolidated statement of operations. 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 mobile operators and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under generally accepted accounting principles, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. Our OIBDA calculation is commonly used as one of the bases for investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies within the wireless telecommunications industry. OIBDA can be reconciled to our consolidated statements of operations as follows:

	<b>Jan-June 2007</b>	<b>Jan-June 2006</b>
Operating Income	1,427,901	1,007,099
Depreciation and Amortization	751,489	612,259
<b>OIBDA</b>	<b>2,179,390</b>	<b>1,619,358</b>