



ANNUAL REPORT 2003

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In the present Annual Report, except when the context implies a different interpretation, terms "Sistema", "Sistema, Group of Companies", "we", "us", "our" and other similar terms apply to consolidated business of Sistema and its subsidiaries.

Some statements made in this Annual Report may be related to forecasts and projections concerning forthcoming events, based on assumptions and estimates of Sistema's Executive Directors. Such words, as "expected", "believed", "estimated", "intended", "will be", "could be" or any other similar ones reflect those estimates and forecasts. Those statements reflect a true position taken by the Company. Considering possible risks and unforeseeable circumstances, including changes in the overall business environment, changes in the currency and stock markets, and so on, we wish

1.

Message
from the Executive
Chairman

Dear Colleagues,

Sistema, just as the rest of the Russian business, has come a long way in the past ten years. We grew together with the market. We tried to grow and outpace the market. All these years, we have been developing business in technologically complex industries, building relations with partners, and learning to understand and meet demands of the global market. As I look back at 2003, an anniversary year for the Company, I could probably say I am satisfied with what we have achieved. However, business never stops and always moves forward.

We are operating in a market which is looking increasingly attractive today to investors from around the world, who are keen to get local exposure. Compared to foreign investors, we have a big advantage, since we are already here and have good knowledge of this part of the globe. Our Corporation is one of a very few businesses in Russia that have grown by developing intellectual products and services, rather than by exporting natural resources. Now, in order to take advantage of our strengths, we should make ourselves equally at home in the global market; we should learn and apply its rules and standards, effectively becoming a world-league player. This is particularly important to those who do not intend to keep their business restricted by its present boundaries, nor who can afford to do so for fear of losing to competition.

Ideas-driven industry is still in its infancy. I am certain that this decade will see a booming growth for service industries in Russia, and they of all industries will become guidelines for investors. Growing competition calls for innovations. One needs them to stay in the race and beat the competition. Our nation needs a knowledge-based economy and a society open to innovations. Acting on this conviction, we are building our strategy and setting our priorities, and developing business in the interests of society has always been our top priority. We are working for the future, investing in innovation infrastructure, technological leadership, and building intellectual elite for the nation.

The world is changing at a tremendously fast and ever accelerating pace. We know it too well that, having come a certain way, we are approaching a new beginning. Every step forward broadens our horizons, enables us to assess the situation and our capabilities, and to do something no one else has ever done before. This is our destiny and our hope for the future.

I would like to extend my gratitude to all shareholders, managers, employees, partners, and friends of Sistema for their understanding and contribution to our common success and for staying this course with us. This road has never been straight, not has it been a smooth one, but it is carrying us forward, and it is our conscious choice. We are doing what needs to be done for the nation and millions of our customers, for whom and together with whom we are discovering a world full of new opportunities and ideas.



VLADIMIR YEVTUSHENKOV,
Executive Chairman, Sistema

A handwritten signature in black ink on a light gray background. The signature is stylized and cursive, starting with a large 'V' and ending with a long, sweeping tail.

2.

Message
from the President

Dear Shareholders, Partners and Colleagues,

We worked energetically and consistently throughout 2003 to address the main challenges Sistema is facing today. Among them are, above all, improving our business efficiency and building a balanced portfolio of operating companies. Our financial and operating performance for the year demonstrate that the Company has made a major breakthrough and reached a qualitatively new level in its development. This applies both to business operations and portfolio management per se and to our activities in the capital markets.

We have further bolstered our position in the key service industries. We have achieved this by closing several successful M&A deals, selling our oil assets, actively restructuring our business units and reshuffling our top management. Revitalization of management teams at CSC, MGTS, Sistema Telecom, MTS, and Sistema Mass-Media has provided a strong boost for a more dynamic development in those companies, every one of which has now come to a critical and decisive point in its history.

The sale of oil production assets has enabled Sistema to focus fully on non-resource industries, provided another example of successful implementation of project exit strategy, and given the Company an opportunity to raise additional funds for developing its core businesses.

Although our key performance indicators are still dominated by telecommunications, the year 2003 also saw the beginning of a strong growth in other segments, particularly, in electronics and insurance, that have shown strong dynamics.

This year of our 10th anniversary was also a milestone year for Sistema in terms of its presence in capital markets, where we took a number of significant new steps. In February, we issued Credit Line Notes (CLN) in the amount of \$100mn, in April we became the first Russian holding company to trespass our national borders and tap into the global capital markets by placing a \$350mn Eurobond issue. In January 2004, we placed another successful Eurobond issue in the amount of \$350mn, which allowed us to restructure much of our short-term debt. In so doing, we have employed almost the entire inventory of debt instruments, while continuing to improve our corporate governance and information disclosure practices, getting a credit rating upgrade, and becoming recognized by Euromoney magazine as the “Best Corporate Borrower in Eastern Europe.”

Thanks to steady organic growth across all business units, new acquisitions and MTS consolidation, in 2003 Sistema’s revenues grew by 323%, EBITDA rose by 387%, while aggregate consolidated assets and equity grew by 192%, and 66%, respectively. Looking at these figures, we believe that in 2003 we built a solid foundation for further growth.



YEVGENY NOVITSKY,
President, Sistema



3.

CORPORATE STRUCTURE

TOURISM & FOREIGN ASSETS

SISTEMA INTERNATIONAL INVESTMENT GROUP

Travel services

- Intourist
& subsidiaries
*46 companies in Russia & abroad,
including:*
 - Intourist Saint-Petersburg
 - Intourist Samara
 - Intourist Nakhodka
 - Intouravtoservice
 - Intourist Vladivostok
 - Intourist Petrozavodsk
 - Intourist Omsk
 - Intourist Sakhalin
- Ten Viaggi (*Italy*)
- Intourist Japan (*Japan*)
- Intourist Warsaw (*Poland*)
- Intours Corporation (*Canada*)
- Fram Resource (*Sweden*)

Hotel services

- Intourist Hotel Group

RADIO ENGINEERING

RTI-SISTEMY CONCERN

Radio Engineering

- RTI
- NIIDAR Research
& Production Complex
- RTI-Radio

Instrument Building

- STZ (*Saransk*)
- Radio Tesla Sistema

Infotelecommunication systems

- Vimpel-S
- Okta-Systems (*Republic of Belarus*)

MASS-MEDIA

SISTEMA MASS MEDIA

Printed & Electronic Mass-Media

- Literaturnaya Gazeta
- Metro Newspaper
- Rossiya Public Newspaper
- Rosbalt News Agency
- Radio Centre Concern
- Kosmos TV

Advertising

- Maxima Communications Group
- TV Project
- Metroreklama Group

Press Distribution

- Nasha Pressa Group

Multimedia Services

- Sistema Multimedia

OTHER PROJECTS & COMPANIES

Helicopter manufacturing

- Kamov Holding

Pharmaceutical industry

- Medical Technologies Holding Company
(MTH)

Innovation venture project management

- Sistema Venture

Sports facilities management

- Olympic System

Medical services

- Medsi Holding

Truck assembly

- VTS-Zelenograd

Securities trading, real estate investments

- Ecu-Gest & subsidiaries

Managing company

- Sistema Investments

Leasing

- Invest-Svyaz-Holding

Pension fund

- Sistema Non-State Pension Fund

Charity

- Sistema Charity Fund

TELECOMMUNICATIONS

SISTEMA TELECOM

Wireless telecommunication

- GSM 900/1800 Standard*
- MTS and subsidiaries
- CDMA 2000 Standard*
- SKY LINK
 - P-Com
 - MCC

Fixed-line telecommunications

- Incumbent operators*
- MGTS
- CLEC operators under Comstar United*
- TeleSystems Brand-Name*
 - Comstar
 - MTU-Inform
 - Telmos

Telematics

- MTS-P

Internet & Data Transfer

- MTU-Intel
- Golden Line

Trunking

- Center-Telco
- AMT

Traffic transit

- MTT

Infrastructure

- Metro-Telecom

Engineering

- NTP Intellect-Telecom

ELECTRONICS

CSC

Info-communication systems

- STROM telecom Group of Companies
 - Iskratel (*Novosibirsk*)
 - Tesla Tech (*Prague*)
 - BS Telecom (*Sarajevo*)
- Mediatel

Microelectronics

- NIIME and Mikron
- VZPP-Mikron

Industrial & Consumer Electronics

- Sitronics
- Elaks
- Elion
- NIITM
- Kontsel

INSURANCE

All Insurance Products

- ROSNO
 - Subsidiaries & offices*
 - in all regions*
 - of the Russian Federation*

Obligatory medical insurance

- SK Rosno-MS

Reinsurance

- PK Rosno-Center

Medical services

- American Hospital Group

REAL ESTATE

SISTEMA HALS

Construction

& Real Estate Management

- City Hals
- Hals-Management
- MosDachTrest
- Sistema-Hals North-West
- Organizator

Project Management

- Kuntsevo-Invest
- Landschaft
- Sistema-Temp
- Beijing-Invest
- Corona Intourist Hotel

RETAIL TRADE

DETSKY MIR GROUP OF COMPANIES

Retail trade

- Detsky Mir Center
 - Branches:*
 - Detsky Mir-Golyanovo
 - Detsky Mir-MEGA
 - Detsky Mir-Tambov
- Bauland

Retail trade, retail property management

- Detsky Mir
- Detsky Mir-Orel
- Dom Igrushki

Warehousing

- DM-Baza

Wholesale trade

- Noekoeln

FINANCE

- Moscow Bank
 - for Reconstruction
 - & Development (MBRD)
- East-West United Bank

Board of Directors



Vladimir **YEVTUSHENKOV**,
Executive Chairman of SISTEMA



Dmitry **ZUBOV**
Deputy Executive Chairman of SISTEMA



Vyacheslav **KOPIEV**,
Deputy Executive Chairman of SISTEMA



Yevgeny **NOVITSKY**,
President of SISTEMA



Arkady **VOLSKY**,
*President of the Russian Union of Industrialists
and Entrepreneurs (Employers)*



Alexander **GONCHARUK**,
General Director of CSC



Sergei **DROZDOV**,
*First Vice-President of SISTEMA,
Head of Property Affairs*



Stanislav **YEMELIANOV**,

Full Member of the Russian Academy Of Sciences, Scientific Director of the Institute of System Analysis of the Russian Academy of Sciences, Deputy Academic Secretary of the Department of Information Technologies and Computer Systems of the Russian Academy of Sciences



Mechislav **KLIMOVICH**,

Member of the Board of Directors of SISTEMA



Yevgeny **KURGIN**,

Member of the Board of Directors of SISTEMA



Vladimir **LAGUTIN**,

General Director of SISTEMA TELECOM



Alexander **LEIVIMAN**,

General Director of SISTEMA MASS-MEDIA



Nikolay **MIKHAILOV**,

Member of the Board of Directors of SISTEMA

Executives



Yevgeny NOVITSKY,
President of SISTEMA



Alexey BUYANOV,
*First Vice-President of SISTEMA,
Head of Finance and Investments*



Levan VASADZE,
*First Vice-President of SISTEMA,
Head of Strategy and Development*



Sergei DROZDOV,
*First Vice-President of SISTEMA,
Head of Property Affairs*



Andrei LAPSHOV,
*Acting Senior Vice-President of SISTEMA,
Head of External Communications*



Vyacheslav INOZEMTSEV,
*Head of Internal Audit
and Compliance, SISTEMA*



Vasily PLATOSHIN,
Chief Accountant of SISTEMA

4.

STRATEGY

Sistema's strategy is designed to create companies and turn them into market leaders, achieve long-term growth of shareholder's equity, and develop its business responsibly in the interests of society. The Corporation sets for itself strategic qualitative and quantitative objectives.

QUALITATIVE OBJECTIVES:

- Business portfolio diversification;
- Ensuring steady cash flow from business operations;
- Financial stability;
- Capturing leading positions in key markets; and
- Achieving high level of corporate governance and culture.

CRITERIA BASE

In order to achieve diversification and determine a long-term composition of its business portfolio, in 2002 the Corporation adopted a Criteria Base for business units aimed at their broad-based consolidation. Criteria Base comprises a set of criteria to be met by Sistema's business units in the short-term (2004) and in the medium-term perspective (till the end of 2006).

STRATEGIC BUSINESS AREAS

The year 2003 was for Sistema's companies the last year before the first "reference point" of the criteria base. Following a comprehensive analysis of its performance results in 2003, the Corporation identified four strategic business areas – telecommunications, insurance, electronics and real estate – and areas with a high growth potential, namely retail trade in children's goods and finance. Sistema is focusing its financial and managerial resources on developing these business areas to make sure they meet the following strategic objectives:

Telecommunications	<ul style="list-style-type: none"> – Mobile communications: Insuring the best possible conditions for the growth of MTS' market capitalization; – Incumbent fixed-line operators: Conducting an IPO for MGTS to raise funds for the company's development, network upgrade and the introduction of new services. – Alternative (CLEC) fixed-line operators: Consolidation of the assets under the single Comstar United Telesystems' brand name; – Internet and digital services: Expanding operations in the country's regions and conducting an IPO in the Russian market; – Geographic reach: Moscow and the Central Region with selective expansion into Russia's regions and other CIS and East European countries.
Insurance	Securing position of a leading insurance company in all insurance classes in Russia and conducting an IPO for ROSNO before 2007 in cooperation with Allianz AG.

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Insurance	Securing position of a leading insurance company in all insurance classes in Russia and conducting an IPO for ROSNO before 2007 in cooperation with Allianz AG.
Electronics	Bolstering CSC's positions as a leading Russian integrated circuit manufacturer, developing Sitronics, an umbrella brand name for consumer electronics, and reinforcing its leading positions in the Russian telecommunications equipment market; launching an IPO on the Russian stock exchange.
Real Estate	Building up a development company to be a leader in the Russian market by putting together and managing a diversified and balanced portfolio of assets consisting both of short-term speculative projects and long-term lease projects
Retail Trade	Bolstering its leading position in the retail market for children's goods.
Finance	Increasing market capitalization by building a strategic and financial partnership.

All remaining business units are left to do their own financing, cost-cutting, and search for strategic investors. Depending on their results, the best performers could be given the status of strategic business units.

In compliance with its strategy, Sistema is continuing an active search for opportunities in entirely new industries, mulling participation in large high-return businesses, developing promising venture projects, mostly in high-tech industries and innovations, and making short-term highly profitable investments as well.

FINANCIAL STRATEGY

The Corporation's financial strategy is based on the following key principles:

– **Transparency**

Sistema has been preparing consolidated audited US GAAP reports on an annual basis since 1997. In 2003, the Company switched to the semi-annual reporting format with auditors' opinions, and makes public disclosure of information to the investors' community. Sistema's other companies, including MTS and ROSNO, prepare IFRS financials as well.

– **Best Use of Capital Markets**

Sistema actively taps into international capital markets to finance its operations, enabling it to optimize its finance structure. The Company steadily broadens

the geographic diversity of its international investor base and actively cooperates with major rating agencies to maintain and improve its credit ratings.

– Consolidated Debt Management

Sistema pays much attention to its debt portfolio and its management, focusing, in particular, on the size and currency of its borrowings, as well as on maturity and security. The Company tightly monitors its consolidated debt level. Its subsidiaries' own general borrowing plans have to be approved by the Budget Commission, while each individual borrowing must be endorsed by the Finance and Investment Committee.

– Multipurpose Approach to Budgeting

Sistema applies a “bottom-up” corporate budgeting approach. Each business unit prepares its annual budget which is then submitted for endorsement by the Budget Commission. Besides, all investments to be made in accordance with business plans have to be approved by the Finance and Investment Committee. The Company keeps close track of its business units' performance to gauge their compliance with the strategic objectives set by the Company. In 2004-2005, the Company plans to introduce an automated budgeting system for all business units.

– Investment Project Financing Priorities

In drafting its investment plan, Sistema gives priority to strategic business units' projects that can insure that the Criteria Base objectives are met in the fastest way possible. As regards other business units, they are encouraged to self-finance their operations and search for strategic and financial investors.

5.

CORPORATE GOVERNANCE

Sistema actively raises funds in capital markets, cooperates with Russian and international business partners and holds interest in publicly traded companies. We regard transparency and compliance with corporate governance principles as a key factor for improving the efficiency of our business and successful cooperation with investors and counterparties. The Corporation follows quite closely both international recommendations of “best corporate governance” and rules of the Russian Code of Corporate Governance.

In 2003, Sistema continued efforts to improve its corporate governance and information disclosure practice. In particular, it adopted a semiannual US GAAP reporting format. International Advisory Council (IAC) was set up under its Board of Directors. The Company established a Corporate Governance Committee, Investor Relations Department, and an office of Corporate Secretary. We consistently integrate international and Russian standards into our business practice, and develop corporate standards and procedures to improve corporate governance, and strive to promote good corporate governance practice in our subsidiaries. According to Standard & Poor's, MTS (NYSE MBT), where we hold a controlling stake, has the highest corporate governance rating among Russian companies (Corporate Governance Rating 7+, July 2004).

We regard transparency and compliance with corporate governance principles as a key factor for improving the efficiency of our business and successful cooperation with investors and counterparties.

MANAGEMENT STRUCTURE

The quality of corporate governance in a company depends, above all, on the effective functioning of its Board of Directors. Sistema's Board of Directors is empowered to approve development strategies for the Corporation and its business units, endorse financial and business plans, the Corporation's budget and organizational structure, terms of a contract with the President, appointment of top managers. It decides on the sale or purchase of securities, develops management techniques and deals with other vital issues. The Board of Directors plays a key role in enforcing the rights and safeguarding the interests of the Corporation's shareholders, investors, counterparties and other interested parties, and in ensuring disclosure of information about the Corporation's operations. The Board of Directors' jurisdiction is set out in the Corporation's Articles of Association. Decision-making process, rights, duties and responsibilities of the Board of Directors' members are defined in the Provision on Board of Directors and Rules.

The Board of Directors' activities are carried out on a pre-planned basis, with meetings being held twice a month. Committees set up by the Board of Directors

conduct preliminary review of more important issues. At the moment, the Company has three up and running committees, namely Development Strategy Committee, Rewards and Appointments Committee and Corporate Governance Committee. Audit Committee is planned to be established in 2004. By applying advanced organizational techniques and methods in its work, the Board of Directors can insure that its resolutions are drafted and adopted in the most efficient way. Presence of independent directors on the Board contributes to a greater validity and credibility of the decisions taken by the Board of Directors.

In 2003, the Board of Directors established International Advisory Council (IAC), comprising independent experts, including representatives of the Russian and international business community. Independent examinations and consultations on key strategic issues provided by the IAC also help make decisions more well-grounded and efficient and go a long way in promoting international corporate governance experience in the Company's business practice.

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Russian and international standards place a lot of emphasis on the development of decision-making and internal control procedures. Sistema's Board of Directors drafted and approved documents establishing a methodological, regulatory and legal basis for management decision-making. Among more significant documents are rules for long-term and annual budgeting, financial planning and financial accounting; incentivization arrangements for employees and management; risk management provisions; and a set of corporate rules and methods of audit procedures for the Internal Audit and Compliance Department. Enforcement of strict compliance with corporate behavior rules and procedures established by law and adopted by the Company falls under the corporate secretary's responsibility.

President of Sistema is in charge of the Corporation's day-to-day operations, acting as its sole executive body. The President is appointed to, and dismissed from his office, by the Corporation's Board of Directors, to which he reports. Among other responsibilities, the President submits to the Board of Directors quarterly and annual reports on the Corporation's performance accompanied by his own comments and corresponding financial documents.

Annual Report for Sistema's shareholders is prepared in strict conformity with the requirements of Directive No. 17/ps issued by the Federal Securities Market Commission of the Russian Federation. Apart from that, shareholders receive additional information, as required by law.

Sistema's Internal Audit and Compliance Department (IACD) oversees the Corporation's financial and business activities, compliance with rules and regulations, as required by law, Articles of Association and internal documents. IACD's Head is appointed and dismissed by the President's order on the basis of a decision taken by Sistema's Board of Directors.

INFORMATION DISCLOSURE

As regards the level of information disclosure, Sistema is ranked as one of the most transparent companies in the Russian Federation. The Corporation publishes a vast amount of information about itself and its operations, announces most important facts and events, develops communications with the investment community and mass-media and seeks to provide prompt and equal access to information which is subject to disclosure to all interested audiences. In 2002, Sistema was one of Russia's first companies to disclose the structure of its shareholders' equity, even though the Corporation's shares are not listed on the stock market, since the controlling stake in Sistema is held by one individual and most of its 11 shareholders are the Company's managers.

Sistema seeks to provide prompt and equal access to information which is subject to disclosure to all interested audiences.

The Corporation employs all available channels to disclose information about its business, with the corporate Web site (www.sistema.ru) serving as the main channel of information disclosure. In 2003, the Corporation created a new corporate Web-page that offers more advanced functional and interactive features. The site contains information about the Corporation's history and development strategy, members of its Board of Directors and managers, asset structure and key companies. It regularly posts financial results and business news on both Sistema and its subsidiaries, key appointment announcements, the Corporation's involvement in high-profile public events and projects and other information. The Corporation places a lot of emphasis on continued site development and strives to make sure that it takes into consideration interests of all parties concerned in terms of content and user-friendliness. In 2003, the number of Sistema's site visitors grew by more than 50%, with more than 1,000 Web users from many countries of the world visiting the site every day.

Sistema attaches great importance to developing effective communications with the investment community. In 2003, it created Investor Relations Department, which was charged with providing essential information about the Corporation's financial and business operations to investors, creditors, analysts, financial media, and other interested parties.

Press conferences for Russian and foreign mass-media, teleconferences for investors and analysts, and presentations for investors at major international financial centers are all considered important information disclosure channels.

In 2003, the Corporation adopted the semiannual US GAAP reporting format. Sistema has been preparing consolidated US GAAP financial accounts for six years, and it has been regularly disclosing them to the investment community since 2003. Consolidated statements are audited by an internationally recognized auditor.

At present, the Corporation is preparing a White Book for publication, containing basic information about Sistema. The White Book, to be published every year from now onwards, will provide information about the Corporation's operational goals and objectives, its structure and governing bodies, functions of its core units, information about its core businesses and major companies, its mission and development strategy, as well as main internal documents.

OBJECTIVES

Improving corporate governance is a key strategic task which Sistema sets for itself. We consider that our duty is not only to improve corporate governance in our own Corporation, but also to promote it among Russian businesses. In 2003, Vladimir Yevtushenkov, Executive Chairman of Sistema, joined the National Corporate Governance Council (NCGC). In 2004, Sistema joined and is now actively supporting initiatives by the Russian Institute of Directors (RID), a nonprofit partnership. The Corporation's spokespeople participate in public debates and initiatives related to corporate governance.

At the beginning of 2004, Sistema's Board of Directors approved an action plan, stipulating the creation of an internal Code of Corporate Behavior, which is being drafted at the present moment. The Code is scheduled to be approved in summer 2004, and the Corporation's Articles of Association and internal documents are to be brought in line with the approved Code by year's end.

Improving corporate governance is a key strategic task which Sistema sets itself.

The Code will contain obligations in the area of corporate relations, to be assumed voluntarily in addition to those required by law. The Code is designed to insure that rights and legitimate interests of shareholders and other interested parties are met in the Corporation's business activities; insure transparency of information; create an environment of openness, trust and cooperation in relationships between the Corporation and its shareholders, managers, investors, employees, counterparties and other concerned parties.

The Code's text will be posted on the corporate Web-page, published as a brochure and will be made available to all interested parties.

6.

CORPORATE
SOCIAL
RESPONSIBILITY

Responsible business development in society's interests is a key principle to which Sistema has always been anxious to adhere most fully. Development of society in which business is playing an increasingly important role today requires a company to be responsible all aspects of its activities, including the quality of its products and management decisions, fulfillment of obligations to its customers, partners, and employees, socially active position and involvement in socially significant projects.

Our understanding of corporate citizenship and our main social programs are based on technological leadership and aimed at creating a new quality of life.

Our main objective, as we see it, is to contribute to moving the Russian economy from a resource-based to a service-based model. Being aware that the strategic competitive advantage of the Russian economy at the global level lies in services, we recognize our responsibility for developing service industries and innovation projects. We put all possible resources into such development programs, invest in science and education, innovation infrastructure, promotion of new technologies and personnel training.

Sistema shares international principles of sustainable development and corporate social responsibility (CSR) and integrates them into its business practices. We reaffirmed our adherence to these principles and conscious desire to meet society's expectations in 2002, when we became one of the first companies in Russia to sign the Global Compact of the United Nations (UN-GC). In 2003, Sistema, a pioneer in the Russian market, joined the World Business Council for Sustainable Development (WBCSD). As other WBCSD members, we are keen to maintain a high level of transparency and responsibility of our business, because each civilized corporation must measure its interests against those of society.

We understand the Corporation's social responsibility as the primacy of social, legal, ethical, and civil norms. We accept these principles and strive to follow them in our business practices by developing, introducing and promoting corresponding procedures, structures and processes. When we make decisions on key issues, we take into account recommendations of our International Advisory Council (IAC), which comprises many renowned members of the business community. We seek to improve our business practice and to give more consideration to socially significant aspects of our activities and the Company's responsibility toward all interested parties. IAC expertise and support is vital to us, not least from the standpoint of corporate social responsibility standards.

Sistema is also guided by the principles of social responsibility in developing its human resources policy, making investments in social projects and initiating and supporting various humanitarian initiatives.

HUMAN RESOURCE POLICY

Sistema pursues an effective HR policy based on recognition of its responsibility with regard to personnel development and its obligation to harmonize interests of the Corporation and those of its employees.

Sistema's companies employ over 70,000 people. The Corporation's HR policy is aimed at insuring the highest degree of conformity between employees' personal qualities and competences and their job responsibilities, creating favorable working conditions and offering equitable remuneration, providing opportunities for career growth and giving employees an essential sense of confidence about their future. Personnel development programs comprise training and skill improvement, incentive pay arrangements, medical insurance, non-government pension policies, catering and recreational programs, corporate communications and events.

Every year, the Corporation's companies organize evaluation interviews to improve employee incentivization, identify existing problems and professional growth opportunities. Based on interviews' results, employees receive bonuses or recommendations regarding their performance. They can be advised to attend advanced training courses or placed in reserve for perspective promotion or rotation. Every year, Sistema recognizes its best workers with gold and silver badges. In 2003, the Corporation awarded such badges to 66 employees.

Employee training, skill improvement and retraining plan takes into account the Corporation's strategic and current objectives and the needs of its structural units. The plan is updated and approved by Sistema's President every half-year. As required by the plan, specialized workshops on financial, economic, legal, human resources, and other issues are held every month for managers and professionals of the Corporation's central office and subsidiaries. Every year, field training sessions are arranged for top managers. All in all, 84 mid-level managers received training, as part of the presidential management training program, and 25 of them completed internships in other countries (US, Germany, Japan, the Netherlands and others). 7 employees started their training in 2003, while 12 people finished their continued education program in the academic year 2002-2003. In Spring 2004, 21 more employees joined the program. Sistema's Methodology and Training Center and training centers at MGTS, MTS, ROSNO, and NIIME & Mikron all play a major role in skill improvement and professional growth of the Corporation's employees. Those centers provide education and advanced training courses to over 14,000 employees every year.

In 2003, the Company set up a database of prospective replacements and a database of high-performing professionals with MBA Degrees in order to improve its staff recruitment activities. Every candidate goes through an interview, a set of meetings and tests conducted with the use of expert systems. In 2003, Sistema entered into a cooperation agreement with the British Council's Alumni Club. Young would-be professionals are sent to receive special education at leading universities and colleges in Moscow. These targeted programs help meet all needs in trained staff experienced by the Corporation's companies.

Internal communications play a key role in developing corporate culture. They include corporate publications, social, holiday-related and sports events, such as regularly held summer and winter games and various sports competitions.

SOCIAL INVESTMENT.

EDUCATION AND INNOVATION INFRASTRUCTURE

Education and innovation programs are important areas of Sistema's social activities. We regard support for education, science, and innovations as a task of national significance and our top priority in the social field. For us it means making social investments with the purpose of creating innovation-friendly environment which is vital for the progress of business and society.

In 1998, Sistema launched its scholarship program for post- and undergraduate students of leading Russian universities and colleges. In the academic year 2002/2003, the amount of a monthly scholarship was 1,500 rubles. In addition, the Corporation undertakes to provide Sistema scholars with jobs in its companies. In the second half of the academic year 2002/2003, the Corporation's scholarships were granted to 37 students, while another 31 students became Sistema scholars in the first semester of the academic year 2003/2004. Since the inception of the Scholarship Program, Sistema's grants have been received by a total of 84 under- and postgraduate students of the Moscow State University, Moscow State Institute of International Relations, Moscow Institute of Physics and Technology, Bauman Moscow State Technological University, Financial Academy, Higher School of Economics, Moscow Technical University of Communications and Informatics, Moscow State Institute of Electronic Technology in Zelenograd, State University for Humanities, Plekhanov Russian Academy of Economics and several other institutions. At the moment, 56 former scholarship students are working in the Holding's Companies.

All of Sistema's core companies use various ways of cooperating with universities. Executives and professionals from Sistema's companies give lectures at corresponding universities and institutes and actively participate in the work of their citizen boards. Sistema President Yevgeny Novitsky, for example, is the Chairman of the Board of Trustees at Bauman Moscow State Technological University.

In 2004, Sistema served as a general partner at the 250th-anniversary celebrations of the Moscow State University. The Corporation will contribute to research, scientific and educative programs, as well as to renovation and restoration of the Moscow State University's facilities. By supporting the Moscow State University in implementing its grandiose anniversary plans, we hope that it will become a new milestone in the partnership we have cultivated for many years.

We are successfully developing cooperation with other leading Russian research and education centers. In 2004, Sistema entered into a three-party agreement with the Bauman Moscow State Technological University and the Russian Academy of Sciences' Institute of Radio Engineering and Electronics, and signed an agreement with the Moscow Institute of Physics and Technology. Both agreements are designed to develop innovation infrastructure and implement promising knowledge-intensive projects.

Another milestone event of the last year was Sistema's participation, as a General Partner, in the third annual Russian Innovations Competition arranged with the assistance of the Ministry of Education and Science and the Ministry of Nuclear Energy of the Russian Federation, with mass-media coverage provided

by Expert magazine. During its three-year history, the competition has attracted over 1,300 projects and become a significant event for the academic and business communities and a unique venue for innovation policy promotion in Russia.

In 2004, Sistema signed an agreement to build Sistema-Sarov technopark to be managed jointly with federal state unitary enterprise FGUP Russian Federal Nuclear Center-Russian Research Institute of Experimental Physics. It has become a major event in implementing the Corporation's aggressive innovation policy. Another decision was made recently to create a corporate technopark within the next few years, based on RTI-Sistema Concern (NIIDAR).

By investing in the ideas-driven industry today, we lay the foundation for high-tech business which forms the core of our long-term strategy. In so doing, we act in the interests of the entire society which cannot develop in a well-balanced and well-rounded way without innovation environment and infrastructure.

HUMANITARIAN PROJECTS. CHARITY

Charity is one of the most visible and widely used aspects of social responsibility. Support for national culture and aid to vulnerable segments of the population are our top priorities in this area.

Culture and Arts. In 2003, Sistema launched its biggest ever culture project, a 10-year program of cooperation with the State Russian Museum in St. Petersburg, which involves MTS, Intourist, ROSNO, and several other companies.

Under this cooperation program, Sistema's companies will, in the years 2004 to 2014, support the Russian Museum by providing direct financing and services, \$10mn in total, to enable the Museum to complete several long-term projects in Russia and abroad. Specifically, Sistema became General Sponsor of Virtual World of Art Museums Program. In 2003 and early 2004, the Corporation's companies helped the Museum to set up its virtual branches in Nizhny Novgorod, Saratov and Samara. In March 2004, Vladimir Yevtushenkov, Executive Chairman of Sistema, was elected Chairman of the Board of Trustees of the Russian Museum's Development Foundation.

In addition, the Corporation supports other museums and runs programs in music culture, rejuvenation of classical music and projects related to restoration of cultural and architectural monuments. For several years, Sistema has been supporting the Mariinsky Theater in St. Petersburg and cooperating with Nikolai Petrov's International Charity Foundation and the Meyerhold Charity Foundation. We sponsor annual mainstream festivals and Earlymusic baroque music concerts, Benois de la Danse international ballet competition and several other cultural events. Sistema marked its 10th-anniversary in business by arranging a charity event called "Day of Open Museums" in partnership with Moscow's best museums.

In 2003, Sistema became an official partner of the 300th anniversary celebrations of the city of St. Petersburg. With the Corporation's participation and support, XII Easter Festival was held in St. Petersburg, along with the Mariinsky Theater's opera, ballet, and concert programs, and concerts by leading solo performers and

symphony orchestras in the Philharmonic's Grand Hall. Sistema lent its support to more than 70 charity concerts of choral church music in St. Petersburg's museum cathedrals, such as St. Isaac's Cathedral, Peter and Paul Cathedral, Peter and Paul Fortress, Smolny and Samsonievsky Cathedrals, and to several other cultural events intended to preserve the traditions of Russian choral singing and church music.

At the end of the Best International Project competition arranged in 2003 on St. Petersburg City Hall's initiative, Sistema was distinguished with Highest Award and a special prize in two nominations, "Best Renovation and Construction Project," for renovation and restoration of a unique architectural specimen of palace architecture (Italian Street, 8), and "Best Cultural Project," for arranging and hosting a music festival called "300 Years of Church Music Tradition in St. Petersburg," held within the framework of the XII Easter Festival.

Restoration of masterpieces of Russian Orthodox architecture has always been high on the Corporation's priority list. In its assistance to the Russian Orthodox Church, the Corporation tries to support small, remote churches and cloisters, as well as large and famous cathedrals. In Yekaterinburg, Sistema is involved in the construction of Memorial Cathedral on the Blood Consecrated to All the Saints Who Shone Forth in the Russian Land, and in restoration of the Church of Holy Trinity in Ivangorod. The Corporation provides assistance to "Dawn" Orthodox orphanage for girls, maintained by the Vladimir diocese, and provides education grants to students of the Moscow Theological Academy.

Social Security. Similarly, Sistema uses every opportunity to give support and assistance to vulnerable segments of the population, primarily, orphans. For many years, we have been helping Sanatorium-Orphanage #39 in Pushkino, which has 100 orphaned children in its permanent custody. In 2003, Sistema donated 1mn rubles to the orphanage, which helped build a sports ground for children of different age groups. It also provides regular support to a private family boarding house, which turned five years old in late 2003. We also support an Orthodox orphanage in Raduzhny Township, Vladimir Region, which looks after 40 children left without parental care. The Corporation is helping to build classrooms and workshops for painting, knitting, embroidery, and other traditional folk handicrafts.

The Corporation is a general partner of the international Philanthropist Award, a unique award for excellence in culture and arts that is given to physically handicapped but artistically gifted people. The Award was instituted in 1997 by the All-Russian Society of the Disabled and the Philanthropist Foundation, which has many years of experience in creative rehabilitation of disabled people. In the past four years, nationals of 25 countries were nominated for the Award. This project gives governmental and public organizations in many countries another chance to bring disability problems into focus, and to step up and coordinate their efforts in resolving them. The project has gained support from UNESCO, the European Commission, the Russian Federation Presidential Administration, Federal Government of the Russian Federation, Ministry of Culture and Mass Communications, Moscow City Government, the Prefecture of Moscow's Central Administrative District, and the All-Russian Society of the Disabled.

Sistema and its companies also help people affected by emergencies, veterans, and other socially vulnerable segments of the population by supporting relevant initiatives and projects.

SISTEMA CHARITY FOUNDATION

In 2003, Sistema and its companies carried out enormous groundwork which led to the establishment by Sistema and its Group Companies of a single Charity Foundation in 2004. Foundation's strategic priorities in charity activities are endorsed and reviewed by the Foundation's Council headed by Vladimir Yevtushenkov, Executive Chairman of Sistema. By pooling their efforts and resources, the Corporation's companies will be able to act with greater coordination and efficiency within the framework of a common strategy. Foundation's experts will review requests and projects and provide their expert opinion. We are confident that transparent, sensible, well-thought out and well-structured projects under Sistema's brand name will win trust and attract interest, not least on the part of our international partners.

We take a responsible approach to business development and have a vested interest in setting high social responsibility standards in the Russian business community, since we hold social responsibility to be one of the highest priorities of today's business world.

Sistema's representatives take an active part in studies and public debates on the issue of corporate social responsibility. It allows us to be aware of public expectations and take them into consideration in our operations. In 2004, Sistema joined the Presidium of the Committee on Human Resources and Committee on Corporate Social Responsibility of the Russian Managers Association (RMA), along with other companies that are most active in implementing their personnel strategies, social policies, and corporate social responsibility practices on a large-scale basis. RMA is behind extensive studies, which are being currently conducted for the Report on Social Investments in Russia. We, too, are involved in those studies, since we want principles of corporate social responsibility to be embraced by market participants and integrated into their daily practices.

We take a responsible approach to business development and have a vested interest in setting high social responsibility standards in the Russian business community, since we hold social responsibility to be one of the highest priorities of today's business world, that considers itself an active and responsible member of society.

7.

2003 RESULTS

Key Financial Results

Sistema is Russia's biggest private non-resource corporation established in 1993. Today, the Corporation owns and actively manages a diversified portfolio of investments in various sectors of the country's economy, such as telecommunications (MTS, MGTS, Comstar United Telesystems, etc.), electronics (NIIME & Mikron Plant, STROM Telecom, Sitronics, etc.), insurance (ROSNO), real estate (Sistema-Hals), retail trade (Detsky Mir), tourism (Intourist), finance (MBRR Commercial Bank), and so on.

For more details, visit Sistema's site at: www.sistema.ru

In 2003, Sistema reinforced its positions in all key business segments and achieved significant growth in all main financial indicators.

In 2003, Sistema reinforced its positions in all key business segments and achieved significant growth in all main financial indicators. Having completed several M&A transactions and having made our entry into capital markets, we have further bolstered our position in key service industries. Today, we are in the lead in mobile and fixed-line telecommunications, insurance, electronics and real estate. We have operating control over major companies in these fast-growing sectors and consolidate them in our balance sheet.

Robust organic growth across all business units in 2003, new acquisitions and consolidation of MTS contributed to 323% growth in revenues to \$3.76bn. Adjusted EBITDA¹ rose by 387%, reaching \$1.8bn, earnings shot up by 133% to \$387mn. Sistema's total consolidated assets grew by 192% in 2003 to \$6.84bn, while its equity increased by 66% to \$989mn.

(in USD mn)	2003	2002	Growth
Revenues	3,759.9	889.5	323%
Net profit	387.0	166.0	133%
Margin	10.3%	18.7%	–
Adjusted EBITDA	1,799.4	369.6	387%
Margin	47.9%	41.6%	–
Total assets	6,839.8	2,343.2	192%
Total liabilities	2,722.4	602.9	352%
Minority shareholders' interest	1,356.6	388.1	250%
Equity	989.3	594.8	66%

¹ Note: Adjusted EBITDA includes the minority shareholders' interest.

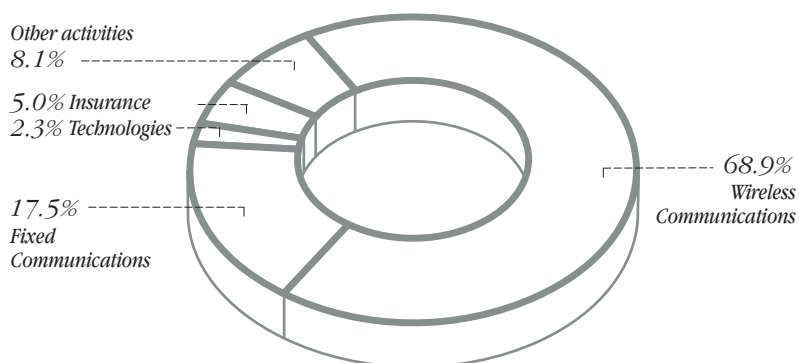
Sistema's operating segments comprise such segments as Telecommunications, Technologies, Insurance, Finance and Securities,² and others. 2003 data for each segment is shown against similar data included in the 2002 consolidated Financial Statements, as follows:

For the year ended December 31, 2003						
	Telecommunications	Technology	Insurance	Finance and Securities	Corporate and Other	Total
Net sales to external customers	3,246,813	57,609	169,569	47,192	238,732	3,759,915
Intersegment sales	755	28,333	18,360	10,321	10,926	68,695
Income/(loss) from equity affiliates	439	–	(509)	490	45	465
Interest income	22,834	–	–	–	6,634	29,468
Interest expense	(161,911)	(2,772)	–	–	(41,719)	(206,402)
Net interest revenue	–	–	–	2,697	–	2,697
Depreciation and amortization	(506,644)	(2,862)	(3,115)	(620)	(7,735)	(520,976)
Goodwill impairment	(19,251)	–	–	–	–	(19,251)
Operating income/(loss)	1,103,282	(3,348)	17,111	2,567	(16,131)	1,103,481
Income tax expense	(293,983)	1,571	(3,858)	(3,116)	8,453	(290,933)
Income/(loss) from continuing operations before minority interests and cumulative effect of a change in accounting principle	671,833	(3,446)	9,079	7,570	(52,437)	632,599
Investments in affiliated companies	56,298	666	–	3,875	21,665	82,504
Segment assets	5,252,191	103,568	239,273	595,516	651,718	6,842,266
Capital expenditures	1,152,216	9,209	7,310	2,994	41,160	1,212,889

323% growth in revenues in 2003 is largely attributed to the MTS consolidation, whose share in total growth amounted to \$2,638.2mn. Other growth factors included acquisition of Comstar and consolidation of RTI-Sistemy Concern (\$66.5mn and \$29.1mn, respectively). Organic revenue growth was fueled by an increase in revenues from Telecommunications (aside from MTS and Comstar) by \$122.3mn, Insurance by \$47.2mn, Electronics by \$14.6mn, Finance and Securities by \$20.9mn and the other business units (aside from RTI-Sistemy Concern) by \$39.4mn.

Telecommunications segment was the biggest contributor to the total performance results, with its share in the aggregate revenues having grown to 86.4% in 2003 from 53.4% in 2002, largely on the back of MTS' consolidation. MGTS posted the highest organic growth in this segment, with its top line going up by \$80mn, or 26.6% y-o-y, mostly because of tariff hikes for residential users and public institutions which took place in November, 2002 and June, 2003.

² "Real Estate" figures appear under the "Other" category in the 2003 Financial Statements.

2003 Revenues Structure

Consolidated Revenues – \$3,760 mn

Sistema's Insurance business continues to move ahead in cooperation with Allianz AG, a global leader in the insurance market. Revenues generated by the Insurance business rose by 33.5% y-o-y in response to the introduction of new insurance products (for example, third-party motor insurance) and expansion of its customer base. Finance and Securities registered a 57.1% growth in volume of operations, which reached \$57.5mn.

Adjusted EBITDA margin grew to 47.9% of revenues in 2003 from 41.6% in 2002. Adjusted EBITDA shot up by 387%, to \$1,799.4mn, from \$369.6mn in 2002.

Similarly, net profit margin shrank from 18.7% to 10.3% in the reporting period. The drop was largely caused by changes in the accounting policy for MTS, which resulted in growth in the minority interest, interest payable and effective tax rate.

In June 2004, Sistema's AGM approved dividend payout for 2003 in the amount of RUR 18.5 (\$0.64) per share. Total dividend payouts will amount to RUR 149.85mn (\$5.17mn), which accounts for nearly 1.3% of Sistema's US GAAP consolidated net profit.

FY03 AND 1H04 OPERATING RESULTS

From the operating standpoint, the reporting year was dominated by mergers and acquisitions, and transactions in capital markets. In April, Sistema became the first Russian Holding Company to enter the Eurobond market. The Company successfully placed a five-year \$350mn Eurobond issue with a 10.25% coupon. Proceeds from the issue enabled Sistema to exercise its call option with T-Mobile to purchase additional 10% of MTS shares for a total of \$371mn (including transaction costs). This purchase allowed us to bring our stake to a controlling level and consolidate MTS' results in Sistema's financial reports. This transaction was a success from the financial viewpoint as well.

In December 2002 and February 2003, Sistema sold 100% of its voting shares in Kedr-M financial industrial company, a chain of 30 gas stations in Moscow, to a third party for a total of \$45mn. In December 2003, we sold all our assets in oil companies to a third party for \$308.4mn. The sale of oil production assets allowed Sistema to raise additional funds for its core businesses.

In November, we purchased 50% of Comstar shares and 50% of Kosmos-TV in a \$35mn transaction, which allowed Sistema to bring the size of its voting stake in Comstar to 100% and consolidate Comstar's financial results in its consolidated reports. The purchase was aimed at consolidating the Corporation's assets and eliminating competition within the segment, thus becoming an important step towards unification of CLEC operators. In May 2004, Sistema announced that CLEC fixed operators Comstar, MTU-Inform and Telmos will be merged into a single operator under a new brand name, Comstar United Telesystems.

In January 2004, Sistema succeeded in repeating its past success in international debt markets by issuing seven-year \$350mn bonds with a three-year offer and 8.875% yield. As a result, Sistema could restructure a significant portion of its short-term debt, including credit line notes (CLN) in the amount of 100mn, maturing in February 2004.

RATINGS

On November 19, Moody's rating agency awarded a B1 long-term credit rating to Sistema, citing such positive factors as the Company's large assets, positive operating experience, strong growth prospects and strong consolidated cash flows. On March 9, 2004, Standard & Poor's upgraded Sistema's rating from B- to B against the background of improving liquidity and large asset portfolio in telecommunications.

At the date of this Report, Sistema and its subsidiaries had the following credit ratings:

Issuer	Rating agency	Rating date	Long-term debt rating	Forecast
Sistema	Standard & Poor's	March 9, 2004	B	Stable
Sistema	Fitch	January 15, 2004	B	Stable
Sistema	Moody's	November 19, 2003	B1	Stable
MTS	Standard & Poor's	April 28, 2004	BB-	Stable
MTS	Moody's	December 10, 2001	Ba3	Stable
MGTS	Standard & Poor's	March 9, 2004	B	Stable
MBRR	Fitch	February 16, 2004	B-	Stable

In June 2004, Euromoney journal recognized Sistema's achievements in its efforts toward greater transparency and openness in relations with existing and potential investors and named it Best Corporate Borrower in Eastern Europe based on its 2H03/1H04 performance.

GROWTH SOURCES AND NEW OPPORTUNITIES

Russian Federation is our main business area. Accordingly, our performance is influenced significantly by macroeconomic trends and risks specific to Russia today. Over the last few years, Russia has succeeded in overcoming the consequences of the financial crisis in 1998 and moving ahead toward economic liberalization and stabilization. Below are Russian Federation's key macroeconomic indicators that had a strong impact on our operations:

	2002	2003
GDP growth	4.3%	7.3%
Consumer Price Index	15.1%	12.0%
Unemployment Rate	7.1%	8.9%
Nominal exchange rate (Ruble/USD) ⁽¹⁾	31.4	30.6
Real appreciation of Ruble against USD ⁽²⁾	9.2%	20.9%

Sources: Central Bank of the Russian Federation, State Statistics Committee of the Russian Federation, Economist Intelligence Unit (EIU), Ministry of Economic Development and Trade of the Russian Federation.

⁽¹⁾ Simple average of exchange rates on the last business day of each full month during the respective period.

⁽²⁾ Real appreciation of Ruble against US dollar is calculated on the basis of the Consumer Price Index adjusted for changes in the nominal exchange rate for the same period.

Russia's GDP continues to grow at a relatively high rate in comparison with that of North America and Europe. The Russian economy has been largely unaffected by the economic slow down, seen today around the world, due to high proportion of oil and petroleum products in its export income and persistently strong world oil prices. Since the financial crisis in August 1998, real income of the population has grown significantly. Growth in real net income in Russia spurs demand for services offered by the Corporation's core businesses, in particular, telecommunications, insurance, banking and retail trade.

We take a positive view of the prospects of service industries in Russia and see good growth opportunities for key markets where Sistema's companies operate. We regard stability of the business environment, our immunity to fluctuations of commodity prices, our strategy of building companies up from scratch, balanced financial strategy and high standards of corporate governance and transparency in our relations with market participants, as key factors contributing to our steady growth.

Continued cooperation with Russian and foreign partners was a key growth factor and a vital fact of life for the Company in 2003. To date, we have accumulated experience in building successful alliances with strategic partners holding leading positions in their respective industries, such as Deutsche Telecom, Allianz AG, Siemens, and several other global companies, with whom we maintain and develop strong business ties.

A significant contribution to the Corporation's effective business growth in 2003 came from successful corporate restructuring and revamping of manage-

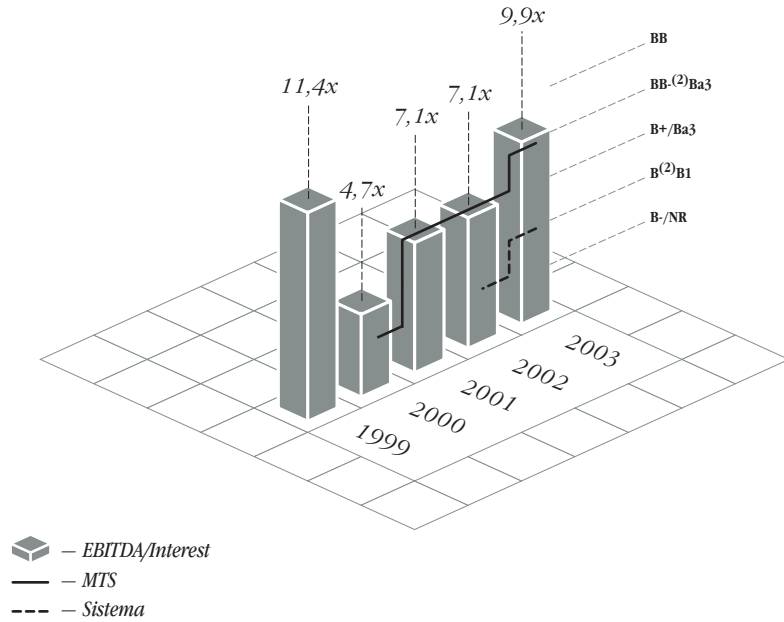
ment teams in CSC, MGTS, Sistema-Telecom, MTS, and Sistema Mass-Media, which since then have already achieved good results and laid a good foundation for future growth.

We hold leading positions in fast-growing industries, have a unique experience in building and developing business in Russia, a successful experience in business restructuring; we also boast a broad network of business contacts and one of Russia's strongest teams of managers. When reviewing our 2003 results, we believe that stability of our core business, continued successful partnership and our drive for leadership open to Sistema's companies broad opportunities for steady growth in the future.

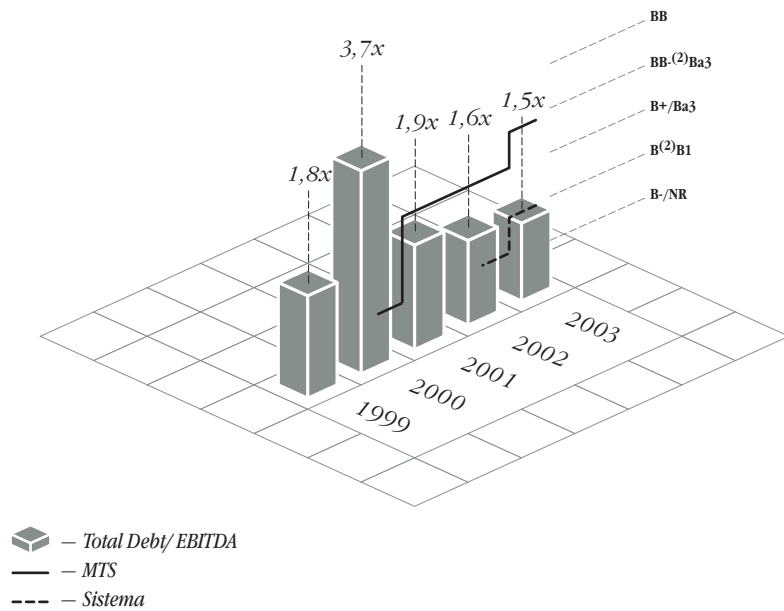
Reputation

- Member of the **World Business Council for Sustainable Development** (WBCSD) since 2003.
 - Party to the **Global Compact of the United Nations** (UN-GC) since 2002.
 - **Best Corporate Borrower in Eastern Europe**, named by Euromoney in its survey covering the second half of 2003 and first half of 2004.
 - **Second in revenue growth rate** and twelfth in revenue volume, according to RBC's "300 Largest Russian Companies" rating in 2003.
 - Official partner of the 300th anniversary celebrations of the city of St. Petersburg.
 - **Best International Project** in 2003 Award from the Government of the City of St. Petersburg.
 - Partner of the **State Russian Museum**
 - General partner of the 3rd Annual **Russian Innovations Competition** arranged with the assistance of the RF Ministry of Education and Science and the RF Nuclear Power Ministry.
 - General partner of the celebrations of the **Moscow State University's 250th anniversary**.
 - Member of several Russian and international public organizations comprising representatives of the business community, including:
 - Russian Union of Industrialists and Entrepreneurs (Employers)
 - Chamber of Commerce and Industry of the Russian Federation
 - Russian Managers Association (RMA)
 - Russian Institute of Directors nonprofit partnership (RID)
 - Russo-British Chamber of Commerce
 - European Business Club
 - National Committee for Economic Cooperation with Latin American Countries
 - Russian-Arab Business Council (RABC)
-

Adjusted EBITDA/Interest Expenses (1)



Total Debt/Adjusted EBITDA (1)

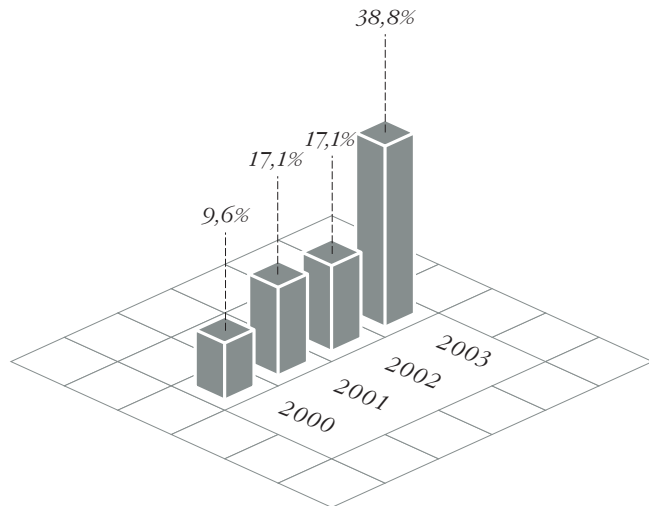


(1) - Adjusted EBITDA calculated as operating income plus taxes, net interest expenses, depreciation and minority interests.

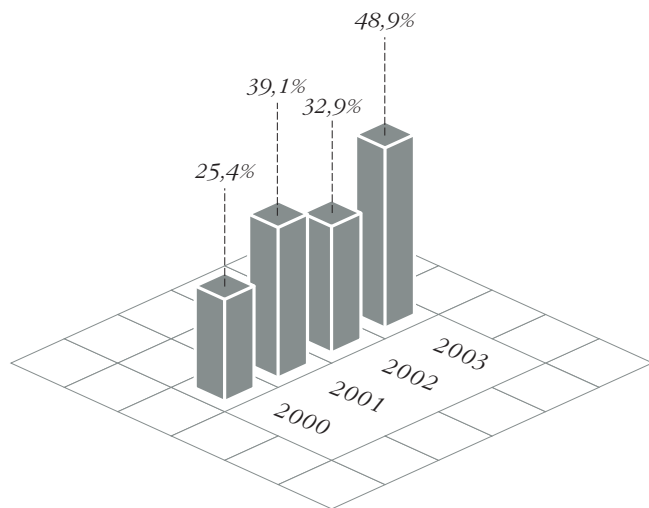
(2) - Current long-term foreign currency rating

(3) - Rating of senior unsecured debt of Sistema Capital SA

ROTA (1)



ROE (2)



(1) - Calculated as a ratio of adjusted EBITDA to average total assets
(2) - Calculated as a ratio of net profit to average equity capital



СИСТЕМА ТЕЛЕКОМ



Telecommunications



Vladimir Lagutin,
General Director of Sistema Telecom:

Sistema Telecom Group of Companies is the biggest non-state telecommunications holding company. This private limited company was incorporated on July 1, 1998 as a subsidiary of Sistema, to insure effective management of the Corporation's telecommunications assets. These include this country's leading mobile and fixed-line operators and Internet access providers, and companies providing GPS-based services and broadband communication services. Sistema Telecom Group includes Mobile Telesystems (MTS), Moscow City Telephone Network (MGTS), Comstar United Telesystems, MTU-Intel, Sky Link, and Golden Line, among other companies. Sistema Telecom's companies have operations in more than 60 Russian regions and in other CIS countries (Ukraine and Belarus). The Group provides services to more than 25 million subscribers.

For more information, visit Sistema Telecom at: www.sistel.ru

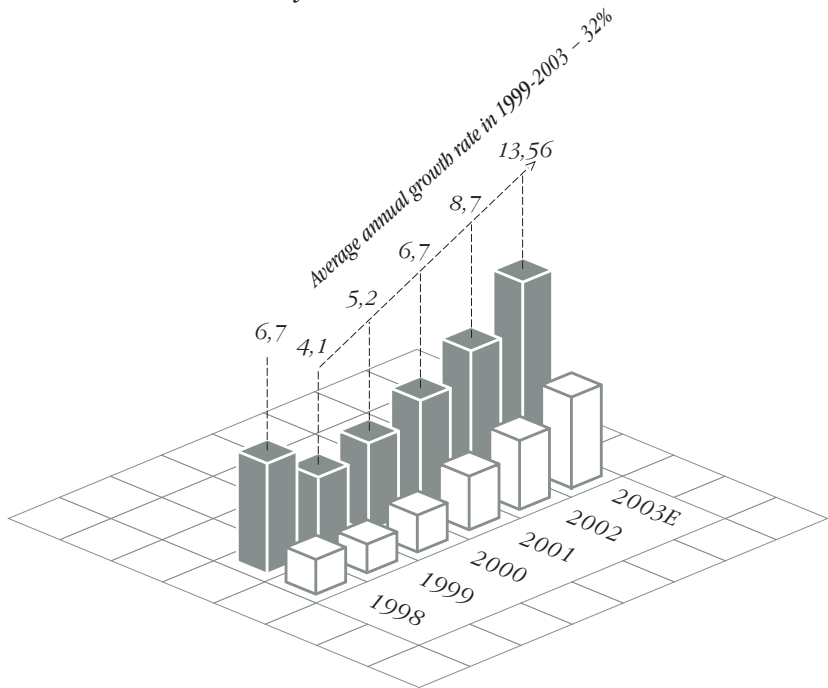
“Sistema Telecom's chief strategic objective is to strengthen its leading position in the Russian telecommunications market across its all key segments, such as mobile and fixed-line telephony, Internet access and data transmission. To meet this objective today, we would need to take active steps toward consolidation of the assets we acquired earlier.”



Sistema, a strategic investor in the communications industry, holds shares in several leading operators and is the biggest non-state market participant. Sistema Telecom is a designated manager of the Corporation's assets in this segment. In 2003, the Group's Companies continued to aggressively expand their mix of products and services, investing in future-oriented technologies and developing the most advanced communication services.

Telecommunications is one of the fastest-growing markets in Russia. Its revenues are rising rapidly, its growth potential remains high. Russian and foreign investors consider telecommunications as one of the most attractive industries for strategic investment.

Sistema Telecom's main objectives in 2003 were asset consolidation and business streamlining in the Companies of the Group. The Company made a few strategic investments. In April 2003, it exercised its option to purchase 10% of MTS shares from Deutsche Telekom, which gave us the controlling stake in MTS. In November 2003, we finalized a deal to purchase 50% of Comstar's shares from

Income generated by the Russian Telecommunications Industry, in USD bn.



-  — Incumbent Operators
-  — Alternative Operators

Source: RF Ministry of Information Technologies and Communications and Sistema Telecom's estimates

Metromedia International Group, which gave us control over 100% of Comstar's shares. Following that, the Group's CLEC operators were consolidated on the basis of Comstar which thus became a single digital operator named Comstar United Telesystems. In December, Carmarthen Trading Ltd. sold us 50% of common shares of Sky Link, which was set up in July 2003 with the express purpose of implementing a project for a federal IMT-MC-450 (CDMA 2000) mobile communications operator.

Since January 1, 2003, MTS and Comstar consolidation has resulted in our FY03 consolidated revenues going up by \$2,704.7mn. Overall, this segment's revenues rose by 572.8%, or \$2,764.9mn in 2003, to \$3,247.6mn, compared to \$482.7mn in 2002.

Discounting the new business acquisition effect, growth was mostly fueled by MGTS, whose top line increased by \$80mn. MTU-Intel's revenues rose by \$16.7mn. Disregarding MTS and Comstar consolidation, revenues in the telecommunications segment grew by 23.1% y-o-y. Operating rate of return in the Telecommunications segment was 34% in 2003, down from 58% in 2002.

Operations in the financial markets:

- October 2003: Mobile TeleSystems placed a \$400mn Eurobond issue maturing in 2010 (listed on the Luxembourg Stock Exchange).
 - February 2003: The Moscow City Telephone Network places its third RUR 1bn issue of two-year coupon paper bonds (listed on MICEX).
-

WIRELESS COMMUNICATIONS



Vasily Sidorov,
President of Mobile TeleSystems

Mobile TeleSystems, the largest cellular telecom operator in Eastern and Central Europe, is our key asset in this segment. MTS has teamed up with Deutsche Telekom as its partner.

In 2003, Mobile TeleSystems expanded geographically, increased the number of its subscribers significantly and achieved impressive financial results.

Through 2003 and early 2004, we received licenses to provide GSM mobile communication services in over 30 Russian regions. By February 2004, the operator's license area had been expanded to 87 regions. The Company plans to obtain licenses for two more regions, namely Penza Region and the Chechen Republic, sometime in the future.

In 2003, Mobile TeleSystems started providing additional commercial GSM – GPRS and MMS (multimedia messages) services in all its license areas.

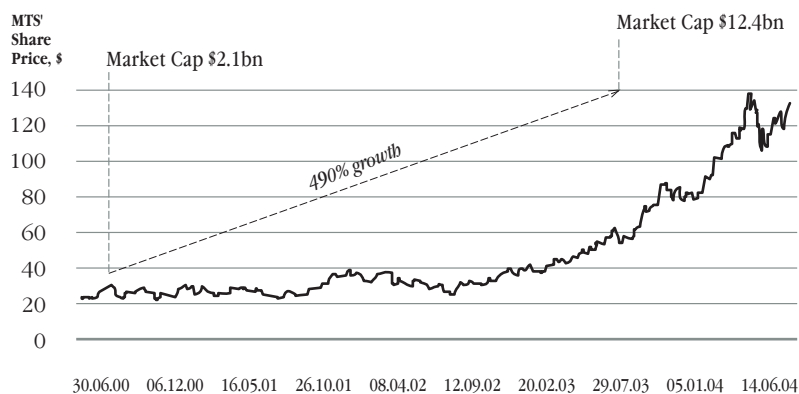
As of June 30, 2004, the consolidated number of MTS subscribers stood at 22.78mn.

MTS shares have been traded on the New York Stock Exchange (NYSE: MBT) since June 30, 2000, and on the Moscow Interbank Currency Exchange (MICEX) since December 8, 2003. MTS has a free float of 22.5%. In the past four years, MTS' market capitalization has grown by 490%.

Since the current mobile penetration level in Russia is 32%, we believe that the Company has a significant growth potential.

MTS contributed \$954mn to the total amount of operating profit from wireless telecommunications services in 2003.

In 2003, MTS embarked on a corporate restructuring program designed to improve manageability of its regional businesses and separate strategic and day-to-day management. A new management tier, macro-region, is being created under this

MTS Market Capitalization

restructuring program. Regional subsidiaries are to be merged into 10 macro-regions, with some managerial functions delegated to them. Strategic issues and corporate standard setting will be reserved for the Head office in Moscow, while regional offices will be charged with running their business on the day-to-day basis.

Sistema Telecom's strategic priorities in the mobile communications sector are insuring the best possible conditions for MTS' market capitalization growth and continued increase in cash inflows.

2004 saw the first step in the development of a single federal IMT-MC-450 (CDMA 2000) network, to be operated by Sky Link. According to the operator's plans, the network is to be developed based on the geography of enlarged regions in line with Russian administrative boundaries.

At the initial stage of the project, Delta Telecom, Moscow Cellular Communications, and Personal Communication are to be merged under the brand name of SKYLINK. Later on, the new trademark will also cover regional NMT-450 subsidiary operators.

INCUMBENT FIXED OPERATORS



Mikbail Smirnov,

General Director of the Moscow City Telephone Network

Sistema holds leading positions in the fixed-line communications market, thanks to its controlling stake in MGTS, a Moscow telecom operator. Today, MGTS is one of Europe's largest local fixed operators. In 2003, the Company started implementing a new corporate strategy, pursuing such key goals as stepping up telephone network development, timely completion of the last stage of general modernization plan and creation of a new customer service system.

The number of MGTS' access lines in use rose by 1.1% in 2003, to 4.1mn. In 2003, MGTS' revenues were up 26.6% y-o-y. Revenues from subscription fees climbed 32.6% y-o-y, to \$198.8mn. Rapid growth was brought about largely by continuing changes in tariff structure. Revenues from local telephony services, subscriber connection fees and line leasing rose by 20.7% y-o-y, to \$103.5mn.

In 2003, MGTS achieved the highest organic growth in the telecommunications segment. Further growth can be achieved through, in the first place, network modernization, expanded number capacity and introduction of added-value services.

Early 2004, MGTS launched the last stage of its telephone network general upgrade program, started back in 1998. At this upgrade stage, analog automatic exchanges are to be replaced with digital ones. By completing this stage, the Company will be able to bring digitization level of its fixed-line telephone network in the Russian capital in line with the standards of the world's largest cities. Its capex to revenues ratio was 16% in 2003.

Every year, beginning in 2005, MGTS plans to upgrade from 300,000 to 500,000 access lines and simultaneously increase its number capacity to meet all phone-line installation requests. The Company plans to replace all analog automatic exchanges with digital exchanges within seven to eight years.

A major breakthrough in the Company's technological development enables MGTS to offer new, modern communication services, reinforce its position in Moscow's telecommunications market, which will open up new growth opportunities for the Company.

Network modernization is the main challenge facing MGTS today. Sistema Telecom's strategic priorities in the market of incumbent fixed operators are acquisition of Svyazinvest's stake in MGTS and grooming the Company for an IPO, as well as sustainable growth in value-added, broadband and data transmission services.

ALTERNATIVE FIXED OPERATORS



Semyon Rabovsky,
General Director of Comstar

Purchase of another 50% of Comstar shares in November 2003 gave Sistema an opportunity to merge three biggest CLEC operators, namely, Comstar, MTU-Inform and Telmos, and create on their basis in 2004 a new digital operator under the brand name of Comstar United Telesystems. Legal aspects of the merger are expected to be finalized before the end of 2004.

Judging by the 2003 results, the merging operators provided services to over 26,000 corporate customers and nearly 500,000 individual users. Comstar United Telesystems is now the largest fixed-line digital telecom operator in the Moscow Region, both in terms of number capacity in use and the number of corporate subscribers.

The new operator owns a fiber optic network in Moscow, provides such services as telephony, Internet access (through dial-up, dedicated networks and based on ADSL technology), hosting, channel leasing, virtual private networks (VPN), videoconferencing, access to banking, financial, and information resources and also issues telephone cards. The Company is geared to servicing corporate subscribers and private users alike, providing a full range of cutting-edge telecommunication services.

Comstar contributed \$4.8mn to the total amount of profit derived from traditional telephony services in 2003, with cost of sales reaching \$31.1mn, or 46.7% of revenues, and operating rate of return standing at 7.3% for the same period.

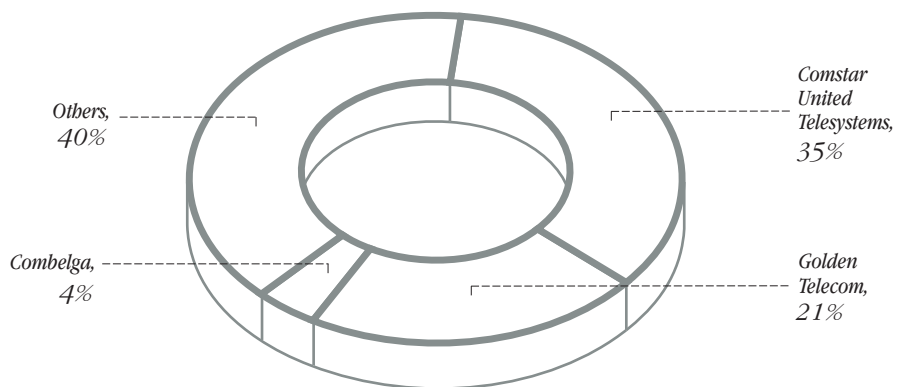
MTU-Inform's revenues grew to \$101.3mn in 2003, from \$92.3mn in 2002, due to an increase in the number of access lines in use. The number of access lines in use was up 8.3% and revenues rose by 9.6% which pushed the Company's operating rate of return up to 48.3% in 2003, compared to 41.1% in 2002.

Despite a temporary break in service provision which lasted from February till April 2003, Telmos' revenues grew by 2.2% in 2003 to \$37.5mn. As of December 31, 2003, the number of the Company's lines in use increased to 57,609 from 51,690 in December 31, 2002.

Comstar United Telesystems' main task is to complete consolidation of its operators and become a leading CLEC fixed operator, by drawing on the experience and technological resources of MTU-Inform, Comstar, and Telmos.

The unified operator plans to raise the market's awareness about its business by providing IFRS financials.

**Market Share
of Comstar United Technologies**



Source: Cominfo Consulting

INTERNET ACCESS AND DATA TRANSMISSION

MTU-Intel, Russia's flagship Internet provider, consolidated its leading position in the market in 2003 by offering high-quality services at reasonable prices and making its products as user-friendly as possible.

MTU-Intel specializes in providing a full-range of Internet services, including Internet access, IP telephony, service and application hosting, private corporate networking, and so on.

In 2003, MTU-Intel's revenues rose on the back of steady growth in the number of active subscribers, using ADSL technology-based Internet access service (up 95.4% y-o-y). This growth was partly offset by falling tariffs for corporate and individual users, which pushed the Company's revenues up by 56.8% to \$46.1mn in 2003 from \$29.4mn in 2002. Cost of goods sold was \$34.4mn, or 74.7% of revenues in 2003, compared to \$22.8mn, or 77.6% of revenues in 2002.

In February 2004, MTU-Intel, a leading Internet provider in Moscow, launched broadband ADSL Internet access services for residential customers. It introduced a new set of tariffs, called Stream, to attract this customer group. The new tariffs geared to private users offer affordable access prices and data transmission speed of 1 to 7 MB/sec. New high-speed home Internet channel is a logical step in the development of Russia's biggest broadband Internet access project, Tochka Ru, run jointly by MGTS and MTU-Intel.

Sistema Telecom's objective now is to insure efficient management of the Corporation's telecommunications assets and consolidate its leading position across all key segments of the telecommunications market.

Sustainable growth in the telecom industry opens up new growth opportunities for the Group's Companies. While still in the lead in the Moscow telecommunications market, Sistema Telecom is poised to branch out to other Russian regions and

FSU countries, which the Group considers strategic, and to emerging countries with promising telecommunications markets.

The telecommunications market is developing vigorously, creating a new social environment and setting new standards of living. It also calls for ever more complex, high-tech, innovative and large-scale approaches. Sistema Telecom responds to challenges of the future by charting a new strategic course and insuring a better coordination of its Group Companies' efforts.

Reputation

Mobile TeleSystems

- **Highest corporate governance standard among Russian companies.** Standard & Poor's rating agency ranks MTS among leaders in corporate governance standards in Russia. In July 2004, following its annual rating review, Standard & Poor's upgraded Mobile TeleSystems' rating to CGR7+, the highest rating it had ever awarded a Russian company.
- **Company of the Year 2003 Russia** based on the survey conducted by The Banker magazine.
- **15th in the 2003 annual Info Tech 100 rating** conducted by Business Week journal among 10,000 public companies.

Moscow City Telephone Network

- Winner of the **Company of the Year 2003 Award** in the Telecommunications sector instituted by Kompaniya journal.
- Winner of the **Russian National Olympus Award** in the Construction, Transport and Communications nomination.
- **Gold Medal** awarded at the Archimedes-2003 International Industrial Property Show.

MTU-Inform

- **Brand Name of the Year/EFFIE 2003** in the Services to Business nomination. The Award was given to the Logic Line intellectual services package. It was the Company's second award, the first one being awarded to MTU-Inform in 2001 in the High-Tech Goods and Services Category. In 2000, it was nominated in the Computer Elite 2000 Category.
- Winner of the **Company of the Year 2000 Award** instituted by Kompaniya journal, in the special Internet Provider of the Year nomination.

Comstar

- Comstar's Dial-Public Internet cards won **First Prize at the 13th Moscow International Advertising Festival** in the Packaging and Labeling nomination.
- Comstar's web payphones were recognized the best product in the Original Advertising Media nomination at the Russian national **PROFI-2003** competition of promotional opportunities.

TELMOS

- **Patron of the Year 2003.** The award is presented as part of the annual Idol Award for performing artists instituted by the Russian business community, for support to the performing artists' community and significant contribution to the revival of the traditions of Russian patronage.

MTU-Intel

- Reader's Digest **Trusted Brand Award** in the Internet nomination based on surveys in 14 countries.
- Winner of the **Company of the Year 2001 Award** instituted by Kompaniya journal in the Internet Provider of the Year nomination.
- **Tochka Ru Trademark: Brand Name of the Year /EFFIE 2002** in the High-Tech Services nomination.

Personal Communications (Sonet Cellular Network trademark)

- **Brand Name of the Year/EFFIE 2003** in the High-Tech Services nomination.
- **Award of the Moscow Consumer Rights Foundation** for "Contribution to the creation of a civilized consumer market" in 2003.

Moscow Cellular Communications

- Certificate of the Public Council of Experts of the Russian and Moscow Consumer Rights Foundations for **Contribution to the creation of a civilized market in Russia** in 2003.
-



Electronics

CSC (Science Center Concern), one of the largest diversified associations of electronics enterprises in the Russian Federation, was established in May, 1997 to pool the member companies' resources in carrying out large-scale projects in the electronics industry. The Concern's major shareholders are Sistema (77.5%) and NED Electronic GmbH (10%), while individual minority shareholders own a total of 12.5%. The Concern's enterprises are located in Zelenograd (suburban Moscow), Prague, Voronezh and several other cities in Eastern Europe. The CSC enterprises' products are exported to Western and Eastern Europe, Russia and other CIS countries, North America, the Middle East, and Southeast Asia. The Concern's enterprises employ over 5,000 highly-skilled professionals. The Concern's Board of Trustees is headed by Nobel Prize winner Zhores Alferov, vice president of the Russian Academy of Sciences.

For more details, visit CSC at: www.koncern.ru



Alexander Goncharuk,
General Director of CSC:

"We develop a knowledge-intensive business and see a great promise in it, because intellectual potential and innovations are among our chief competitive advantages in the world market. Today, we have a strong team working hard to improve the Concern's efficiency, increase its market capitalization, develop successfully in the new science and engineering paradigm, and put electronics to the forefront of Sistema's business."

Sistema holds shares in several leading enterprises in the electronics industry. It makes long-term investments and is currently one of the largest non-state market players in this segment. Concern's companies focused on three key areas in 2003: production of telecommunications hardware and software (information and communication systems), microelectronics (development and production of semiconductors), and production of electronic products (consumer and industrial electronics).

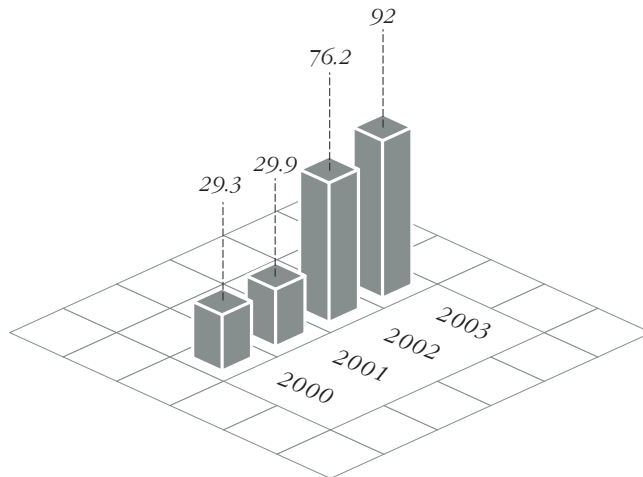
Development of the electronics business is a strategic priority for the Corporation. In 2003, Sistema went ahead with restructuring its assets in this sector. Management of CSC was put in the hands of Alexander Goncharuk (previously CEO of Sistema Telecom), one of the Corporation's most competent executives. A new strategy was adopted to transform the Concern into the biggest high-tech company in Eastern Europe. Under this strategy, the Concern changed its owner-

ship structure, reinforced management teams at its enterprises and completed financial restructuring.

In 2003, CSC companies registered a healthy growth in all key indicators, both on the back of organic growth of its enterprises and new acquisitions.

The electronics segment's revenues rose to \$85.9mn in 2003, up 12.8% y-o-y. Organic revenue growth amounted to \$14.6mn in 2003. The bulk of revenues in this segment in 2003 came from Mikron plant and STROM telecom. Microelectronics and telecommunications equipment accounted for 89% of revenues in 2003.

Revenue in USD mn.



We believe that CSC enterprises have a considerable growth potential. Strong growth and further improvement in the financial and economic state of the Concern's enterprises in 2004 driven by the outpacing organic growth in turnover, is expected to more than double their financial numbers. As an additional fund-raising alternative, we are mulling the possibility of taking CSC to the public market through an initial public offering.

INFORMATION AND COMMUNICATION EQUIPMENT

Following the integration of STROM telecom's Group of Companies into CSC in 2003, production of telecommunications equipment and information systems became its key business area.

Aggregate annual volume of the Russian telecommunications equipment market today is estimated at between \$2.5bn-\$3.5bn, growing by 10%-15% annually. Russian companies account for about 20% -30% of the market, with CSC holding 2%.

STROM telecom manufactures a broad spectrum of modern communication equipment, products based on information systems and technologies, including switches for intellectual network (IN) services, call centers, transit telephone

exchanges, analog-to-digital converters, billing systems, customer support systems, unauthorized access protection systems, next generation network (NGN) solutions and so on. All products are manufactured in compliance with international ISO 9001 quality standards. STROM telecom takes orders from operators of all communication types (fixed-line, mobile and IP telephony) in Russia, other CIS countries, Western and Central Europe and the Middle East.

Following a decision to start equipment production in Russia, a surface mounting line was installed at the Elaks plant in 2004 and production of modern telecommunications equipment was launched under the STROM telecom trademark. In 2003, STROM telecom's order book more than doubled y-o-y. The Company expanded its geographic reach as well. In 2004, STROM telecom started exporting MEDIO communication equipment to the US. The first MEDIO digital switching system was installed in New York, to be followed by other major US cities. Services based on MEDIO platforms are provided to telecom operators in Russia, Germany, the Czech Republic, Ukraine, and several other countries.

STROM telecom and its subsidiaries generated revenue of \$37.3mn in 2003, or up 34.1% y-o-y.

Now, CSC's strategic objective is to solidify its leading position in the equipment production for small and medium-sized companies and broaden operations in information and communication technologies.

MICROELECTRONICS

One of the Concern's companies, Molecular Electronics Research Institute and Mikron Plant (NIIME & Mikron), an undisputed leader in the Russian microelectronics industry, is the biggest manufacturer of integrated circuits in Russia and other CIS countries. The Company manufactures over 450 kinds of integrated circuits and semiconductor products. Microelectronics products are also manufactured by VZPP-Mikron (based on the Voronezh Semiconductor Instruments Plant).

In 2003, the global semiconductor market topped \$150 billion, registering a 7% growth. The Semiconductor Industry Association estimates that the market will continue to grow by 9%-10% per annum in 2003-2006. The integrated circuit market in Russia stood at around \$0.8bn in 2003, and is currently posting an annual growth of 10%-15%. Mikron has the largest share (around 4%) of the market among Russian manufacturers and is the biggest Russian exporter of microelectronics products. It sends more than 70% of its output to Southeast Asia, Europe, and America. Mikron opened a representative office in China in 2003.

In 2003, Mikron continued to implement its strategic development program, under which the Company positions itself as a supplier of made-to-order microcircuits and reorganizes its marketing system to sell its products directly to equipment manufacturers. In the meantime, it keeps up expanding its traditional client base in the domestic market, including state contractors.

In 2003, NIIME & Mikron became the first Russian high-tech company to enter the stock market, when it placed a RUR 300mn bond issue on the Moscow Stock Exchange.

Mikron generated \$35mn in revenues in 2003, or 40.7% of total revenues in this segment.

The Company intends to finalize setting up a business that would develop and promote specialized analog and analog-digital information systems (ASIC Vendor), relying on its R&D and marketing expertise.

Maintaining further efficient growth in microelectronics, which is a complex knowledge-intensive industry, is among top priorities for CSC. Developing new products and technologies is a basic principle for growing CSC enterprises. NIIME & Mikron is a leading participant in the National Technological Program run by the Russian Management Systems Agency. Some of the Concern's companies are involved, together with their foreign counterparts, in the European Union's fundamental program to develop new technologies (FP-6).

Financial markets:

— July 2003: NIIME & Mikron placed a RUR 300mn bond issue (Moscow Stock Exchange).

INDUSTRIAL AND CONSUMER ELECTRONICS

Elaks, Elion and Kvant plants, Precision Engineering Research Institute, and several other enterprises and R&D centers of the Concern are in charge of developing and manufacturing consumer and industrial electronic products.

Concern's chief objective in this segment in 2003 was implementing a program to create Russia's first consumer electronics umbrella brand-name Sitronics. Russia's consumer electronics market volume exceeded \$6bn in 2003, or 20% up from 2002 (according to GfK). Russian manufacturers' market share is around 40% and growing, mostly in the low-end segment.

The year 2003 was a watershed for the Sitronics project and for CSC, as a whole. Sitronics, a company created in 2002 to manufacture consumer electronics under Sitronics trademark, has expanded its product line from 3 to 26 products. In 2004, Sitronics' product line comprised over 40 product items, from television sets to computers (including notebooks), LCD displays, telephones, DVD players, MP3-Flash audio players, digital recorders, and so on. Next in line are car radio-tape recorders and new types of audiovisual, consumer and computer products.

In 2003, revenues generated by sales of electronic devices and home appliances (mostly sales of Sitronics products) amounted to \$7.4mn, or 8.6% of the segment's revenue, from \$4.9mn, or 6.9% in 2002.

The Company's strategy is aimed at developing a leading national brand name in world-class consumer electronics in the mid-price segment.

Reputation

NIIME & Mikron

- ISO 9001:2000 Quality Management System Certificate
- Recipient of the Russian Government's Quality Award in 2001
- Russian Quality Leader 2002 Certificate from the Russian Quality Organization
- Certificate from the Military Register system
- Member of the European Foundation of Quality Management (EFQM)
- "Quality and Safety Guarantee" Certificate and Award at the WQO's National Security 2002.

Elion and NIITM

- Twelve products were distinguished with gold medals at international industry fairs.

STROM telecom

- ISO 9000 Quality Certificate
- Product line comprises more than 20 systems and products certified in compliance with the standards of countries of operation (Russia and other CIS countries, Germany, US, and Europe).

Sitronics

- Certificate of the Association of Trading Companies and Manufacturers of Electrical Home Appliances and Computer Products
 - Certificate of the International CEM-2003 Exhibition
 - Certificate of the International 21st Century High Technologies Forum
 - Certificate issued by the Uniscan Association
 - Certificate issued by the Uniscan Association (electronic data exchange)
 - Certificate of Potrebitel (Consumer) magazine (SB 2135 model)
 - Certificate of Potrebitel (Consumer) magazine (SB 2107 model)
 - Certificate of Potrebitel (Consumer) magazine (SB 2136 model)
-



Insurance



Leonid Melamed,
General Director of ROSNO:

"We continue to improve the Company's operations, above all, its business management strategy, incentivization arrangements, accounting system and product quality monitoring, i.e. all those areas that will ultimately help us improve the quality of services we offer to our numerous customers. We have very ambitious goals aimed at high annual growth of ROSNO's business in the next five years. To be able to meet such huge challenges, the Company needs matching resources. We have strong shareholders, such as Sistema and Allianz. They have accumulated enormous experience in their respective fields and are willing to share it with us."

In 2003, Sistema continued developing its insurance business in collaboration with Allianz AG. ROSNO is the biggest general insurance company and one of leading insurers at the national level. Throughout 2003, ROSNO continued to meet the objective set by its shareholders, namely to provide brand-new insurance products at affordable prices.

In 2003, ROSNO's shareholders made a crucial decision to more than double the insurer's charter capital, to RUR 960mn. The same year, the number of voluntary and mandatory insurance products offered to individuals and corporate clients, reached 95. In 2003, the Company sold 1.25mn policies, up 10% y-o-y.

ROSNO and its subsidiaries sell medical, property, motor vehicle, life, accident, and reinsurance policies. Last year, the Company's top management adopted a new regional development strategy to improve performance of its regional network and

ROSNO insurance company was established in 1991. Today, Sistema has a 47% stake in the Company, with another 45.27% held by Allianz AG. ROSNO is a general insurer licensed to provide 95 types of coverage. It operates a regional network of 100 branches managed by ten regional offices and 185 agencies in all constituent territories of the Russian Federation, a representative office in Kazakhstan, and a subsidiary in Kyrgyzstan. ROSNO's key product classes include voluntary medical insurance policies, property insurance, motor vehicle insurance, and reinsurance. ROSNO's corporate customers are mostly engaged in telecommunications, oil and gas, banking, manufacturing, wholesale and retail trade. For more details, visit ROSNO at: www.rosno.ru

streamline business management of its structural units. In accordance with this strategy, the Company completed reorganization of its regional structure, setting up ten offices put in control of ROSNO's 100 branches grouped by the geographic principle. Reorganization is expected to facilitate delegation of the head office's responsibilities to regional offices, accelerate management decision making, improve indemnity and benefit payment, and cut the Company's administrative costs.

ROSNO's business experience of many years, as well as its stable financial situation are reflected in the dynamics of its key financial indicators in 2003.

In 2003, the insurance segment's revenues rose by \$47.2mn, or up 33.5% y-o-y, mostly on the back of to the development and promotion of new insurance products and customer base expansion.

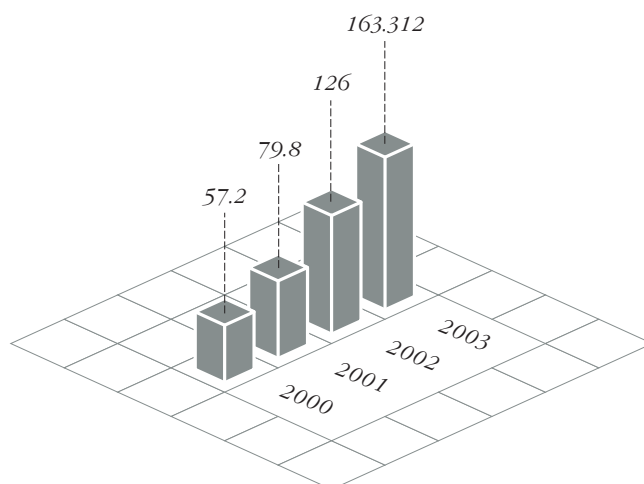
Voluntary medical insurance, motor vehicle insurance, and property insurance contributed \$121.2mn altogether, or 55.5% of total premiums. In general, the total amount of premiums went up by 38.1% in 2003, to \$218.2mn, from \$158mn in 2002.

Premiums by Insurance Class, in USD '000

	Year ended on December 31	
	2002	2003
	(thousands)	
Voluntary medical insurance	53,537	62,223
Third-party motor insurance	5,231	3,168
Insurance against motorist damage	24,029	33,503
Property insurance	18,388	25,462
Personal liability insurance	2,823	3,201
Marine, aviation and transport insurance	7,968	7,838
Accident insurance	4,140	7,044
Insurance against other losses	1,867	2,988
Life insurance	1,968	1,710
Mandatory third-party motor insurance	–	14,993
Risk reinsurance	38,062	56,117
Total amount of insurance premiums	\$158,013	\$218,247

The Company's operating profit shot up to \$17.1mn in 2003, from \$2.6mn in 2002, while operating rate of return rose to 9.1% vs. 1.8% in 2002.

To confirm and guarantee fulfillment of its contractual obligations, ROSNO sets aside insurance provisions, as approved by the Insurance Supervision Department of the RF Finance Ministry, and invests such funds in highly liquid and profitable assets. In particular, ROSNO has created unearned premium fund, life insurance fund, provision for outstanding claims and prevention fund. A steady growth in amount of assets kept in these funds insures the Company's ability to settle its policy-holders' claims.

Net Premiums, in USD mn

Growth in the Company's equity enables it to increase its own retention in major risk insurance, makes it more stable financially and creates a springboard for further expansion.

Solvency is one of the most critical factors to gauge an insurance business's performance. Russian laws require domestic insurers to maintain a certain solvency margin ratio in insurance operations. As of December 31, 2003, ROSNO's actual solvency margin exceeded the required level 1.5-fold, as a result of its successful operations in the insurance market and correct assessment of its obligations.

For six years now, PricewaterhouseCoopers has been auditing ROSNO's accounts in accordance with the International Financial Reporting Standards (IFRS). In 2002, ROSNO hired another auditor, Russian company called Marillion. ROSNO follows a policy of transparency and information disclosure in its dealings with customers, counterparties and shareholders. The Company has already finalized its transition to IFRS.

ROSNO has a high-quality obligatory reinsurance coverage for assumed risks. Among its reinsurance partners are Allianz AG, Partner Re, Hannover Re, SCOR, Munich Re, Swiss Re, and major Russian insurance companies. It also cooperates with Lloyd's brokerage agencies.

ROSNO has joined 17 insurance pools and is a member of numerous professional and industry associations, and the International, Russo-British, Russo-American, Russian, and Moscow Chambers of Commerce.

One of ROSNO's strategic objectives is increasing its market capitalization and improving its solvency standards and, through that, its financial reliability and stability. In addition, the efficiency of investments, business openness and a high level of corporate culture are all vital aspects of the Company's strategy.

Among all Russian insurance companies, ROSNO is best prepared to face its competition after Russia's accession to the WTO, thanks to its IT infrastructure, IFRS audit and accounting practice and Allianz AG's experience.

Looking into 2004, the Company plans to increase its insurance market share by 1.5%, attract 40% more premiums on traditional policies, and expand its agency network. Besides, ROSNO considers setting up two subsidiaries, namely a life assurance company and an asset management company.

In the longer term, the Company intends to grow its share in target segments of the Russian insurance market to 20% by 2007.

Reputation

- The highest rating, A++, “**High Reliability with Positive Outlook**” in the national rating of Russian insurance companies compiled by Expert RA rating agency in 2003, 2002, and 2001.
- **Gold Award for Business Reputation Excellence** from the Russian Financial Press Club in 2003. Previously, the FPC named ROSNO the most transparent Russian insurance company for three years in succession.
- **Mark of Confidence** from Reader’s Digest magazine, two-time winner in the Insurance Company Category based on a survey conducted in 18 countries.
- Winner of numerous **Company of the Year Awards**.
- Placed on the Reliable Partners Register of the Federal Chamber of Commerce and Industry.
- **Golden BRAND NAME OF THE YEAR/EFFIE 2002**, winner of the national award in brand development and promotion.
- Named Best Insurance Company in the annual **Popular Trademark 2003** rating.
- In January 2004, Leonid Melamed, ROSNO’s General Director, was named **Man of the Year 2003** in the annual People of the Year project run by Russia’s biggest Internet holding company, Rambler.
- Ranked Number One among the **50 Most Strategic Insurance Companies** (on the basis of the survey conducted by the Rating Center of the Institute of Economic Strategies (INES).
- Ranked by the Interfax CEA among Russia’s biggest insurance companies in terms of collected insurance premiums, except for life insurance:
 - 6th** in voluntary insurance, other than life insurance;
 - 1st** in personal insurance;
 - 10th** in property insurance;
 - 11th** in liability insurance;
 - 9th** in mandatory third-party motor insurance.
- Ranked by the Interfax CEA among Russia’s biggest insurance companies in terms of indemnities paid in all insurances classes, except for life insurance:
 - 3rd** in voluntary insurance, other than life insurance;
 - 4th** in personal insurance;
 - 4th** in property insurance;
 - 4th** in liability insurance.

*Sources: Insurance Supervision Department of the RF Finance Ministry
and the Russian Motor Insurance Association*



Real Estate



Felix Yevtushenkov,
General Director, Sistema-Hals:

"The real estate market in Russia has, without a doubt, become more professional and, by implication, more exciting and dynamic. 'Growth' is exactly the word which encapsulates most precisely the developments in our Company in 2003. The ingredients of our success are more diverse order books, emergence of a team of top-notch professionals, application of innovative construction techniques and partnership with renowned foreign companies."

Sistema's assets in the real estate segment are managed by Sistema-Hals, a company specializing in building high-end office real estate and luxury residential properties. The Company has successful experience in building first-class office and residential housing and is a leading developer in Moscow's booming market.

The Russian real estate market grew at a dramatic rate in 2003, gradually acquiring characteristics of well-established markets in the West. There are several factors behind the strong influx of capital into the Russian property market, including economic growth, government reforms, redistribution of asset types, and fewer investment opportunities in real estate markets in Central and East European countries. Strong capital flows into Russia's real estate market undermined rate of return, which was felt most acutely in 2003. Nevertheless, rate of return provided by the Russian real estate market is higher than that in Central and Eastern Europe, making a stronger investment case for the Russian and Moscow markets in the eyes of foreign investors.

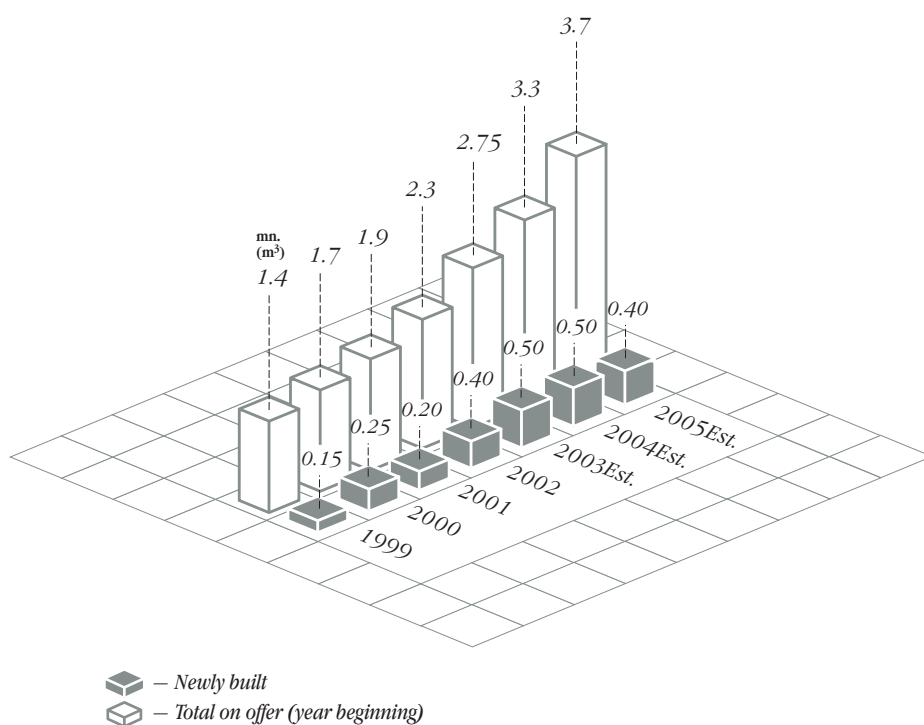
Sistema-Hals is a leading developer in the Moscow region, managing Sistema's assets in the construction and real estate segment. Its core operations include land development, construction, and real estate management. Sistema-Hals comprises over 20 companies with competencies and skills to carry through a construction project, from concept design, feasibility study and architectural concept development to actual construction work and operation of a completed project. The Company's core focus is Class A office real estate, high-end residential real estate and cottages, as well as shopping and leisure centers. Among the largest projects successfully completed by Sistema-Hals in the Russian real estate market are Hals Tower office complex and Daimler Chrysler head-office, to name just a few.

For more details, visit Sistema-Hals at: www.sistema-hals.ru

Rate of return, Class A Office Space*

	Q497*	Q401	Q402	Q303
Moscow	18.00	17.00	16.00	15.00**
Warsaw	15.00	13.00	10.00	10.00
Budapest	11.00	8.75	8.75	8.50
Prague	10.00	9.00	8.80	8.50
London (City)	6.27	6.55	6.00	5.25
Berlin	8.75	7.00	5.25	6.00

* According to Stiles & Riabokobylko Research

Total Vacant Modern Office Space in Moscow*

* Source: Colliers International

In 2003, investment funds started to aggressively invest into the Russian real estate market. Some of these funds, which are being set up today, pool resources of Russian and foreign investors, who jointly decide on investment strategies for their funds.

Sistema-Hals signed a contract to construct a head office building for Siemens in Moscow (one of the biggest real estate projects in Russia so far), which became a striking testimony to the stability of the Russian real estate market, its invest-

ment climate, and the level of trust on the part of foreign investors. Ground-breaking ceremony for Siemens' new office building of more than 40,000 square meters was held in September 2003, as part of the celebrations to mark 150 years of Siemens' presence in Russia. The project is to be carried out by Sistema-Hals jointly with Siemens Real Estate. Thus, after many years of teamwork in telecommunications, Sistema and Siemens have found a new area for cooperation.

To date, Sistema-Hals order book has 40 projects with a total space of 1.782mn square meters, including Beijing Hotel renovation project with construction of additional properties on its premises, and renovation of Detsky Mir department store on Lubyanka Square. At the present moment, Sistema-Hals has developed a program to build a chain of shopping and leisure centers in the regions, including St. Petersburg, Novosibirsk, Yekaterinburg, Kazan and others.

In 2003, the Real Estate unit's revenues were up \$17.6mn y-o-y, reaching \$39.1mn, mostly from sales of newly built office buildings.

The Company's strategy going forward rests on technological leadership, efficient management, successful experience of partnership and implementation of large-scale development projects.

Reputation

- **Golden Arch of Europe 2003, Frankfurt.** Award for quality and technologies used in the Bolshaya Ordynka project in 2003.
 - **Company of the Year Award** in the Contribution to Urban Development nomination in 2003 and 2002.
 - **Best Building Project Completed in 1990-2000** in Moscow in the Office Space and Buildings and Business Centers nomination for the DaimlerChrysler project.
 - DaimlerChrysler's head office building received **Grand Prix of the 13th International Construction Award** (New Millennium Award) in the Best Millennium Project nomination in 2001 in Paris.
 - **15th Golden Europe Award for Quality** (New Millennium Award) in the Best Millennium Project nomination for DaimlerChrysler's head office building received in 2001 in Paris.
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RETAIL TRADE



Sergei Kushakov,
General Director, Detsky Mir-Center

Detsky Mir Group of Companies, the biggest retailer for children's goods in the Russian market. The Detsky Mir department store, from which the Group derives its name, celebrated its 45th anniversary in 2002. In 1996, Sistema became the Company's majority shareholder (more than 70%, with another 19% held by the Moscow Government). The Group's major assets include Detsky Mir department store, Europe's biggest retailing outlet selling children's goods, in Lubyanka Square (a total area of 54,500 square meters), visited by up to 60,000 shoppers every day, Toy Palace in Bolshaya Yakimanka Street, a store on Vernadsky Prospekt, a warehousing complex in Karacharovo, regional shopping centers in Orel and Tambov, new-format stores in the MEGA shopping centers and in Moscow's Golyanovo, Bibirevo, and Maryino districts. The Group has a work force of over 1,600. It is currently expanding its regional operations and creating a nationwide retail chain. For more details, visit DMC Web-Page at: www.detmir.ru

Among main challenges facing Detsky Mir Group of Companies in 2003 were testing its new development model, consolidating retailer's functions in DMC and laying the foundation for a nationwide retail chain employing the most up-to-date retailing techniques.

Sistema is a majority shareholder in the Detsky Mir Group of Companies, a leader in the Russian retail market for children's goods. The Group is a sole registered owner of the Detsky Mir trademark in Russia, one of the most recognizable brand names in the market for children's goods in this country.

Russian market for children's goods, with a total annual volume of \$4bn-\$5bn, has been growing at a healthy 15% -20% rate per annum over the past two years, while some goods categories, for example, toys, have registered a 30% annual growth. Volume of Moscow's market for children's goods is estimated at \$1bn-\$1.5bn. with DMC controlling around 2%-3% of the market.

Among main challenges facing Detsky Mir Group of Companies in 2003 were testing its new development model, consolidating retailer's functions in DMC and laying the foundation for a nationwide retail chain employing the most up-to-date retailing techniques. In 2003 the Company put together a management team, launched a new IT system, defined product lines, finalized zoning and shop floor equipment layouts for new stores. DMC set up a single Distribution

Center, Russia's first non-food stock management center, to insure on-time deliveries to Detsky Mir chain stores and keep storage, handling and transportation costs to a minimum.

Detsky Mir's store chain expanded noticeably in 2003. In Moscow, new-format stores were opened in the MEGA shopping center and in the Twelve Months shopping center in Golyanovo district. Expansion has continued throughout 2004, with new Detsky Mir stores opened in the Alexander Lend shopping mall in Bibirevo and in the BUM shopping mall in Maryino. Next in the line are Detsky Mir stores in the PIK shopping mall on Sennaya Square and in Shopping Island center on Vasilyevsky Island in St. Petersburg. In May 2004, the key operator of Detsky Mir-Center Group was running a total of eight stores for children's goods.

Retail Trade unit posted a 15.3% growth in income, which reached \$55.5mn in 2003 against \$48.2mn in 2002. Growth came largely from opening of new retail units and expansion of floor space in shopping centers. The unit made gross profit of \$24.3mn, or 30.8% of the segment's gross profit in 2003, up from \$18.6mn, or 37.3% of the segment's gross profit in 2002. In 2003, the unit's operating profit was \$6.6mn, compared to \$4.6mn in 2002, on the back of stronger sales.

Detsky Mir Group of Companies' development strategy seeks to consolidate its leading position in the retail market for children's goods, expand its retail chain in Moscow and across Russia, and capture a bigger share of the market for children's goods.

Московский Банк
Реконструкции и Развития



МБРР

ИНКАС

Finance

Moscow Bank for Reconstruction and Development

(a commercial bank), established in 1993, holds General License No. 2268 from the Bank of Russia. In 2003, MBRD celebrated its 10th anniversary of successful operations. MBRD is a full-service commercial bank offering a full array of banking services, more than 140 all in all, including foreign trade contracts, corporate lending in rubles and foreign currencies, issue of bank guarantees; securities trading (sovereign and corporate bonds, equities and bills); retail banking; consumer lending and asset management services. The Bank's shareholders include Sistema (54.27%), ALROSA company, Intourist travel company, and MGTS telephone company. The bulk of the Bank's clientele comes from the corporate sector. As of December 31, 2003, the Bank operated in four regions and had three branches – in St. Petersburg, Syktyvkar and Rostov-on-Don.

For more details, visit MBRD Web-Page at: www.mbrd.ru

The Bank's main goals for 2004 include implementation of its large-scale retail banking project and continued growth of its corporate client base.

Moscow Bank for Reconstruction and Development is Sistema's key operator in the financial sector. It is a full-service commercial bank operating in three banking areas – corporate, investment, and retail services. MBRD offers a broad spectrum of banking services and also serves as a treasurer for Sistema Companies.

The macroeconomic situation was favorable to growth of the banking sector in 2003. Stability and predictability of key factors underlying Russia's development encouraged high economic growth rates. Growth in personal incomes coupled with falling interest margins and tougher competition forced banks to step up their retail banking operations. The amount of retail deposits at credit institutions went up by 46% in 2003. Deposit account balances (in operating banks, excluding Sberbank) topped RUR300bn at the end of 2003 (up by more than RUR 90bn since year beginning).

In 2003, Moscow Bank for Reconstruction and Development launched a retail banking program drafted jointly with Deloitte and Touche CIS and approved in November 2002. A retail banking unit was created within the Bank's organizational chart to implement its retail banking strategy. Additional retail banking offices were opened in Moscow and St. Petersburg.

Developing technologies and products based on plastic cards is a key element of the Bank's retail strategy. In 2003, MBRD put into operation its own processing center certified to operate in the MasterCard International and Visa International payment systems. MBRD has been issuing VISA cards of its own design since

August, 2003, and in November 2003 it started handling VISA cards in its own processing center. The number of VISA International and MasterCard International cards issued by the Bank more than quadrupled over 2003, standing at 12,800 cards at year's end.

The Bank's proprietary network of self-service banking terminals expanded six-fold in 2003, from 12 to 70 machines of various types, including 65 ATMs and 5 cash-in modules. Self-service terminals have now been modified for making cash deposits onto plastic card accounts. Work started in July 2003 to readjust self-service terminals so that they can accept both plastic card and cash payments from retail customers.

In 2003, the Bank launched its mobile banking project (remote account management from mobile telephones). In the same year, MBRD and MTS entered into a cooperation agreement to develop and promote joint brand products. As a result, mobile banking information services have been introduced along with facilities to accept MTS bill payments from ATMs, cash-in terminals, and in the Bank's retail branches.

MBRD's income rose by 56.9% in 2003, to \$57.5mn. Its interest income increased by 59.2%, to \$46.5mn, most of coming from interest on loans made to the Bank's customers. Its loan portfolio grew by 68% from January 1, 2003.

The Bank's main objectives for 2004 include implementation of its large-scale retail banking project and continued growth of its corporate client base. MBRD intends to strengthen its position among top thirty full-service banks in Russia by the end of 2004.

The Bank plans to achieve its strategic goals in retail banking by various means, which include expanding its client base by capitalizing on its potential synergies with MTS, MGTS and Sistema's other operators, modernizing its technological infrastructure, and continuing with regional expansion.

Reputation

MBRD Commercial Bank

- MBRD is among 30 biggest banks in Russia in terms of assets. Expert and Profile magazines ranked it 27th among Russia's biggest banks in terms of size of assets, and 30th in terms of volume of securities in 2004.
 - MBRD was 21st most reliable bank among 100 biggest Russian banks (as of January 1, 2004, Profile magazine).
 - The Bank has the status of Authorized Bank of the Moscow Government.
 - Placed by the Federal State Customs Committee on the Register of banks and other institutions certified by the Customs Authorities to act as guarantors.
 - In March 2003, Fitch IBCA international rating agency reaffirmed its MBRD's credit rating, giving it stable outlook.
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Intourist



Tourism and Foreign Assets

Sistema International Investment Group was set up in 2001 to manage foreign assets, with Sistema as its sole shareholder. Its business is mostly focused on development and real estate projects and building travel industry infrastructure in other countries. Sistema International has projects in Hungary, Great Britain, Spain, Croatia, Montenegro, the Czech Republic and several other countries. Today, Intourist is the key operator in the travel services segment. Victor Bolshakov is President of Sistema International Investment Group.

Intourist, established in 1929, is a leading operator in the tourist and leisure services market in Russia. It currently offers a full spectrum of services to individuals and corporations in the Russian Federation and over 60 other countries. The Company has a broad mix of travel products, including packaged tours and various services, such as transportation, hotel accommodation, excursions, visa arrangement, and on-line reservation. Intourist has a well-developed network of 1,500 partners acting as its agents and its own network of 20 sales offices. Intourist sells its products and services through more than 600 companies abroad. Intourist is this nation's oldest brand name and one of the most experienced, reliable, and rapid-growing companies in the Russian travel industry. Its major shareholders today are Sistema (90.65%) and GAO Moskva (8.85%).

For more details, visit Intourist Web-Page at: www.intourist.ru

Growth in Intourist's sales outpaced the average market rate in 2003, enabling the Company to increase its share across all key market segments.

Sistema's assets in this segment are managed by Sistema International Investment Group, which is mainly focused on managing foreign assets and developing travel industry infrastructure. In this segment, Sistema is represented by Intourist, Russia's largest inbound and outbound tour operator with offices in more than 60 countries.

Inbound tourism is encouraged by growing interest toward Russia, as a relatively new and safe international tourism destination which offers an ever expanding range of attractive tourist products and has an improving infrastructure. According to the State Statistics Committee, the number of foreign citizens visiting Russia as tourists edged up 2% to 3.2mn people in 2003. Outbound tourism has been developing even more aggressively, primarily on the back of the growth in real demand both in Moscow and across the Russian regions. The total number of Russian nationals traveling abroad in 2003 rose by 13% y-o-y, to 5.7mn.

Growth in Intourist's sales outpaced the average market rate in 2003, enabling the Company to increase its share across all key market segments.

Intourist is a leader in the inbound tourism segment in terms of sales and service technology. It has an average share of over 20% in cultural and business tourism segments, while these numbers are significantly higher for some other destinations (40% for Great Britain, 33% for the Netherlands, and 30% for Spain). Intourist handled over 80% of all tourists coming from Hong Kong, Poland and the Middle and Near East.

While keeping its focus on in-coming tourism, the Company has reinforced its position in the domestic market as well, by pursuing its strategy as a tour operator, ticket consolidator and retailer. Intourist has considerably expanded the range of its services to domestic consumers. Its sales in the outbound tourism segment doubled in 2003. It has entered the Moscow market with new products for Tunisia, Italy, Spain, Andorra, the United Arab Emirates, and Austria. The Company is now also offering charter programs in Samara and Arkhangelsk.

Developing a retail office network was one of Intourist's key objectives in 2003. The Company opened new sales offices in some of Moscow's promising districts, developed a concept and business technology for retail tourism, and launched a broad promotional campaign. Today, Intourist's network comprises 20 sales offices in Moscow, and several franchises and regional subsidiaries.

Retail distribution, transportation, and hotel management units were turned into independent businesses in order to improve management efficiency. Much attention was given to promotion of Internet technologies. The Company set up Comtour system combining the features of on-line exchange, web site, and travel industry software.

The total number of the Company's customers rose by 32% in 2003 to 259,000. Its sales jumped by 19.6% the same year, from \$52mn to \$62.1mn.

The key components of Intourist's strategy include boosting competitive advantages in priority markets (incoming cultural and business tourism and foreign seaside and skiing tours), expanding its market by tapping into high-profit segments (developing VIP services, corporate, convention and exhibition tourism), smoothing out the seasonality of sales fluctuations by stepping up operations in off-seasons, consolidating its position in regional markets, and implementing vertical integration into hotel and transportation businesses.

The overriding objective facing Sistema International Investment Group, which manages Sistema's foreign assets, lies in developing travel industry infrastructure and simultaneous maintaining its investment fund operations. In 2004, Sistema set up a new company, Intourist Hotel Group, as part of its vertical integration program, to implement various hotel projects. Abbas Aliyev, one of the industry's most seasoned managers, who was head of Intourist in 1999-2003, was put in charge of IHG. Andrei Soluyanov was appointed as President of Intourist.

Reputation

Intourist

- The Company holds all necessary licenses and certificates authorizing it to provide travel services in its area of presence. It is a member of leading international travel industry organizations: WTO, RATA, ICCA, PATA, ASTA, JATA, UFTAA/FUAAV, IATA, COTAL, and AIT.
 - **Best Tourist Brand Name 2003** in the Best-Known Brand Name in Tourism 2003, Excellence in Professionalism in Brand Name Concept Creation nomination.
 - **National Tourist Olympus Award** from the Travel Industry Department of the RF Ministry of Economic Development.
 - **Guiding Star Award** from the Travel Industry Board of the City of Moscow.
 - **Crystal Boat Award** from GAO Moskva.
 - **Travel Industry Leaders Award.**
 - Awards and prizes at major international travel industry exhibitions – WTM, MITT, MITF and Recreation.
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Radio Engineering



Sergei Boyev,
General Director of RTI-Sistemy

Radio Engineering and Information Systems Concern, whose sole shareholder is Sistema, brings together leading Russian enterprises with significant R&D and production potential and experience in implementing uniquely complex high-tech projects. RTI-Sistemy was established in 2000 on the basis of the AL Mintz Institute of Radio Technologies (RTI) and the Distant Radio Communication Research and Development Institute (NIIDAR R&D complex). Today, the Concern is involved in R&D projects in radio technologies, information and communications, and instrument building. Many of RTI-Sistemy's projects have no analogues in the world. For more details, visit its Web-Page at www.rtisystems.ru

RTI-Sistemy is a world leader in over- and below-the-horizon radar technologies. Experts estimate that Russian radars can capture anywhere from 10% to 15% of the global market.

Sistema's radio engineering assets are managed by RTI-Sistemy Concern, which operates in three segments with a high synergy potential, namely radio engineering, information and telecommunications, and instrument building.

RTI-Sistemy is a world leader in over- and below-the-horizon radar technologies. Today, it operates mostly in the domestic market for radar units and complexes, radio control and positioning systems. In the global market, demand for non-strategic missile defense radars and control systems is just starting to grow, while demand for air traffic control radars stands at around 50 units a year. Concern sends most of its export-oriented products to Southeast Asia (China). Efforts are under way to identify new export opportunities and position the Concern in the market for onboard information sets. Experts estimate that Russian radars can capture anywhere from 10% to 15% of the global market.

In the information and telecommunications segment, the Concern's enterprises offer services in designing and building integrated institutional and corporate information networks based on broadband radio access technology. Besides, the Concern develops general and detailed designs (in DWB-RCS, LMDS, Wi-Fi and other standards), manufactures and markets equipment, and develops software. Concern's major customers are RF Defense Ministry, RF Ministry of Education and Science, and the State Customs Committee.

In 2003, the Concern won a contract from the RF Ministry of Education and Science to install and put into operation 4,221 subscriber satellite stations in 38 regions in the European part and the Siberian Federal Area of the Russian Federation (within the framework of the federal target program “Development of Common Education and Information Environment”).

The Concern sells its industrial equipment both to industrial customers (broadcast transmitters) and consumers (Spectrum television sets manufactured by Saransk Television Plant), including in regional markets. All in all Concern’s products are sold at 473 points in 38 regions of Russia. In 2003, the Concern submitted its bid to participate in the Defense Ministry’s tender for delivery of television transmitters.

RTI-Sistemy conducts research and is actively involved in shaping innovative infrastructure and implementing federal and regional target programs. In 2003, the Concern put into service Industrial Exhibition and Trade Center on NIIDAR’s premises, built a laboratory jointly with the Bauman Moscow State Technological University, and opened a class of radio information technologies in Secondary Education School # 227 in Moscow.

Sistema has been consolidating RTI-Sistemy Concern’s financials in its accounts since January 1, 2003. The Concern’s revenues for the year came out at \$29.1mn (net of NIIDAR R&D’s results). Its exports grew by 14% y-o-y. The Concern is well prepared to compete in the world market.

In 2003, RTI-Sistemy restructured its assets and organizational structure, and made several critical appointments. Its growth strategy calls for efforts to reinforce its research and engineering basis, implement vertical value chain integration (from R&D to commercial production), increase segment diversity (from radio engineering to information and telecommunications technologies and industrial instrument building), and find new markets (moving from domestic markets to foreign ones).

Reputation

In 2003, the Concern received several new licenses, including:

- a license from the Russian Management Systems Agency to develop, manufacture, repair, and dispose of arms and military hardware;
- a license from the Russian State Technological Commission to implement measures and/or provide services related to protection of official secrets (to counteract foreign intelligence services);
- a license from the Russian Ministry of Construction to design and construct Class I and II buildings and structures in accordance with federal standards.

Involvement in federal and regional target programs, including:

- Electronic Russia;
- Defense Industry Restructuring; and
- Development of education and information environment.
- **Saransk Television Plant** has ISO 9001-9002 international quality certification.



СМ

ОАО «СИСТЕМА МА

ЛИТЕРАТУРНАЯ
ГАЗЕТА

Газета
РОССИЯ»

Mass Media



Alexander Leiviman,
General Director of Sistema Mass-Media

Sistema Mass-Media (SMM) is one of the largest media companies in Russia. Its key business areas today are advertising (Maxima advertising agency and TV-Project company); distribution of printed media (Nasha Pressa Group of Companies) and publishing (Literaturnaya Gazeta, Metro and Rossia). The Company's strategy is aimed at developing a new multimedia market.

In 2003, the Company adopted a development strategy for SMM Group of Companies, designed to develop a new market for media services based on the most advanced information and telecommunications technologies.

In 2003, the media market remained one of the most dynamically growing markets in Russia, expanding by over 35% y-o-y. As in 2002, television sector outpaced the market, with cable television surging by 50% in 2003 on the back of aggressive consolidation of major media groups.

Sistema's media assets are managed by Sistema Mass-Media (SMM). Media business underwent restructuring and cost-cutting in 2003, which resulted in SMM's income climbing to \$35.2mn, or up 15.5% y-o-y.

Restructuring has set off a process which will ultimately lead to a merger of Nasha Pressa and ARP-Region, thus turning Nasha Pressa into Russia's biggest press distributor. In turn, control over a key distribution channel will make publishing a strategic unit with very strong investment potential.

The Group's printed media posted dynamic growth in 2003. Literaturnaya Gazeta broke even, showing a stable rise in circulation and advertising space sales. Weekly circulation of Metro, Moscow's only free information newspaper, has topped 600,000. Now, Metro has a free companion newspaper, Medsovet, publishing articles on medical and health issues.

TV-Project, one of the most rapidly growing companies in outdoor advertising, won exclusive rights in 2003 and started to install LightMotionDisplays, which represent an entirely new concept of outdoor advertising. In the same year, TV-Project won a tender for placing ads in Moscow's Metro. Olympus management company has been set up to consolidate billboard sales in the Metro.

In 2003, the Company adopted a development strategy for SMM Group of Companies, aimed at the development of a new market for media services based on the most advanced information and telecommunication technologies. Its multimedia project will combine a brand-new cable television system, a package of

television channels, and companies producing television and Internet content. In order to implement this project, a new core company called Sistema Multimedia is being created, as part of SMM.

The multimedia project is to be developed in partnership with Sistema Telecom Group's telecommunication operators, on the basis of investments which Sistema made earlier into MGTS' ADSL broadband network and Comstar United Telesystems' fiber optic network. Kosmos-TV, where Sistema acquired a 50%-stake in 2003, can be fittingly integrated into Sistema's telecommunications and media assets structure.



Venture Projects

In 2003, Sistema continued its active search for opportunities in entirely new industries and participated in promising venture projects, mostly in the area of high-tech and innovations.

Kamov-Holding

Medical Technologies MTH

Sistema-Venture

Olympic System

Kamov-Holding is a helicopter manufacturing holding company established in 2003 on the basis of Kamov, where Sistema has had an interest since 2001. Kamov-Holding places orders for Kamov helicopters, arranges marketing and sales activities, provides maintenance on helicopters, and finances design work.

Medical Technologies MTH specializes in production of modern drugs and medical equipment, including biotechnological vaccines (against hepatitis B), CNS analgesics, and ready-to-use medications in ampoules (nitroglycerin and so on). All products are manufactured in strict compliance with international quality standards (GMP).

Sistema-Venture specializes in venture projects and provides consulting services in intellectual property and business planning. Sistema-Venture manages high-tech innovation projects and is involved in acquiring, restructuring, developing, and selling small companies, operating as a direct investment fund. It is fully owned by Sistema.

Olympic System specializes in managing sports facilities and delivering equipment and gear for sports and fitness. The Company was established by Sistema and the Russian Olympic Committee in 1997. At present, it manages Olympic Star fitness club, one of the biggest facilities of its kind in Europe, Wellness Club (sports and health center), and works to expand its chain of sports and health centers.

