

SMARTSPACE

2009



JOINT-STOCK FINANCIAL CORPORATION
SISTEMA



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SISTEMA

To whom it may concern

April 30, 2010

Responsibility Statement

To the best of my knowledge (a) the financial statements, prepared in accordance with the US GAAP, give a true and fair view of the assets, liabilities, financial position and profit or loss of Sistema JSFC and the undertakings included in the consolidation taken as a whole; and (b) the management report includes a fair review of the development and performance of the business and the financial position of Sistema JSFC and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Yours sincerely,

Leonid Melamed
President and Chief Executive Officer

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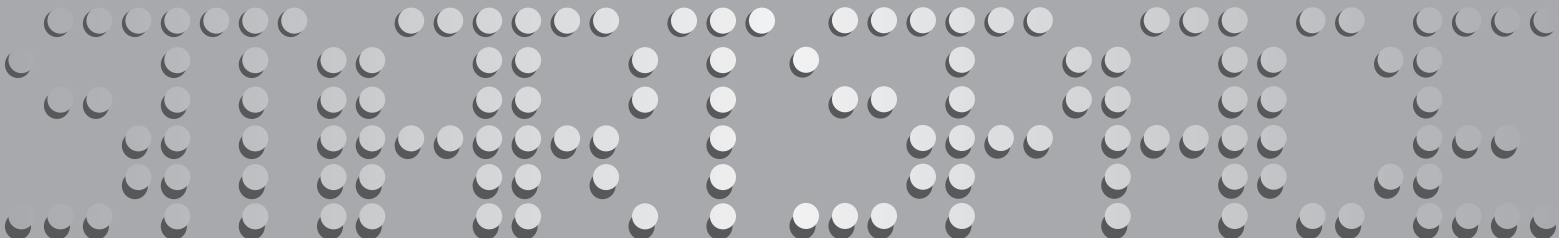
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PART I
SISTEMA



Founded in 1993, Sistema today is the largest public diversified financial corporation in Russia and the CIS, which manages companies serving over 100 million customers in the sectors of telecommunications, high technology, oil and energy, radars and aerospace, banking, retail, mass-media, tourism and healthcare services.

Sistema's portfolio companies conduct business in the markets of Russia, the CIS, Central and Eastern Europe and India. Sistema considers the state-of-the-art technologies progress as its main contribution into the Russian economy growth and people's life quality improvement.

Following an IPO in February 2005, Sistema's global depository receipts are listed under the ticker "SSA" on the London Stock Exchange. Sistema's ordinary shares are listed under the ticker "AFKS" on the RTS Stock Exchange, under the ticker "AFKC" on the MICEX Stock Exchange, and under the ticker "SIST" on the Moscow Stock Exchange (MSE). The Sistema group includes four public companies with shares traded on international exchanges: MTS on the New York Stock Exchange; and Comstar-UTS, Sitronics and Sistema-Hals on the London Stock Exchange.

The Corporation's main shareholder is the Chairman of the Board of Directors of Sistema, Vladimir Evtushenkov (64.18%). 19% of the shares are traded in the form of GDRs on the London Stock Exchange and around 5.2% on the MICEX and RTS exchanges.

Sistema has no analogue among Russian public companies and provides investors with unique investment opportunity. The investment activity of the Corporation promotes the increase of its shareholder value and maintains the maximum level of profitability of its asset portfolio. The strategic aim of Sistema is to achieve ROIC (return on invested capital) at a level of greater than 25% over the next five years and to maintain it at or above this level over the longer term.

In July 2008, Sistema transitioned to the matrix model of asset management, having formed, in addition to the functional divisions that carry out the function of line management, business units concentrating industrial expertise and that manage several of the Corporation's business areas. Today the management of Sistema's

assets portfolio is being provided by four business units: Telecommunications Assets; Oil and Energy Group; Consumer Assets; and High Technology and Industry.

The Telecommunications Assets business unit is responsible for the development and implementation of the Corporation's telecommunications strategy and carries out the management of Sistema's telecommunications and media assets. These include: MTS, Comstar-UTS (in October 2009 the controlling stake in Comstar-UTS was acquired by MTS), Sistema Mass-Media and other Russian companies, as well as Indian telecommunications operator Sistema Shyam TeleServices Ltd. (MTS India).

The portfolio of the Oil and Energy Group business unit includes Bashkir oil and energy companies, the controlling stakes of which were acquired by Sistema in April 2009. ANK Bashneft is the managing holding company of the group. The production block of the group is allocated to the operating company Bashneft-Production while the refining block is represented by the three Ufa's refineries (Ufimsk Refinery, Ufaneftekhim and Novoil) and one petrochemical plant (Ufaorgsintez). The group also includes the Bashkirnefteprodukt focused on the sale of motor fuel through retail and wholesale outlets.

The activity of the Consumer Assets business unit is concentrated in the development of the companies in the consumer sector, such as Detsky Mir, Intourist, Medsi, MBRD and Sistema-Hals.

The High Technology and Industry business unit engages in the management and development of high-technology and venture projects of Sistema as well as projects in the area of state-private partnerships. The business includes the companies Sitronics, RTI Systems and Binnopharm.

Sistema is managed by a highly professional team of managers in accordance with widely recognized standards of corporate governance. The experience and abilities of the Board of Directors and management provide access to unique investment targets and financing opportunities.

TELECOMMUNICATIONS BUSINESS UNIT

MTS	Largest mobile telecommunications operator in Russia and the CIS and Top10 player globally in terms of subscriber base
Comstar-UTS	No. 1 alternative broadband internet access provider in Russia and the CIS and through MGTS, owner of the last mile in Moscow and regions
Sky Link	Leader in the Moscow and St Pete markets for 3G mobile communications providing high-speed internet and voice services
Sistema Shyam TeleServices Ltd.	Fast-growing pan-Indian mobile telecommunications operator
Sistema Mass-Media	Leading Russian company in the market for the production and distribution of content for pay-TV networks and other media platforms

OIL AND ENERGY BUSINESS UNIT

ANK Bashneft	Managing holding company for the group of Bashkir oil and energy companies, which are among the Top10 oil producers in Russia and the Top5 oil refiners; Bashneft-Production – 100% subsidiary of ANK Bashneft, Oil production arm of Bashneft group
Ufinsk Refinery Ufaneftekhim Novoil	Oil refining companies of Bashneft group, among the best refineries in CIS
Ufaorgsintez	Petrochemicals arm of Bashneft group
Bashkirnefteprodukt	Company focused on the sale of motor fuel through retail and wholesale outlets
Bashkirenergo	One of the leading regional electricity generating companies in Russia

CONSUMER ASSETS BUSINESS UNIT

MBRD	One of Russia's largest universal commercial banks with a national branch network
Intourist	Leading universal operator on the Russian tourism market providing services to Russian and foreign tourists
Detsky Mir	Retail network holding the leading position in the market for children's goods as well as one of Russia's oldest and best recognized brands
Medsi	Russia's first national chain of private medical clinics presented in Moscow and the regions and provided a full range of healthcare services, from diagnostics to treatment of illness, dentistry, fitness etc.
Sistema-Hals	One of the largest diversified companies working in the Russian and CIS real estate markets

HIGH TECHNOLOGY AND INDUSTRY BUSINESS UNIT

Sitronics	Largest high-technology company in Eastern Europe and one of the leading providers of solutions in areas such as telecommunications, IT, systems integration, consulting and microelectronics
RTI Systems	One of Russia's largest defense-sector industrial holdings, including large enterprises possessing unique scientific and industrial potential and experience in project implementation in the field of aerospace, navigation, radio, radars and other high technologies
Binnopharm	One of Russia's largest vertically integrated pharmaceutical and biotechnology holdings with Russia's top GMP-compliant production facility

PRIORITY TRENDS IN COMPANY'S ACTIVITIES

JSFC Sistema's Strategy

The strategy «5x5>25», approved by the Board of Directors of JSFC Sistema in September 2008, stipulates the key target – reaching shareholders' ROIC greater than 25% within next 5 years by implementing the following 5 initiatives:

- Create additional value for all assets in the portfolio of JSFC Sistema:
 - Achieve strong and transparent financial results;
 - Provide high quality asset management – including via partnerships with leading companies;
 - Diversify risks and attract capital – including via partnerships with leading companies.
- Maintain strict financial discipline, based upon:
 - Dominance of TSR and ROIC and investment decision making;
 - Transparent KPIs for all public and non-public portfolio companies.
- Simplify the corporate governance structure.
- Enhance portfolio strategy and asset management.
- Follow best IR and corporate governance practices.

The principles of Portfolio Management

The approved Strategy assumes that JSFC Sistema investment activities meet the following key criteria:

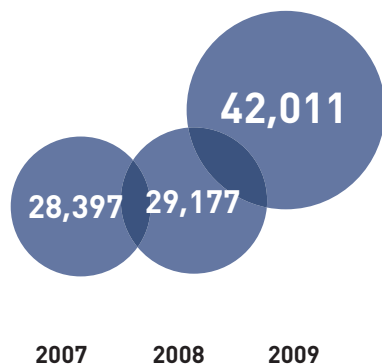
- All target investments (existing portfolio companies and potential targets) should generate return on investments greater than weighted cost of capital (IRR>WACC). All targets should become profitable and self-sufficient in terms of funding needs in medium term perspective.
- Sistema manages portfolio companies through four Business Units, each possessing relative industrial and operational expertise («Telecommunications Assets», «Oil and Energy Group», «Consumer Assets», «High Technology and Industry»). Each portfolio company implements unified motivation scheme, which is inter-related with the motivation program of JSFC Sistema and is focused on equity value creation and reaching strategic goals.
- New investment projects are initiated in the industries with

strong prerequisites for stable and long term growth.

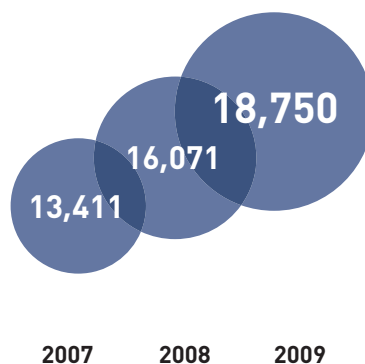
- For the purposes of additional value creation JSFC Sistema may consider various partnership solutions with financial and strategic investors on a level of portfolio company. Including those developing with the State. The Corporation actively seeks partnerships with state owned companies and the State to complete strategic projects, focused to improve competitiveness of the Russian economy and substitution of imports.
- The key elements of corporate governance practices and IR include maintenance of Independent Directors' presence – both on JSFC Sistema's and portfolio companies' level, and also strengthening the feedback to the management from the investment community.

Financial Highlights of 2009¹

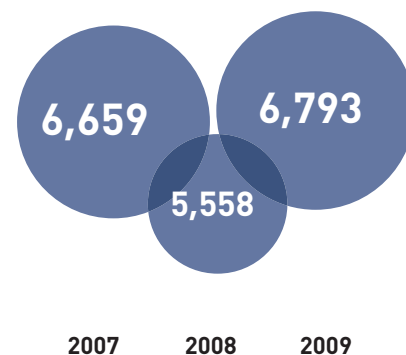
Assets, US\$ million



Revenue, US\$ million

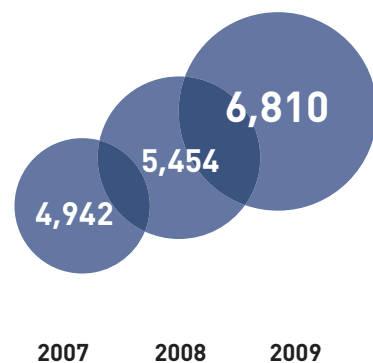


Shareholders' Equity, US\$ million

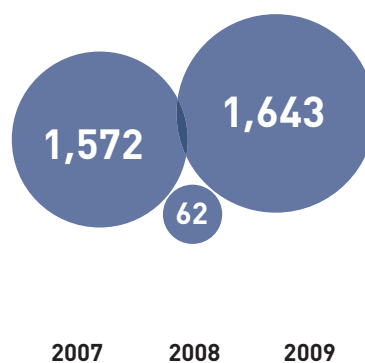


¹Based on the Consolidated Financial Statements of Sistema (US GAAP basis) for the years ended 31 December 2009, 2008 and 2007.

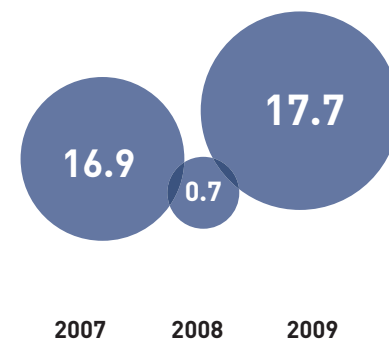
OIBDA², US\$ million



Net Income, US\$ million

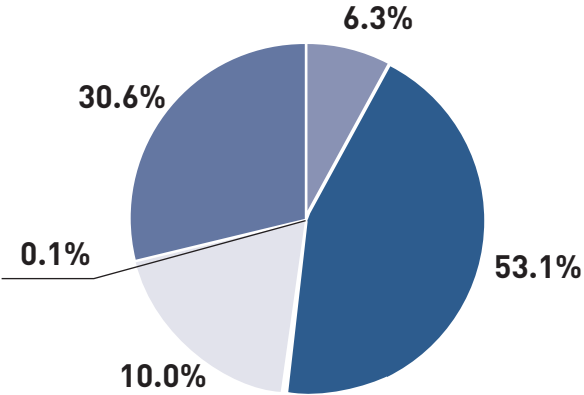


EPS, US\$ cents



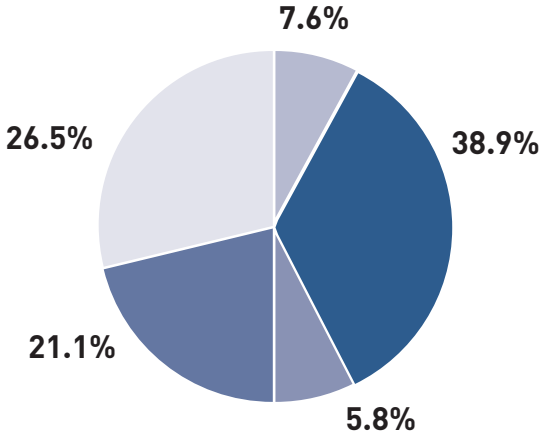
²OIBDA represents operating income before depreciation and amortization. OIBDA margin is defined as OIBDA as a percentage of our net revenues.

Revenue composition



- Telecommunications ●
- Technology and Industry ●
- Consumer ●
- Oil and Energy ●
- Corporate and Other ●

Assets composition**



- Telecommunications ●
- Technology and Industry ●
- Consumer ●
- Oil and Energy ●
- Corporate and Other ●

** Before eliminating intragroup settlements.

Sistema named among Top100 companies in rapidly developing economies

Boston Consulting Group's New Global Challengers list of 100 leading companies in rapidly developing economies includes Sistema among top players from Brazil, India, China, Mexico, Russia, and other countries. The list identifies companies that are leaders in their markets and are driving globalization. The 100 companies were selected from a range of over 3,000 regional leaders from the countries of Asia, Central and Eastern Europe, the Middle East, the CIS, and Latin America.

TELECOMMUNICATIONS ASSETS

Sistema sells 50% voting stake in MTT

Sistema signs an agreement with Synterra Group to sell its 43.4% stake (50% of voting shares) in MTT. In addition, Synterra Group will assume MTT's intercompany debt obligations to Sistema. The deal is worth US\$ 54 million and is in line with Sistema's strategy of optimizing its telecommunications assets and eliminating duplication of services within a business area.

Sistema Shyam TeleServices Ltd. begins services under the MTS brand

Sistema Shyam TeleServices LTD (SSTL) and MTS sign an agreement under which SSTL can use the MTS brand in India. The MTS brand – recognized as one of the Top100 global brands by the Financial Times and Millward Brown in 2008 – provides SSTL with an important additional competitive edge as it continues to expand in the fast growing Indian market.

Sistema sells its controlling stake in Comstar-UTS to MTS

Sistema completes the sale of a 50.91% stake in Comstar-UTS to MTS for a total consideration of RUB 39.15 billion (approximately US\$ 1.32 billion). As the result of this transaction, Sistema Group's total shareholding in Comstar-UTS was transferred to MTS. The sale is a logical continuation of Sistema's strategy for its telecommunications assets development, providing an optimized asset and management structure, unlocking synergies, and creating a platform to provide convergent services to clients and strengthen leadership in the market for broadband internet access.

Sistema signs Memorandum of Understanding with Svyazinvest and Comstar-UTS on the reorganization of assets

Sistema signs a non-binding Memorandum of Understanding with Svyazinvest and Comstar-UTS and initiated negotiations over the reorganization of certain assets. According to the MOU, Sistema may potentially sell its stake in Sky Link, while Comstar-UTS may dispose of its stake in Svyazinvest and acquire Svyazinvest's holding in MGTS. Furthermore, according to the MOU, all parties may restructure the outstanding debt in relation to these transactions.

Comstar-UTS increases its share in MGTS and reduces crossholdings

Comstar-UTS acquires 14.2% of the stake of its subsidiary MGTS from minority shareholders. In turn, MGTS Finance S.A., part of the Comstar-UTS group, sold 11.06% of its stake to MTS. This increased Comstar's stake in MGTS to 69.93%. MTS's share in Comstar's stake increased to 61.97%. These transactions were carried out with the goal of increasing the efficiency of managing Comstar-UTS by increasing its share in its key asset, MGTS, as well as simplifying the structure of the Group.

OIL AND ENERGY GROUP

Sistema acquires controlling stake in Bashkir Oil and Energy Group

As a result of this transaction, Sistema now owns Bashneft (76.52%), Ufaneftekhim (65.78%), Novoil (87.23%), Ufaorgsintez (73.02%), Ufimsk Refinery (78.49%), and Bashkirnefteprodukt (73.33%). The total value of the deal amounted to around US\$ 2 billion. The Bashkir OEG is one of the Top10 oil production companies in Russia, ranking fifth in oil refining and fourth in reserves.

Sistema consolidates Bashkir oil and energy assets into Bashneft

Sistema completes a deal to sell the Corporation's stake in Ufaneftekhim (47.18%), Novoil (61.57%), Ufaorgsintez (51.49%), and Ufimsk Refinery (55.58%) to Bashneft. The transaction represents an important stage of creating a vertically integrated holding based on oil companies in Bashkortostan.

HIGH TECHNOLOGY AND INDUSTRY

ROSNANO and Sistema sign a contract to start production of 90nm microcircuits

Investment in the project will be carried out through a joint venture owned equally by ROSNANO and NIIME and Micron. The total amount of financing for the project will amount to RUB 16.5 billion,

with RUB 6.5 billion provided by ROSNANO. Sitronics will invest an equal amount in the form of high-tech equipment at the Micron plant where the project will be carried out. The products manufactured will target such markets as digital television, GLONASS/GPS navigation, systems for automated production, automobile electronics, and secure smart cards.

Sistema opens the Binnopharm biopharmaceutical complex

The new Binnopharm complex is Russia's largest Good Manufacturing Practice (GMP) certified plant with full-cycle production and in-house R&D facilities. The plant develops and produces medicines aimed at replacing imported analogues while providing comparable quality. Sistema has begun to create a biopharmaceutical cluster on the basis of Binnopharm that will be a technology park based on public-private partnership. Sistema's has invested a total RUB 4.3 billion in the complex.

CONSUMER ASSETS

Sistema reduces its share in Sistema-Hals

In April 2009, VTB Bank acquired 19.5% of Sistema-Hals, Sistema's subsidiary in the real estate market. After VTB exercised an option to acquire 31.5% of the shares of Sistema-Hals in December 2009, its stake reached 51.24%. In December 2009, Sistema acquired 8.15% of the shares of Sistema-Hals from the Sistema-Hals Group of companies, increasing its stake to 27.6%. This last transaction was carried out to convert part of the Company's debt to Sistema into equity of Sistema-Hals.

/Key Events in Early 2010/

TELECOMMUNICATIONS ASSETS

Comstar-UTS moves to the third stage of the reorganization of its regional assets

Comstar-Regions incorporates 13 regional subsidiaries that are part of the Comstar Group. In 2010, Comstar-UTS plans to increase its regional presence through organic growth and acquisition of attractive assets.

Subscriber base of Sistema Shyam TeleServices Ltd. surpasses 4 million

In January 2009, the subscriber base of SSTL was 500,000 users.

By the end of April 2010, it reached 4 million and encompassed 11 telecommunications circles covering 14 Indian states. The SSTL network has been recognized by the regulator as one of the best in the industry in terms of quality of service.

OIL AND ENERGY GROUP

Sistema acquired the 49% stake in Russneft

In March 2010, Sistema signed an agreement to acquire a 49% stake in OJSC Oil and Gas Company RussNeft ("RussNeft"). The total amount which is expected to be paid is contingent on RussNeft achieving a number of financial and operating indicators, but will not exceed US\$ 100 million. In April 2010, the Group acquired the 49% stake in RussNeft in accordance to previous agreement.

HIGH TECHNOLOGY AND INDUSTRY

Sitronics, ROSNANO and STMicroelectronics sign a deal for the transfer of technology for production of 90nm microcircuits

As a result of the technology transfer, Sitronics will obtain a license to produce and sell products based on 90nm technology. The introduction of 90nm technology will open new markets for the Corporation and help it maintain market position for products based on 180nm technology.

CONSUMER ASSETS

Intourist leads the rating of the largest tourism companies in Russia for the fourth year running

According to the rating, which was conducted by leading information agency Tourinfo, Intourist maintained its market leadership, despite a fall in demand for tourism services during 2009, and is well positioned for a market recovery in 2010 and 2011.

Medsi opens a new building for the clinical and diagnostic center in Moscow

The new building includes the Women's Health Center, the Center for Extracorporeal Healing Methods, an express diagnostic laboratory, an endocrinology department and a modern surgical block. Total investment amounted to US\$ 43.5 million, and the new building will serve an extra 2,000 patients per day.

- Consolidated revenues up 16.7% year-on-year to US\$ 18.8 billion
- Consolidated OIBDA up 24.8% year-on-year to US\$ 6.8 billion, with an OIBDA margin of 36.3%
- Operating income increased by 37.6% year-on-year and amounted to US\$ 4.3 billion, with an operating margin of 23.0%
- Consolidated net income attributable to the Group of US\$ 1.6 billion, compared to US\$ 0.1 billion in the previous year
- Total assets up 44.1% year-on-year to US\$ 42.0 billion, including US\$ 12.8 billion from the acquisition of Bashkir companies

Financial summary

(US\$ millions, except per share amounts)	FY 2009	FY 2008	Year on Year Change
Revenues	18,749.8	16,071.1	16.7%
OIBDA	6,809.5	5,454.3	24.8%
Operating income	4,319.0	3,138.0	37.6%
Net income attributable to Sistema	1,643.4	62.0	2,551.7%
Basic and diluted earnings/(loss) per share (US cents)	17.7	0.7	2,551.6%

Operating results review

Sistema's consolidated revenues increased by 16.7% year-on-year for the full year in 2009, primarily as a result of the contribution from the Oil and Energy business unit. Non-telecommunications businesses, including the Oil and Energy business unit, accounted for 46.9% of total Group consolidated revenues for 2009, compared to 24.9% for 2008.

Selling, general and administrative expenses increased by 1.8% year-on-year to US\$ 3,227.6 million for 2009, reflecting a slower rate of growth relative to the growth in consolidated revenues.

The Group OIBDA for the full year was impacted by non-recurring one-offs which included a gain from the acquisition of the Bashkir Oil and Energy assets and certain write-offs. OIBDA, net of non-recurring one-offs, was US\$ 5,468.2 million for 2009, compared to US\$ 5,995.0 million in the previous year.

Depreciation, depletion and amortisation expense in 2009 increased by 7.5% year-on-year to US\$ 2,490.5 million in 2009 mainly due to the effect from the acquisition of the Bashkir Oil and Energy assets, which was partly offset by the depreciation of the Russian ruble against the US dollar.

The Group operating income increased by 37.6% for full year 2009. Operating income net of non-recurring one-offs decreased by 19.1% year-on-year to US\$ 2,977.7 million for full year 2009, compared to US\$ 3,678.7 million in 2008.

The Group's interest expense was US\$ 1,328.6 million for the full year 2009, compared to US\$ 554.6 million in 2008, mainly due to the increase in total debt, changes in the debt currency profile and an increase in interest rates.

Currency exchange and translation effect on the Group's financial results in 2009, which amounted to US\$ 92.8 million loss for full year 2009, was significantly lower than a year ago when the Group recognised a US\$ 890.5 million loss for full year 2008.

The effective tax rate was 24.4% for full year 2009, compared to 43.1% for the corresponding period of 2008. The decrease in the effective tax rate resulted from a non taxable gain from the acquisition of Bashkir Oil & Energy assets in 2009 and non-deductible losses following the impairment of long-term assets, as well as goodwill and losses incurred by Sistema-Hals in 2008.

The consolidated net income attributable to Sistema excluding non-recurring one-offs amounted to US\$ 516.1 million for the full year of 2009, compared to US\$ 1,078.2 million in the corresponding periods of 2008.

Operating review by segment¹

Telecommunications Assets Business Unit

(US\$ millions)	FY 2009	FY 2008	Year on Year Change
Revenues	9,956.0	12,081.5	(17.6%)
OIBDA	3,880.4	5,723.4	(32.2%)
Operating income	2,016.3	3,565.0	(43.4%)
Net income / (loss) attributable to Sistema	422.3	869.5	(51.4%)
Indebtedness	8,910.7	5,510.8	61.7%
MTS			
Revenues	9,823.5	11,900.9	(17.5%)
OIBDA	4,473.6	5,848.4	(23.5%)
Operating income	2,547.6	3,647.3	(30.2%)
Net (loss) / income attributable to Sistema	560.0	1,114.3	(49.7%)
SSTL			
Revenues	36.4	21.9	66.4%
OIBDA	(222.7)	(39.7)	-
Operating loss	(250.8)	(68.1)	-
Net loss attributable to Sistema	(191.3)	(63.6)	-
Sistema Mass-Media			
Revenues	87.2	224.0	(61.1%)
OIBDA	(14.3)	60.6	-
Operating loss	(72.1)	(5.8)	-
Net (loss) / income attributable to Sistema	(51.7)	(13.6)	-

The Telecommunications Assets business unit comprises MTS, Sistema Shyam TeleServices Ltd. (SSTL), and Sistema-Mass-Media. The results of Comstar-UTS are included in MTS' results for all periods presented, following Sistema's sale of its 50.91% stake in Comstar-UTS to MTS in the fourth quarter of 2009.

The unit's revenues decreased by 17.6% year-on-year in 2009. The Telecommunications Assets business unit accounted for 53.1% of the Group's consolidated revenues for the full year 2009.

The Telecommunications Assets business unit's OIBDA declined by 32.2% year-on-year for the full year 2009. The OIBDA margin was 39.0% in 2009, compared to 47.4% in 2008.

The Telecommunications Assets business unit's declined by 51.4% year-on-year for full year 2009 and amounted for US\$ 374.9 million.

MTS total consolidated subscriber base grew to approximately 102.4 million customers as of December 31, 2009. MTS' revenues decreased by 17.5% year-on-year in 2009 as a result of local currencies' depreciation against US dollar. MTS' fixed line broadband subscriber base increased by 39.8% year-on-year to 1.3 million customers in 2009, and its pay-TV customer base grew to 2.1 million, compared to 300,000 customers in 2008.

MTS' OIBDA declined by 23.5% year-on-year for 2009. The OIBDA margin decreased from 49.1% to 45.5% year-on-year for 2009, primarily as a result of the depreciation of the Russian ruble against the US dollar.

SSTL's revenues were up by 66.4% year-on-year for 2009 as a result of strong growth in the mobile subscriber base and the expansion of network coverage. SSTL's mobile subscriber base reached 2.9 million customers at the end of 2009.

¹Here and further, in the comparison of period to period revenues is presented on an aggregated basis, excluding revenues from intra-segment (between entities in the same segment) transactions, but before inter-segment (between entities in different segments) eliminations, unless accompanied by the word "consolidated". Amounts attributable to individual companies, where appropriate, are shown prior to both intra-segment and inter-segment eliminations and may differ from respective standalone results due to certain reclassifications and adjustments.

SSTL's OIBDA loss increased for the full year due to the increase in expenses associated with the rollout of new mobile networks. SSTL launched services in ten new circles in total for the full year 2009, thus fulfilling its license obligations for the rollout of the first stage of a pan-Indian network in all 22 circles. Additionally, SSTL started offering mobile broadband services in the 57 largest cities in India. The number of mobile broadband subscribers totalled 50,000 as of April 2010.

Sistema Mass-Media's revenues declined by 61.1% year-on-year in 2009 as a result of the sale of the Stream-TV business to Comstar-UTS.

Sistema Mass-Media reported an OIBDA loss for the full year 2009.

Consumer Assets Business Unit

(US\$ millions)	FY 2009	FY 2008	Year on Year Change
Revenues	1,896.8	2,596.5	(26.9%)
OIBDA	(101.5)	(41.0)	-
Operating loss	(153.9)	(105.7)	-
Net loss at-tributable to Sistema	(326.4)	(394.4)	-
Indebtedness	1,127.5	914.4	23.3%
Banking			
Revenues	720.4	725.4	(0.7%)
OIBDA	18.8	109.5	(82.9%)
Operating (loss) / income	5.2	94.7	(94.5%)
Net (loss) / income at-tributable to Sistema	(91.4)	23.5	-

Retail			
Revenues	583.1	802.0	(27.3%)
OIBDA	(47.4)	16.8	-
Operating income / (loss)	(65.1)	2.0	-
Net (loss) / income at-tributable to Sistema	(99.1)	(36.1)	-

Tourism			
Revenues	399.7	615.6	(35.1%)
OIBDA	7.8	37.7	(79.4%)
Operating (loss) / income	(1.1)	30.9	-
Net (loss) / income at-tributable to Sistema	(8.8)	0.8	-

Healthcare			
Revenues	125.8	124.8	0.8%
OIBDA	6.2	4.6	34.9%
Operating (loss) / income	(0.4)	0.7	-
Net (loss) / income at-tributable to Sistema	(7.3)	(4.3)	-

The Consumer Assets business unit comprises the Banking, Retail, Tourism and Healthcare businesses. The results of Sistema-Hals are excluded from the Consumer Assets business unit's results following the sale of a controlling stake in Sistema-Hals to VTB Bank in the fourth quarter of 2009.

The Consumer Assets business unit's revenues declined by 26.9% year-on-year for the full year 2009. The unit accounted for 10.0% of consolidated revenues in for the full year 2009.

The Consumer Assets business unit reported an OIBDA loss for the full year 2009 largely as a result of the Banking segment's performance.

The Banking business' revenues remained relatively stable year-on-year in 2009 as a result of an increase in interest income, as well as net income generated from transactions with financial instruments, whereas net income received from transactions in foreign currency has decreased. The results were further impacted by the depreciation of the Russian ruble against the US dollar.

The Banking business' loan portfolio, excluding leases, increased by 13.0% year-on-year to US\$ 5,565.1 million as of December 31, 2009. The retail banking business included 174 points of sales, including 27 points located in Moscow and 146 points in 39 Russian regions, as well as 1 in Luxembourg at the end of 2009.

The Banking business' OIBDA was positive for the full year 2009, declining by 82.9% year-on-year as a result of an increase in loan provisions due to the adoption of a more conservative provisioning policy, as well as the increase in operating and commission expenses.

Revenues from the Retail business decreased by 27.3% year-on-year for full year 2009 mainly due to the Russian ruble depreciation against the US dollar, as well as a decline in consumer demand. The network of retail outlets included 129 stores located in 68 Russian cities, whilst the aggregate retail space was 214,700 square metres at the end of 2009.

The Retail business generated an OIBDA loss for the full year 2009. However, the improvement in working capital management allowed the Retail business to generate a significant operating cash inflow during the year. The business continued to experience pricing pressure on its retail margins due to discounting of seasonal stock and price corrections in the market.

The Tourism business' revenues declined by 35.1% year-on-year in 2009. The hotel group's total number of rooms owned and under management was 3,362 at the year end. OIBDA for the Tourism business declined by 79.4% year-on-year for full year 2009, respectively, due to increased competition.

The Healthcare Services business' revenues increased by 0.8% year-on-year in 2009 as a result of the growth of its customer base following the opening of new clinics. At the end of 2009, the network

consisted of 30 medical clinics and hospitals, including 19 based in Moscow and 11 in the regions. Three new medical centres were opened during the year. The business provided 6.3 million medical services in 2009, including preventive and diagnostic, as well as treatment of patients, delivering a 16.6% growth year-on-year.

Healthcare Services business' OIBDA increased by 34.9% year-on-year for the full year 2009.

High Technology & Industry Business Unit

(US\$ millions)	FY 2009	FY 2008	Year on Year Change
Revenues	1,508.5	1,932.8	(22.0%)
OIBDA	61.6	144.9	(57.5%)
Operating (loss)/income	(6.4)	61.0	-
Net loss attributable to Sistema	(64.6)	(50.0)	-
Indebtedness	926.2	821.5	12.8%
High Technology			
Revenues	1,024.2	1,401.3	(26.9%)
OIBDA	0.9	100.4	(99.1%)
Operating (loss)/income	(54.8)	26.6	-
Net loss attributable to Sistema	(83.0)	(41.5)	-
Radars and Aerospace			
Revenues	409.9	471.5	(13.1%)
OIBDA	51.3	55.1	(6.8%)
Operating income	39.2	47.3	(17.2%)
Net income/(loss) attributable to Sistema	13.8	5.8	137.0%
Pharmaceuticals			
Revenues	55.7	41.7	33.6%
OIBDA	10.8	(12.2)	-
Operating income/(loss)	8.2	(14.5)	-
Net income/(loss) attributable to Sistema	3.9	(15.7)	-

The High Technology and Industry business unit comprises the High Technology, Radars and Aerospace, and Pharmaceuticals businesses.

The unit's revenues declined by 22.0% year-on-year for the full year 2009 largely as a result of the underperformance in the High Technology business. The unit accounted for 6.3% of consolidated revenues for full year 2009.

The High Technology and Industry business unit's OIBDA decreased by 57.5% year-on-year for full year 2009, following the decline in OIBDA of the High Technology business. The Pharmaceutical business generated positive OIBDA for the full year 2009, reversing a negative trend in 2008.

The High Technology and Industry business unit reported a net loss for full year 2009 largely as a result of challenging market conditions in the High Technology business and non-recurring one-off charges amounting to US\$ 102.4 million for the full year, whilst both the Radars and Aerospace and Pharmaceutical businesses have improved their profitability in 2009.

Revenues for the High Technology business declined by 26.9% year-on-year in 2009 due to the impact of the adverse economic environment on the Telecommunication Solutions business as well as the significant weakening of the operating currencies of the business against its US dollar reporting currency, which was offset to an extent by a return to growth in the Information Technologies and Microelectronics business areas.

The High Technology business reported a positive OIBDA for full year 2009.

The Radars and Aerospace business' revenues declined by 13.1% year-on-year in 2009 mainly due to the Russian ruble depreciation against the US dollar.

OIBDA of the Radars and Aerospace business declined by 6.8% year-on-year for full year 2009.

The Pharmaceuticals business' revenues increased by 33.6% year-on-year in 2009, following the launch of a new ampoule production facility in Zelenograd, Russia and the fulfilment of a federal vaccine supply project.

The Pharmaceuticals business reported positive OIBDA for full year 2009, compared to an OIBDA loss in 2008.

Oil & Energy Group Business Unit

(US\$ millions)	4Q 2009	3Q 2009	Quarter on Quarter Change	FY 2009*
Revenues	2,638.8	1,924.4	37.1%	5,730.7
OIBDA	488.0	404.4	20.7%	1,086.0
Operating income	316.4	238.0	32.9%	587.8
Net income attributable to Sistema	125.0	245.8	(49.1%)	391.4
Indebtedness	2,500.4	2,706.6	(7.6%)	2,500.4
Bashneft				
Revenues	2,102.4	1,457.4	44.3%	4,134.4
OIBDA	317.1	239.6	32.3%	680.8
Operating income	278.6	201.1	38.5%	565.3
Net income attributable to Sistema	155.5	125.7	23.7%	320.3
BashTEK Refinery				
Revenues	579.9	513.9	12.9%	1,383.0
OIBDA	140.2	141.7	(1.1%)	291.5
Operating (loss) / income	44.6	46.1	(3.3)	4.6
Net (loss) / income attributable to Sistema	22.2	44.8	(50.5)	4.9
BashkirEnergO				
Revenues	488.5	340.9	43.3%	1,165.4
OIBDA	33.5	16.5	103.2%	107.4
Operating income / (loss)	6.1	(10.9)	-	25.2
Net (loss) / income attributable to Sistema	(2.9)	(2.1)	-	3.5

* After acquisition in april 2009

(US\$ millions)	4Q 2009	3Q 2009	Quarter on Quarter Change	FY 2009*
Bashkirnefteproduct				
Revenues	209.1	189.4	10.4%	531.1
OIBDA	8.7	15.9	(45.6%)	37.4
Operating income	4.1	11.4	(63.6)	23.9
Net income attributable to Sistema	1.8	10.2	(82.7%)	15.9

The Oil and Energy Group business unit comprises oil and energy companies of the Bashkir Oil and Energy Group. The unit's revenues increased by 37.1% quarter-on-quarter following the cancellation of the tolling scheme by Bashneft and the signing of a direct long term supply contract with Surgutneftegaz in addition to contracts signed with Shell, Lukoil and TNK-BP earlier this year. The unit contributed 30.6% of the Group's consolidated revenues for full year 2009.

The business unit's OIBDA increased by 20.7% quarter-on-quarter primarily as a result of the full cancellation of all tolling schemes as of December 2009.

Net income declined by 49.1% quarter-on-quarter as a result of the recognition of deferred income tax benefits on fixed assets, and US\$ 72.8 million currency exchange and translation gains in the third quarter 2009 against US\$ 27.5 million in the fourth quarter of

Bashneft's revenues increased by 44.3% quarter-on-quarter as the oil company produced approximately 3.2 million tonnes of oil, a 5% increase quarter-on-quarter, and nearly doubled quarter-on-quarter the sales of oil products to 4.3 million tonnes. The company drilled 30 thousand metres and set into operation 36 new producing wells during the fourth quarter of 2009. Bashneft exported 2.5 million tonnes of crude oil and oil products in the fourth quarter.

Bashneft OIBDA was up 32.3% quarter-on-quarter following the cancellation of the tolling scheme, as well as a 9.4% increase in oil prices.

Bashkir Refineries, including of four oil refinery companies, Ufaneftekhim, Ufimsk Refinery, Novoil and Ufaorgsintez, processed 5.5 million tonnes of crude oil in the fourth quarter of 2009, compared to 4.6 million tonnes in the previous quarter. The Group's refineries generated a 12.9% growth in revenues quarter-on-quarter following the increase in capacity utilisation, as well as the rise in oil processing prices. In the reporting quarter, the capacity utilisation reached 84%, refining depth was 84.3% and light-product yield amounted to 62.4%.

Bashkir Refineries OIBDA slightly decreased by 1.1% quarter-on-quarter as a result of insignificant losses from the disposal of fixed assets.

Bashkirnefteproduct's revenues were up 10.4% quarter-on-quarter mainly due to the increase in sales to small wholesale customers. As of December 31, 2009 the total number of petrol stations was 319.

Bashkirnefteproduct OIBDA decreased by 45.6% quarter-on-quarter as a result of seasonality and following the decline in high-margin retail sales, as well as the decrease in retail prices for oil products.

Bashkirenergo's revenues increased by 43.3% quarter-on-quarter due to seasonality factors. Bashkirenergo generated 6,021 million kW/h of electricity and supplied 7,800 thousand Gcal of heat in the fourth quarter of 2009, compared to 4,672 million kW/h of electricity and 2,825 thousand Gcal of heat supplied in the third quarter.

The energy business' OIBDA more than doubled quarter-on-quarter mainly due to seasonality factors.

In December 2009, ANK Bashneft became an accredited member of and started its operations on the Interregional Oil and Gas Complex Exchange.

Corporate & Other

(US\$ millions)	FY 2009	FY 2008	Year on Year Change
OIBDA	328.6	(134.2)	-
Net income / (loss)	(12.1)	(186.4)	-
Total debt	2,713.4	1,730.7	56.8%

The Corporate and Other segment comprises the companies that control and manage the Group's interests in its subsidiaries. The segment reported an OIBDA profit for full year 2009, compared to an OIBDA loss in 2008. Segment net profit increased mainly due to the sale of stakes in Comstar-UTS and Bashkir oil refining companies to other companies of the Group.

Financial review

Net cash provided by operations in 2009 decreased by 21.1% year-on-year to US\$ 3,021.9 million as a result of the effect of Russian ruble devaluation against the US dollar and other currencies as well as changes in working capital.

Net cash used in investing activities totalled US\$ 6,423.2 million for the full year 2009, with US\$ 3,434.4 million spent on capital expenditure, compared to US\$ 4,270.9 million in 2008. The Group spent US\$ 1,729.1 million for the full year 2009 on the acquisition of businesses, including US\$ 1,525.2 million paid for the acquisition of a controlling stake in Bashkir Oil and Energy Group, net of cash received, and the purchase by MTS of Eurotel in the fourth quarter, as well as other acquisitions by the Group during the year.

Net cash inflow from financing activities amounted to US\$ 5,207.9 million for the full year 2009, compared to inflow of US\$ 1,875.0 million in 2008.

The Group's cash balances stood at US\$ 3,845.4 million as of December 31, 2009, compared to US\$ 1,982.3 million as of December 31, 2008. The Group's net debt (short-term and long-term debt less cash and cash equivalents) amounted to US\$ 12,324.2 million as at December 31, 2009, compared to US\$ 8,670.4 million as of December 31, 2008.

Sistema Joint Stock Financial Corporation was registered at the Moscow Registration Chamber on July 16, 1993. The Corporation's legal address is 13 Mokhovaya Street, Building 1, Moscow, 125009, Russia.

On November 6, 2007, a share issue was registered that split the nominal value of the shares by 1,000. As a result of the split, on November 13, 2007, the number of outstanding shares increased to 9,650,000,000 ordinary shares, with a par value of RUB 0.09 per share. Sistema's share capital amounts to RUB 868,500,000.

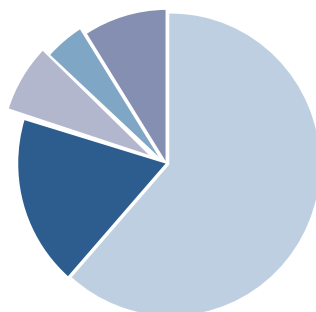
In February 2005, Sistema carried out a listing on the London Stock Exchange in the form of Global Depositary Receipts (GDRs; one GDR represents 20 ordinary shares) under the ticker "SSA". Following this, 19% of the free float is in the form of GDRs.

The Corporation's ordinary shares are also traded on the RTS (ticker: "AFKS"), MICEX (ticker: "AFKC") and the Moscow Stock Exchange (ticker: "SIST"). The ordinary shares are a component of the MSE's technical index. On September 15, 2007, the ordinary shares were included in the list of stocks used to calculate the RTS Index.

Shareholder structure

As of December 31, 2009, Sistema's shareholder register featured 26 individuals and 11 legal entities, including nine nominal shareholders. Since information about the owners of depositary receipts is not disclosed, the Corporation regularly undertakes measures to determine the identity of the GDR owners.

12.29%
1.88%
2.65%
19%
64.18%



Vladimir Evtushenkov



GDR holders

Alexander Goncharuk



Other shareholders

Alexander Leiviman

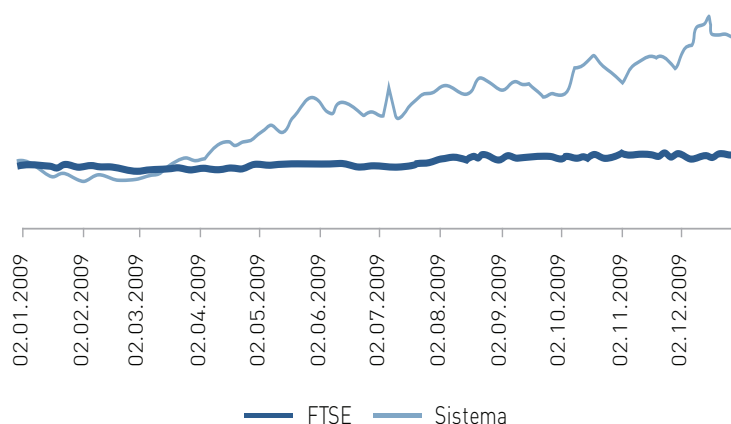


*as of December 31, 2009

Share price performance

In 2009, the closing price of Sistema's GDRs on the London Stock Exchange was US\$ 5.65 on the first trading day and US\$ 21.00 on the last trading day. The record high for the year was reached on December 16 and the low on February 2.

Sistema GDR vs, FTSE 100 Index (FY2009)-Closing Price



Dividend policy

In making its dividend recommendation to the General Meeting of Shareholders, the Board of Directors is guided by the existing dividend policy, which was approved in April 2008. Dividends are defined on the basis of results from the previous financial period, and the recommended level of payment equals 40% of the Corporation's consolidated net income under US GAAP. This policy aims to provide for a predictable sizeable dividend flow and maintain a dividend history, while giving the opportunity to reinvest profits to meet Sistema's capital requirements and maintain sustainable growth.

On April 17, 2010, the Board of Directors recommended to the General Meeting of Shareholders paying total dividends of RUB 530,750,000, or around US\$ 15.5 million. If this decision is approved by the General Meeting of Shareholders, scheduled for June 26, 2010, this will equate to RUB 0.055 per share, or US\$ 0.04 per GDR. As a result of the crisis in 2008, dividends were not paid in 2009.

Assets structure

Company	Ordinary shares, directly or indirectly owned by Sistema	
	As of December 31, 2009	As of April 30, 2010
Telecommunications Assets Business Unit		
Mobile TeleSystems (MTS)	52.7% by the Sistema group	
Comstar-UTS	65.2% by the Sistema group	
MGTS	55.73% (including unpaid dividends in 2008)	
Sky Link	50%	100%
Svyazinvest	25% + 1 share	
Sistema Shyam TeleServices Limited	73.71%	
Sistema Mass-Media	100%	
Russian World Studios	100%	
Oil and Energy Group Business Unit		
Bashneft	72.86%	
Ufimsk Refinery	78.57%	
Novoil	87.23%	
Ufaneftekhim	65.78%	
Ufaorgsintez	73.02%	
Bashkirnefteproduct	73.91%	
RussNeft	-	49%
High Technology and Industry Business Unit		
Sitronics	71.61%	
RTI Systems	97%	
Binnopharm	100%	
Consumer Assets Business Unit		
Sistema-Hals	27.6%	
Detsky Mir Center	100%	
MBRD	95.22%	
East-West United Bank	100%	
Dalkobank	100%	
Intourist	66.2%	
Medsi	100%	

Principles of corporate governance

Maintaining the system of corporate governance and information transparency at the highest international standards is a key element of Sistema's strategy. The Corporation's corporate governance system is founded on several fundamental principles:

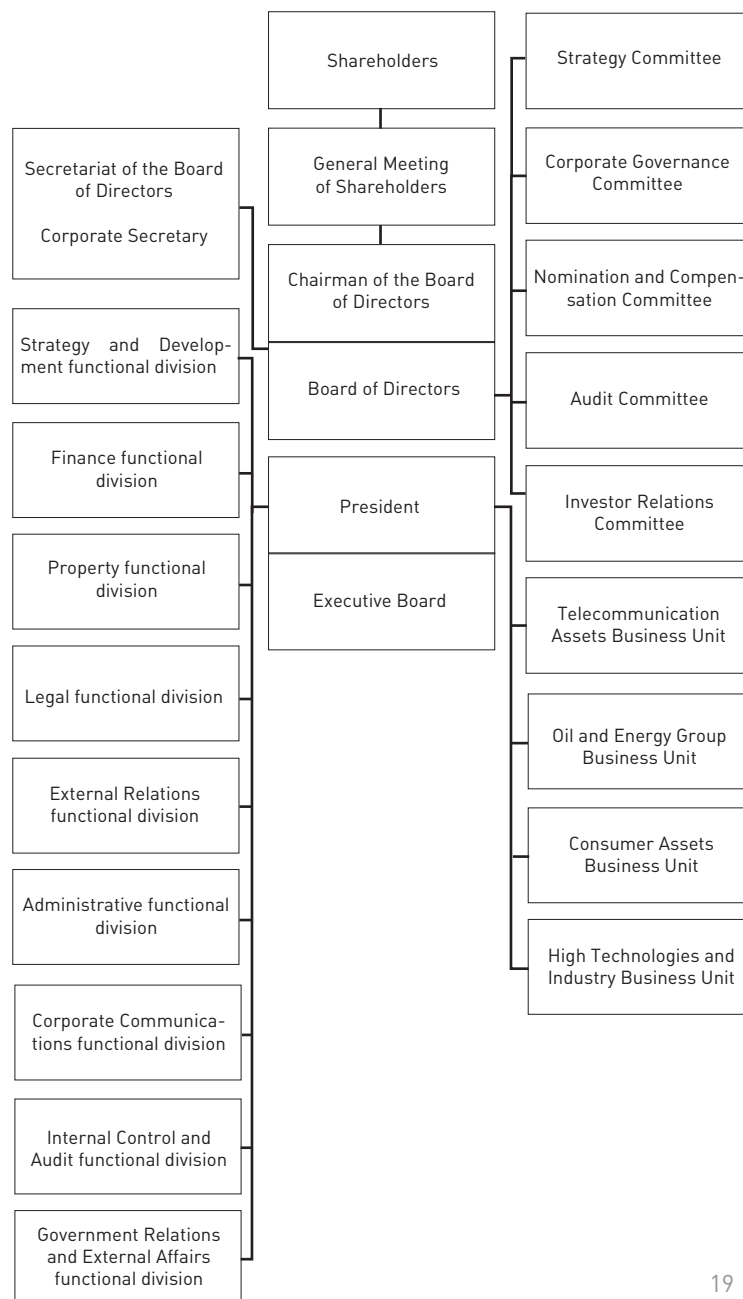
- Transparency of all processes for investors and partners
- An active and professional Board of Directors
- Consistency and a collegial approach to decision-making

Sistema is guided by these principles in all areas of its business, including its strategic and financial management, corporate governance, reporting, audit, risk management, human resources and social policies.

The principles and procedures of Sistema's corporate governance are set out in the Charter and numerous publicly accessible internal documents, which collectively establish the structure and competence of bodies of management and control at the Corporation. The Code of Corporate Conduct and Code of Ethics contain additional requirements for Sistema regarding openness and social responsibility as well as ethical principles for the conduct of business.

Corporate governance structure

The main management bodies of the Corporation are the General Meeting of Shareholders, Board of Directors, President and Management Board. Committees function at the level of the Board of Directors and President, and they prepare recommendations on formulating policy in their respective fields. The Corporation's organizational structure includes nine functional complexes and four Business Units.



General Meeting of Shareholders

Functional principles

Sistema's main governing body is the General Meeting of Shareholders. Its activity is regulated by Russian company law, the Corporation's Charter and other internal documents. The procedure for holding the General Meeting of Shareholders ensures that shareholder rights are observed in full. Information and materials for the meeting are provided to shareholders in Russian and English well in advance and are also published on Sistema's web site. In addition to notification of forthcoming meetings, shareholders receive voting ballots.

Observance of shareholders' rights in the governance of Sistema

Sistema strives to maintain the protection of shareholders' rights to participate in the management of the Corporation. In this regard, the fundamental right of shareholders is to participate in the General Meeting of Shareholders and to vote on issues on the agenda. With the aim of ensuring this, information about the General Meeting is sent to all shareholders no later than 30 days before it is held. Along with notification of the General Meeting, a voting ballot is sent to all shareholders. The ballot may be completed in advance by shareholders and sent to the Corporation at the address provided on the ballot. Shareholders' votes will be taken into account when the votes are tallied. Shareholders may also be present in person at shareholders' meetings¹ and vote on the issues on the agenda at the meeting itself.

An important right regarding shareholders' participation in the management of Sistema is the right to access documents. To exercise this, a shareholder must send a written request to the Corporation's Corporate Secretary to access documents of interest. Once a time frame is agreed, the shareholder will be provided with the required documents.

Shareholders who own sufficient quantities of shares also have the right to introduce proposals to the agenda of the General Meeting and propose candidates for bodies of management and control at Sistema². Proposals for the agenda of the Annual General Meeting are accepted by the Corporation in writing for 100 days after the end of the financial year³. Once proposals are received, they are reviewed by the Board of Directors. If the proposals are in accordance with the legislation applicable to the work of the General Meeting of Shareholders, they are included on the agenda.

Proceedings and results of General Meetings of Shareholders in 2009

Four General Meetings of Shareholders were held in 2009.

Sistema's Annual General Meeting of Shareholders took place on June 27, 2009. The Corporation's annual and financial reports were approved, members of the Board of Directors and Audit Commission were elected, and the auditor was approved.

In 2009, three Extraordinary General Meetings of Shareholders were held in the form of absentee voting.

February 16, 2009

As part of the meeting agenda, issues were reviewed relating to the introduction of amendments to internal documents regulating the activity of the Board of Directors, Management Board and Company Charter. Resolutions were made envisaging the introduction of changes to the above-mentioned documents, establishing the Corporation's additional obligations for the compensation of possible legal and other expenditures or losses of members of the Board of Directors and Management Board that might arise while they perform their duties.

October 1, 2009

As part of the meeting agenda, the issue "On approving inter-related transactions that involve interested parties regarding the disposal of ordinary shares of Comstar-UTS and United TeleSystems" was reviewed. The meeting approved the proposed sale of ordinary shares of Comstar-UTS and United TeleSystems, which owned some shares of Comstar-UTS, to MTS.

November 16, 2009

As part of the meeting agenda, the issue "On the approval of deals that involve interested parties regarding the sale to ANK Bashneft of the shares of Ufimsk Refinery, Novoil, Ufaneftekhim, Ufaorgsintez, and Bashkirnefteproduct" was reviewed. The Meeting of Shareholders approved the proposed deal.

¹Or through a representative.

²Shareholders who are owners of 10% or more of the voting shares also have the right to request an Extraordinary General Meeting.

³If an Extraordinary General Meeting of Shareholders is held regarding the election of the Board of Directors, shareholders who own sufficient quantities of shares have the right to nominate candidates. Proposals in writing must reach the Corporation no later than 30 days before the meeting is held.

Board of Directors

The Board of Directors is responsible for the strategic management of Sistema. It defines the Corporation's strategy, prepares plans for strategic and financial development, defines the principles of investing, evaluates management efficiency and risks, confirms principles defining corporate governance procedures, approves transactions, and oversees the work of the Corporation.

Composition of the Board of Directors

The Board of Directors as of the end of 2009 was elected at the Annual General Meeting of Shareholders on June 27, 2009. It consists of 13 members⁴:

1	Vladimir P. Evtushenkov	Chairman
2	Alexander Y. Goncharuk	
3	Alexander I. Gorbatovsky	
4	Ron Sommer	
5	Dmitry L. Zubov	Deputy Chairman
6	Vyacheslav V. Kopiev	Deputy Chairman
7	Robert S. Kocharyan	
8	Leonid A. Melamed	
9	Rajiv Mehrotra	
10	Evgeny G. Novitsky	
11	Steven Newhouse	
12	Robert Skidelsky	
13	Sergey E. Cheremin	Deputy Chairman

The Board of Directors consists of executive, non-executive and independent directors:

Executive directors	2	R. Sommer, L. Melamed
Non-executive directors	7	V. Evtushenkov, A. Goncharuk, D. Zubov, V. Kopiev, R. Mehrotra, E. Novitsky, S. Cheremin
Independent directors	4	A. Gorbatovsky, R. Kocharyan, S. Newhouse, R. Skidelsky

Changes in the composition of the Board of Directors

At the beginning of 2009, the Board of Directors consisted of ten people elected at the General Meeting of Shareholders on June 28, 2008. In the election of the new Board of Directors on June 27, 2009, three new directors were appointed: R. Kocharyan, L. Melamed and R. Mehrotra. The remaining members of the Board of Directors were re-elected.

Meetings of the Board of Directors

Meetings of the Board of Directors are generally conducted on a scheduled basis. At the same time, when required, unscheduled meetings can be convened to decide issues requiring immediate action.

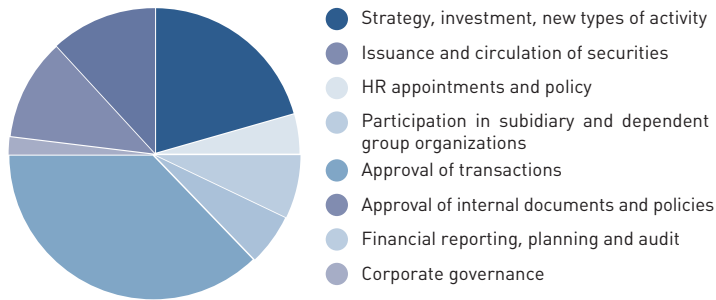
In 2009, the Board of Directors held 13 meetings: eight scheduled and in person; one unscheduled and in person; and four by postal voting on issues requiring urgent resolution.

	2009	2008
Number of meetings held in person	9	10
Number of meetings held by postal voting	4	3
Number of issues according to the schedule of work of the Board of Directors	46	47
Number of issues reviewed at meetings of the Board of Directors	124	109

At each meeting of the Board of Directors, the agenda includes between three and five main strategic issues, such as development strategy, financial strategy, financial reporting, risk management, internal control and audit, corporate governance and human resources. Other issues within the scope of the Board of Directors' work, such as approving transactions, making formal decisions about issuing securities, and approving updated regulations, are included on the agenda when necessary. In 2009, the Board of Directors reviewed 124 issues.

⁴Brief biographical information about the members of the Board of Directors can be found at www.sistema.ru

Issues reviewed by the Board of Directors in 2009



In 2009, the Board of Directors focused on issues concerning strategic development, financial reporting and corporate governance.

Committees of the Board of Directors

The Board of Directors has five committees:

- Audit
- Nomination and Compensation
- Corporate Governance
- Investor Relations
- Strategy

Audit Committee

The Audit Committee has three members*: Committee Chairman A. Gorbатовsky and members E. Novitsky and S. Newhouse. It oversees the preparation of financial reports and the internal audit at Sistema and its subsidiaries, and coordinates the internal control and audit departments. In addition, the Committee oversees the work of the external auditors, provides recommendations regarding their appointment and their compensation, and intermediates in disputes arising between the external auditors and the management. The Committee met 14 times in 2009.

Committee for Nomination and Compensation

The Committee for Nomination and Compensation has six members*: Committee Chairman S. Newhouse, and members A. Goncharuk, D. Zubov, V. Kopiev, L. Melamed and S. Cheremin. The Committee participates in the development of the Corporation's human resources policies, provides advice to Board of Directors on the managerial appointments, and makes recommendations regarding compensation and remuneration for employees. The Committee met twice in 2009.

Corporate Governance Committee

The Corporate Governance Committee has eight members*: Committee Chairman V. Kopiev, and members A. Goldin, I. Belikov, S. Drozdov, G. Ermakov, I. Petrov, I. Potekhina and R. Skidelsky.

The Committee develops proposals aimed at improving corporate governance at Sistema and subsidiaries and affiliates. It also enforces existing legislation, the Corporate Charter and internal regulatory documents. The Committee is responsible for the prevention and resolution of corporate and ethical conflicts. It met eight times in 2009.

Investor Relations Committee

The Investor Relations Committee has seven members*: Committee Chairman S. Cheremin, and members A. Abugov, A. Buyanov, R. Sommer, R. Kocharyan, R. Mehrotra and I. Potekhina. The Committee's main task is to develop corporate policy for investor relations in Russia and internationally.

Strategy Committee

The Strategy Committee has 15 members*: Committee Chairman V. Evtushenkov, and members A. Abugov, S. Aslanyan, S. Boyev, A. Buyanov, A. Goncharuk, F. Evtushenkov, R. Sommer, D. Zubov, V. Kopiev, R. Kocharyan, L. Melamed, S. Pridantsev, S. Cheremin and M. Shamolin.

The committee reviews and analyzes issues relating to Sistema's strategic development in all areas of business. One meeting was held in 2009.

President

The President of Sistema is the sole permanent executive body of governance, and his primary task is managing day-to-day business activities with the goal of ensuring the Corporation's profitability and competitiveness, its financial stability, and protecting shareholders' rights and employees' social guarantees. The President acts within the remit of his competence and is subordinate to the Board of Directors and General Meeting of Shareholders. Since May 29, 2008, Leonid Adolfovich Melamed has been the President of Sistema.

Management Board

The Management Board is responsible for the day-to-day management of Sistema. It establishes the methods for implementing the development strategy of the Corporation, prepares development

* as of December 31, 2009

plans, defines and oversees investment procedures, evaluates employees' efficiency, and carries out a preliminary review of issues presented to the Board of Directors. Meetings of the Management Board generally take place once a week.

Composition of the Management Board as of December 31, 2009 **

1	L. Melamed, Chairman of the Management Board
2	A. Abugov
3	R. Almakaev
4	S. Boyev
5	A. Buyanov
6	A. Goldin
7	S. Drozdov
8	F. Evtushenkov
9	R. Sommer
10	A. Korsik
11	I. Potekhina

Development of the Corporate Governance System in 2009

In 2009, the Corporation implemented various measures aimed at further developing its corporate governance system.

In June 2009, a new independent director, Robert Kocharyan, was elected to the Board of Directors. Accounting for the change in the status of Board member Ron Sommer after his appointment as First Vice President of Sistema, the number of independent directors on the Board of Directors remained unchanged. The appointment of Robert Kocharyan, a well known political figure, to the Board of Directors also increases the Board's competence in international economic relations.

Sistema continued the practice of preparing an internal rating of the corporate governance at its companies. The indicators revealed were used to prepare plans for further developing corporate governance systems at subsidiaries.

In summer 2009, a self-evaluation procedure for the Board of Directors was introduced. Members of the Board fill out questionnaires, which is divided into four sections: Board composition and structure, procedure and organization of the Board's work, the work of the Board committees, and the quality of decisions by the Board in certain areas. The Board administration carries out an annual poll of all Board members, analyzing the results and providing a final analysis to the Corporate Governance Committee, the Chairman of the Board of Directors, and Board members. In this way, there is feedback for Board members and the efficiency of work is increased. Along with statistics about the work of the

Annual Report 2009

Board of Directors, which are provided to shareholders, this procedure ensures a complete cycle for evaluating the Board's work and proper oversight of the Board's work.

Remuneration for members of the Board of Directors and executive management

Compensation for members of the Board of Directors of Sistema is calculated on the basis of the document, "Regulation on remuneration and reimbursement paid to members of the Board of Directors of the Company", approved in 2006. This envisages payment to the members of the Board of Directors as follows:

- A fixed sum for participating in meetings of the Board of Directors and its committees
- A fixed sum for carrying out duties by the Chairman and Deputy Chairman of the Board of Directors
- Based on the results for the year, members of the Board of Directors receive additional remuneration in the form of fixed sums, half of which is paid in shares (US\$ 250,000–325,000)
- In addition, if the Corporation's market capitalization has increased during the year, members of the Board of Directors receive additional compensation equal to 0.1% of the increase in the market capitalization

The amount of compensation paid to Sistema's executive management depends on the Corporation's results as a whole, the work of the structural divisions within the sphere of a manager's responsibility, and the extent to which managers fulfill their individual plan.

In 2009, the system of motivation and compensation for the management includes the following elements:

- Monthly salary established in accordance with the internal ranking system
- Additional monthly compensation paid on the condition that the working relationship between the employee and Sistema as of December 31 of the year continues, for which additional compensation is paid
- Bonus for fulfilling the individual plan
- Bonus for special achievements in work, including the implementation of large-scale projects that have significant meaning for Sistema in the reporting year

In 2009, the total amount of compensation paid to the President, members of the Board of Directors and members of executive bodies of Sistema amounted to RUB 738 670 837.

**Brief biographical information about the members of the Management Board of Sistema can be found at www.sistema.ru

Risks

There are numerous risks that Sistema's businesses may face, and they represent processes and factors over which the Corporation has little or no influence. The effective evaluation and management of these risks is therefore an important component of Sistema's strategy.

The Corporation has introduced an Enterprise Risk Management system (ERM) to provide a reasonable guarantee that its strategic goals will be achieved and to keep risk levels within limits acceptable to the management and shareholders. Sistema's ERM was designed to take international standards, recommendations, and best practice in risk management into account.

Risk management is centralized and carried out in line with provisions and regulations established on both the corporate and the group level. The process covers all of the Corporation's activities and aims to identify events that might influence Sistema negatively and reduce their probability and impact. The goal is to provide a reasonable guarantee that the Corporation will be able to achieve its strategic aims.

The careful delegation of responsibility for risks and the work of specialized collegial bodies aim to ensure efficiency in the risk management process. Reports are submitted to the management regularly to ensure maximum awareness about existing risks and their mitigation.

The introduction of the ERM allows the Corporation to cover all of the most significant types of risk that it faces, and this provides the opportunity to carry out integrated management while taking into account the interrelationships between various risks.

Political climate

The political situation in Russia last year was relatively stable overall. At the same time, instability increased in several neighboring CIS states, allowing various political forces to influence aspects of the economic situation in these states, including the operations of private companies.

Economic situation

Amid the global financial crisis, Russia's economy charted an uneven path in 2009. A sharp deterioration in the foreign economic situation, a fall in exports, an outflow of capital, and a freeze in the availability of credit contributed to a major reduction in investment and a fall in industrial activity in the first half of the year. By the middle of 2009, the economic decline in Russia had come

to a halt, and GDP began to increase each month as of June. As a result, production turned positive in the third quarter and growth accelerated in the fourth quarter.

The Ministry of Economic Development estimates that Russia's GDP declined by 7.9% in 2009 (compared with growth of 5.6% in 2008). Meanwhile, real disposable income growth, which had been one of the main drivers of economic growth, was only 1.9% in 2009 (over the same period, real wages fell by 2.8%).

Compared with 2008, prices in Russia rose much more slowly in 2009, as demand dropped due to the crisis, and inflation amounted to 8.8%. From January to December 2009, producer prices rose by 13.8%.

Last year, the net outflow of capital from the private sector amounted to US\$ 52 billion. The direction of capital flows varied during the year. In the first and third quarters, a significant amount of funds flowed out of the economy (around US\$ 34 billion per quarter), as debts to banks were repaid and foreign assets grew. In the second and fourth quarters, there was an inflow of capital (US\$ 5 billion and US\$ 12 billion, respectively), largely due to a decline in demand for foreign assets from banks and demand for foreign currency from the population. Nonetheless, Russia's accumulated foreign reserves compensated for negative trends in the cross-border movement of capital and prevented any major withdrawal of funds.

In 2009, the Central Bank's currency reserves experienced major volatility, although they increased by US\$ 3 billion overall thanks to balance of payment operations. At present, Russia has the third largest currency reserves in the world.

The dependency of the Russian and CIS economies on the price of hydrocarbons remains a significant risk. In addition, in certain CIS countries, there is a risk that the positive economic trends may weaken due to political instability and attempts to increase state interference in the economy.

Exchange rate

The possibility of changes in the exchange rate of the ruble, euro, and hryvnia against the US dollar represents a risk for the Corporation. Any deterioration in trading conditions and the flow of capital could create ruble devaluation pressure and negatively affect companies in the Sistema group.

Capital markets

There is a significant risk that Russian stocks could underperform other emerging market peers. The main reasons for this are methods for evaluating fair value and the current level of liquidity on both global and Russian markets. A risk also exists of an outflow from the capital market due to a drop in liquidity worldwide, difficulties in gaining access to borrowing, political risks, or a re-evaluation of the prospects for market development (the so-called "second wave of crisis").

Interest rates and other credit risks

Changes in interest rates on Russian and foreign markets could significantly influence the cost of raising additional capital. As Sistema has interests in a range of capital-intensive industries, changes in the cost of borrowing could affect its development.

Sistema's main contribution in the area of social responsibility can be found at the very core of its high-tech business model: it contributes to developing the country's economic potential and improving quality of life for its consumers.

Sistema outlines its social responsibility priorities in a document entitled "Sistema's Corporate Social Responsibility Policy". According to this, the Corporation's responsible approach to its business includes:

- Improving quality of life through innovative business development
- Providing a safe work environment and investing in the development of human potential
- Protecting the environment
- Investing efficiently in production to increase competitiveness and contribute to the wellbeing of society as a whole
- Taking into account the expectations and opinions of all stakeholders to adopt a systematic approach to building honest and mutually beneficial relations based on ethical principles
- Developing local communities, particularly by creating mutually beneficial social partnerships in the regions where the Corporation is present
- Ensuring that its social accountability is transparent

Alongside introducing a corporate social responsibility (CSR) policy, Sistema has introduced measures to strengthen management systems by developing CSR within the Corporation. The Board of Directors has a permanent body, the Committee for Corporate Conduct, headed by the Deputy Chairman of the Board of Directors, which defines CSR priorities.

A dedicated Corporate Social Responsibility Department is charged with building effective systems for managing CSR processes at Sistema and its subsidiaries, in line with best practice. The department also carries out practical training on CSR issues through a series of seminars led by outside experts in the field.

The Corporation has issued an annual social report since 2007, and all of its public companies published social reports in 2009. From 2012, as part of the plan to develop a unified system of non-financial reporting, all subsidiaries will issue social reports.

Sistema is a leader in terms of developing a broader CSR culture in Russia. Its representatives are active members of the Corporate Responsibility Committee of the Association of Russian Managers. The Corporation was one of the first Russian companies to sign the United Nations Global Compact in 2002. In addition, a Sistema representative has been elected to the Management Committee of the UN Global Compact Network in Russia.

Sistema is also a signatory of the Social Responsibility Concept developed by the Russian Union of Industrialists and Entrepreneurs, as set out in the Social Charter of Russian Business.

One of the Corporation's main social activities is charity, which it carries out in three key areas: culture, science and education, and social development.

As part of its commitment to promoting Russian culture and preserving the country's rich heritage, Sistema has been the main sponsor of the State Russian Museum in St Petersburg since 2003. Alongside supporting the museum's restoration, Sistema has provided technical and financial support for the "Virtual World of the State Russian Museum" project. Visitors to the project's centers can make virtual excursions around palaces, see reconstructions of lost interiors, and observe events taking place in the museum in real time. Today, 60 centers have been opened in Russia and abroad. Work is under way to link all of the centers and allow virtual visits to both the State Russian Museum and regional museums and galleries.

In 2009, Sistema was proud of its collaboration with the State Russian Museum on the exhibitions "Around the World with an Easel" and "Sports in Art", which proved a great success at the Tsaritsyno estate in Moscow and the "Imperial Gardens" festival in St Petersburg.

Sistema supports the development of local classical arts, including music and ballet. It sponsors the "Easter Festival" and "Stars of the White Nights" of the Mariinsky Ballet. It also sponsors the "Musical Kremlin" event organized by the Kremlin Armory and the prestigious ballet competition "Benois de la Danse". In the theater world, Sistema maintains a close relationship with the Sovremennik Theater in Moscow and the Studio of Theatrical Arts.

Sistema has helped fund a number of large-scale restoration projects, including the reconstruction of the Marfo-Mariinskaya Monastery.

The Corporation places particular importance on supporting the scientific and innovative development of young people. For many years, it has provided a scholarship program for outstanding students attending a number of technical institutes that allows students to gain practical experience by working at the Corporation. In addition, Sistema sponsors the program "A Step into the Future – Moscow", organized by the Bauman State Technical University in Moscow, and supports its robotics technology team at international competitions.

Sistema runs a master's degree program at the Higher School of Management and Innovation, founded several years ago with the help of Moscow State University. This gives the Corporation's employees the opportunity to obtain a master's degree.

In addition, Sistema provides support to the Higher School of Management of St Petersburg State University, including allocating grants for top professors and students and bringing leading Russian and international researchers and business executives to the university.

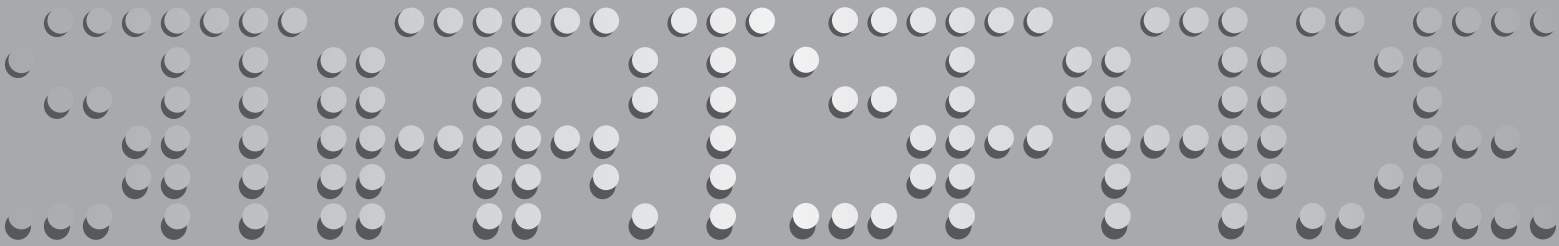
Sistema has long been an avid supporter of Russian sport, including such organizations as the Fund for Russian Olympic Sportsmen, the Russian Rugby Union, the Federation of Bicycle Sport, the Sports Federation of the Interior Ministry, and various sports schools for children and young people.

Yet another important part of the Corporation's charitable activities is helping the disadvantaged. Sistema provides aid to several orphanages and shelters and helps children with mental and physical disabilities. It also works closely with several organizations that provide aid to veterans and the disabled.

All of the above-mentioned projects are being carried out as part of the Corporate Charitable Foundation System, which was founded in 2003 with the aim of managing the Corporation's social investments efficiently. As the fund carries out its work across

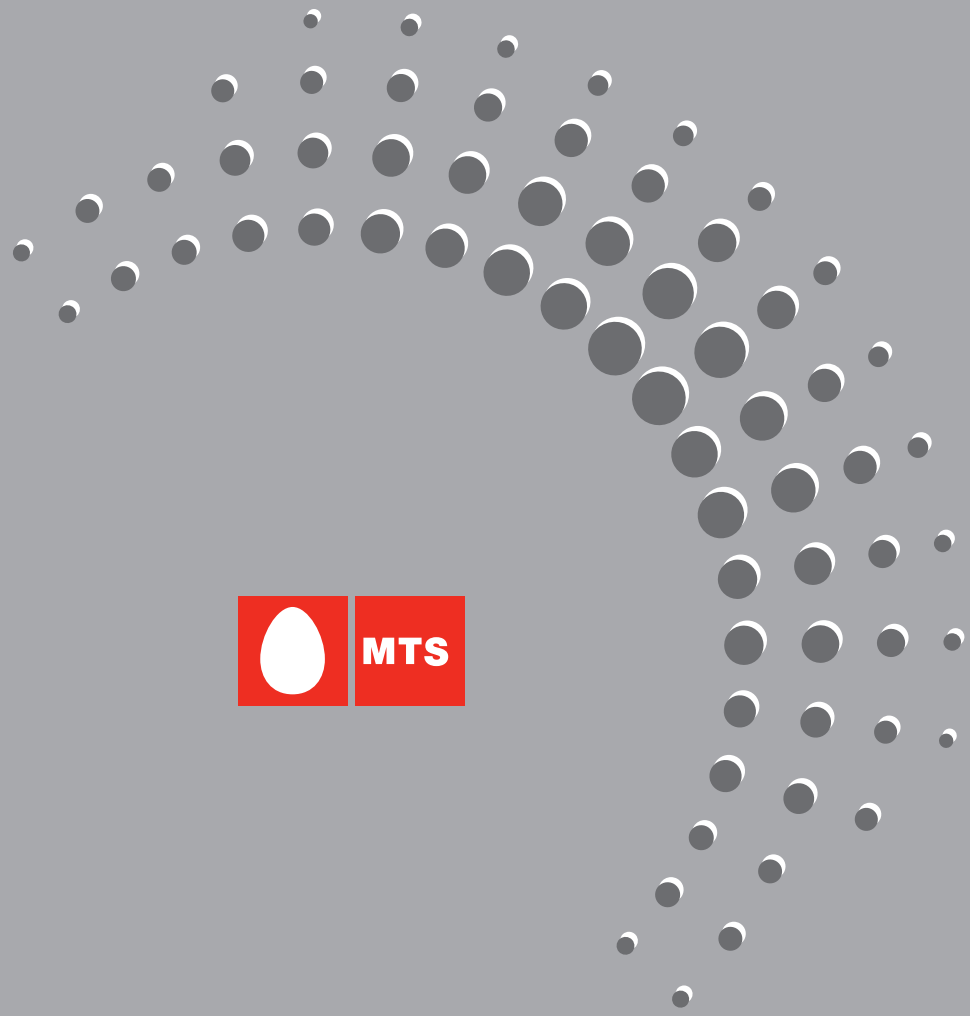
a wide area, an affiliate was opened in Ufa, Bashkortostan, in 2009. The affiliate has provided over RUB 1.2 billion to various state organizations and departments in the republic for repairing schools, hospitals, other medical institutions, orphanages, and professional educational institutes.

PART II
BUSINESS UNITS



TELECOMMUNICATIONS ASSETS BUSINESS UNIT

- MTS
- Comstar-UTS
- Sistema Shyam TeleServices Ltd.
- Sistema Mass-Media



SMARTSPACE

Company in brief

Mobile TeleSystems (MTS) is the leading telecommunications group in Russia, Eastern Europe and Central Asia, offering mobile and fixed-line, broadband, and pay-TV, as well as content and entertainment services, in one of the world's fastest growing regions. Founded in 1993, MTS today provides GSM-standard telecommunications services in 82 Russian regions, Ukraine, Belarus, Uzbekistan, Armenia, and Turkmenistan. As of December 31, 2009, MTS and its subsidiaries served 102.4 million subscribers. It also provides third generation (3G) services in Russia, Uzbekistan, and Armenia. MTS is developing a retail network under a single brand and has 2,010 own stores in Russia and an additional 1,000 franchise stores.

Sistema is the largest shareholder of MTS and owns 52.8% of its shares. The Corporation's continued investment is based on growth opportunities presented by the Russian telecommunications market. Although organic growth is slowing down and competition is rising, Sistema believes that there are substantial growth opportunities yet to be exploited by combining efforts of its key telecom assets in mobile and broadband.

The Corporation believes that the integration of Comstar-UTS into MTS is the logical response to a highly competitive marketplace and ongoing transformations in technology and consumer demand. The deal is expected to unlock significant synergies and the combined group will be able to launch joint products and services targeting residential and corporate subscribers in order to respond to the current and future marketplace challenges. MTS has entered the fast-growing broadband market with the acquisition of Comstar-UTS, which will allow the company to provide subscribers with a full range of innovative telecommunication services based both on fixed-line and wireless technologies. Total number of broadband Internet and pay-TV subscribers was 3,422 million at the end of 2009.

Sector

Russia's mobile telecommunications market is one of the most developed in the world. In 2009, the level of penetration of mobile telecommunications services reached 143.2%¹. In value terms, the market for cellular services grew by 3.7% year-on-year². In 2009, the share of the mobile segment in Russia's telecommunications industry was 43.7%, down 1.3% year-on-year³.

The above figures reflect the degree of maturity of the mobile market in Russia and dictate a need to shift towards competing for

existing subscribers on the basis of quality in service and customer care, attractiveness of offerings and proximity to the end users.

- Mobile penetration reached 143.2% in 2009 (up 3.7 p.p. year-on-year)
- The mobile segment accounted for 43.7% of the Russian telecoms market in 2009 (down 1.3 p.p. year-on-year)

Operational and financial results

In October 2009, MTS entered the fixed-line market through its acquisition of a 50.91% controlling stake in Comstar-UTS from Sistema. In December, MTS increased its holding to 61.97%. As part of a single telecommunications group, MTS and Comstar-UTS have an opportunity to create major synergies from a unified brand, network backbone, and shared sales channels. Already, in January 2010, the group began to provide fixed-line services through the MTS sales offices in the Russian regions.

In line with its long-term strategy of developing a Russian retail network MTS acquired three mobile retail chains in 2009: Telefon.ru, Teleforum, and Eldorado. In addition, it signed a three-year strategic partnership agreement with Eldorado, the largest retailer of household and electronic goods in Russian and Eastern Europe, to sell and promote mobile devices and services. In March, the Company signed an agreement with a management team affiliated with Syvaznoy, the leading Russian mobile phone retailer, to oversee MTS's distribution network.

MTS conducted the commercial launch of its first 3G network in May 2008. By the end of 2009, 3G services were available in 55 cities and all federal districts. The number of 3G base stations more than doubled, and the network in Russia's regions expanded by 2.3 times. During the year, MTS acquired 100% of Eurotel, one of the leading federal transit operators in Russia, with a 19,500-kilometer fiber-optic network. By the end of the year, the total reach of MTS's network backbone increased to 35,000 kilometers.

As part of its efforts to further develop services for the Company's clients, MTS launched the multimedia portal OMLET.RU, a mobile and Internet destination offering licensed music, video, and gaming content, as well as social networking. In November 2009, the portal won the "Runet 2009 Award" in the Culture and Mass Communications category.

MTS key headline financial results in 2009 were as follows:

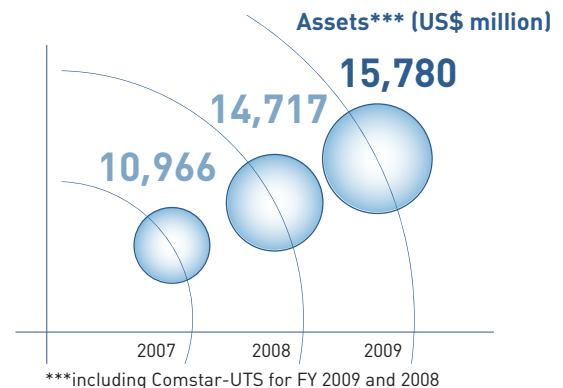
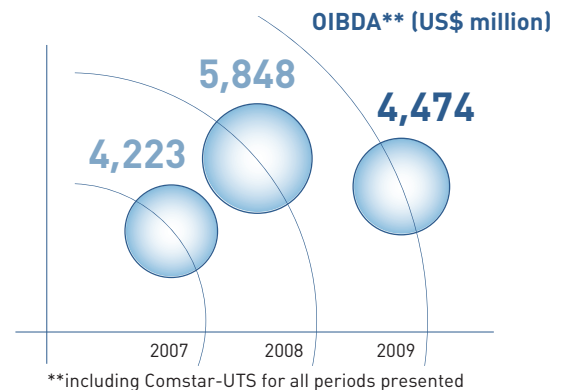
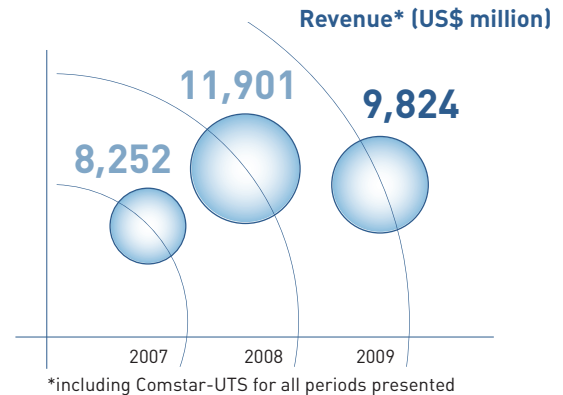
- Total revenues of US\$ 9,823.5 million
- Group OIBDA of US\$ 4,473.6 million and OIBDA margin of 45.5%

Outlook for 2010

In 2010, MTS will continue to implement its “3i” strategy, based on integration, innovation, and Internet. It will also continue towards its goal of providing subscribers with “total communications” in the markets where it operates – offering a full spectrum of services, including convergent solutions sold through integrated sales channels.

In the highly competitive marketplace, MTS intends to increase revenues by targeting a high-quality subscriber base through its expanding branded retail network and by promoting value-added services. The integration of Comstar-UTS allows MTS to target both fixed and mobile broadband, using technologies ranging from fixed-line to 3G, as well as local WiFi and WiMAX solutions.

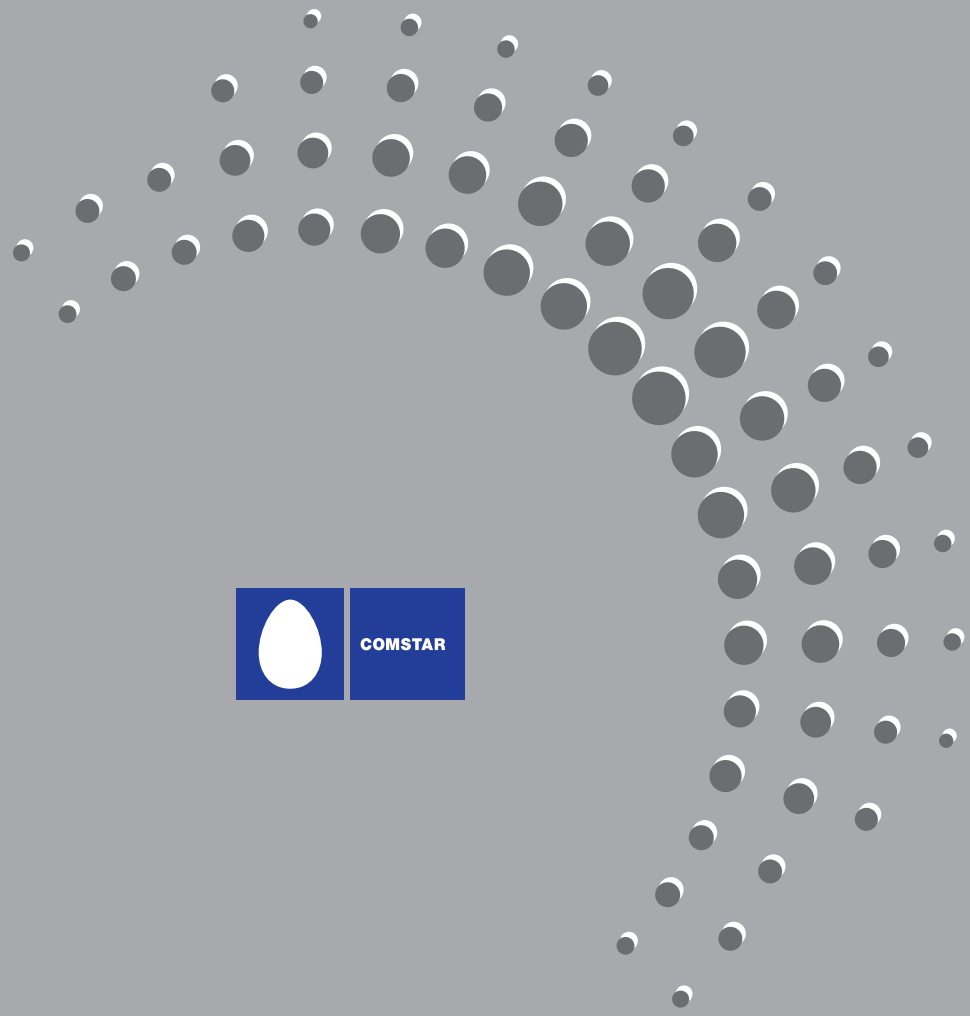
MTS will also continue to focus on expanding its 3G network, as well as developing and launching products based on 3G services, with its retail chain providing a base for selling the necessary devices and services. In addition, it will continue to offer high-quality products and services, provide clients with beneficial and understandable tariff plans, and develop innovative packaged services and loyalty programs.



¹ Source: AC&M Consulting

² Data for the first nine months of 2009; source: Rosstat, Ministry of Economic Development

³ Source: Rosstat, Ministry of Economic Development



SMARTSPACE

Company in brief

Comstar - United TeleSystems is a leading supplier of integrated telecommunications solutions in Russia. It operates in 83 cities across Russia and covers a combined population of over 48 million people. Comstar-UTS is the number-one Russian broadband internet provider. Through incumbent operator MGTS, the company owns the 'last-mile' access to roughly 3.6 million households in Moscow. Comstar-UTS is the leading broadband internet provider in Moscow, with a market share of over 32%, and is the preferred supplier of complete telecommunications services for Moscow corporate customers.

Sistema's continued investment in Comstar-UTS has been based upon understanding of the contribution that broadband is poised to make to the future of mobile technology in Russia and abroad. Thus Comstar's business model compliments the creation of a platform for the long-term competitive growth of Sistema's telecom assets.

In October 2009, Sistema sold its stake of around 51% in Comstar-UTS to MTS. At the end of 2009, MTS owned around 62% of Comstar's shares. The Corporation believes that the combination of MTS and Comstar-UTS and the creation of a convergent operator is the logical and necessary response to a highly competitive marketplace and rapid transformations in technology and consumer demand.

The global telecoms industry is moving rapidly towards convergence between mobile and broadband technologies, including both fixed-line and wireless WiMAX, WiFi and 3G platforms, used by devices ranging from phones and tablets to laptops. The combination of Comstar-UTS and MTS under the single MTS brand provides the Corporation with exposure to a strong business with proven long-term growth potential.

Sector

The fixed-line market proved its resilience in the global economic downturn. During the crisis, residential customers turned increasingly to fixed-line services as a more affordable form of entertainment and communication. In the corporate sector, growth was significantly slower in 2009, as companies cut costs in the face of recession, but fixed-line providers benefited from increased outsourcing and the market recovered strongly during the fourth quarter.

High-speed broadband remains the key driver for the telecommunications market as a whole. At the end of 2009, broadband

penetration in Russia stood at 20% of households. Moscow's penetration is 72%, one of the highest levels in Europe, while penetration in the regions stands at 16%¹. Despite the crisis, the combined subscriber base of Russian broadband providers increased by 30% and overall penetration increased by 20%². At the end of 2009, internet penetration in the country stood at around 64 million people, or 42% of the population, versus 32% for 2008³.

- Combined subscriber base of Russian broadband providers increased by 30%
- Comstar-UTS leads in the Moscow broadband market, with a 32% market share
- Total Russian internet penetration grew to 42%, up from 32% for 2008

Operational and financial results

In November 2009, Comstar-UTS and Sistema signed a non-binding memorandum of understanding with Svyazinvest with regard to the potential reorganization of its telecom assets, which may involve the disposal of Sistema's stake in Sky Link, the sale of Comstar's stake in Svyazinvest, an increase in Comstar's ownership in Moscow City Telephone Network (MGTS) and the optimization of Comstar's balance sheet. If it goes ahead, such a deal would strongly support MTS-Comstar-UTS integration process and increase its competitive advantages in the business.

In 2009, Comstar-UTS continued to streamline its corporate structure. At the beginning of the year, it consolidated its 100% stake in Comstar-Direct, uniting its broadband and pay-TV business under a single brand. Throughout the year regional branches and subsidiaries were consolidated into six super-regional branches under Comstar-Regions.

In May, Comstar-UTS launched its full-service mobile WiMAX network, covering most of the territory of Moscow. This provides subscribers with broadband access on the move and is part of Comstar's broader strategy of using various technologies to provide a seamless information space.

Subscriber numbers in the third quarter indicate that the number of MGTS' broadband internet subscribers in Moscow exceeded 200,000 for the first time. This breakthrough reflects the success of the mass-market broadband internet service launched by MGTS in October 2007.

Comstar's headline financial results for 2009 were as follows:

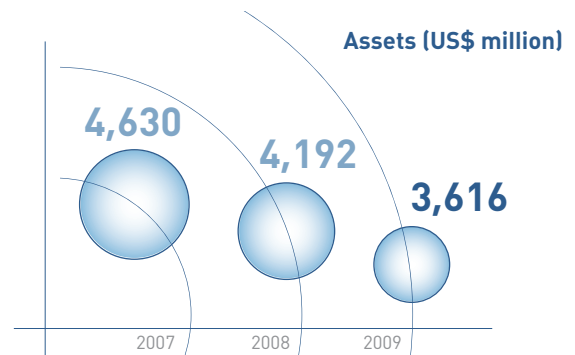
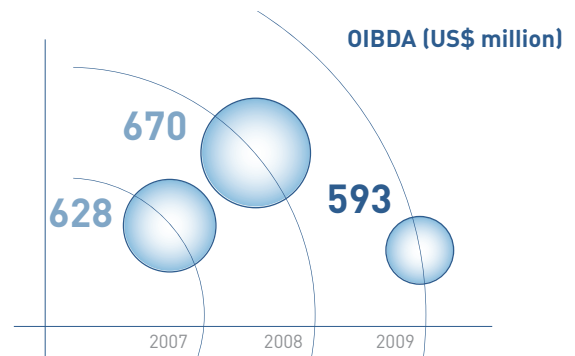
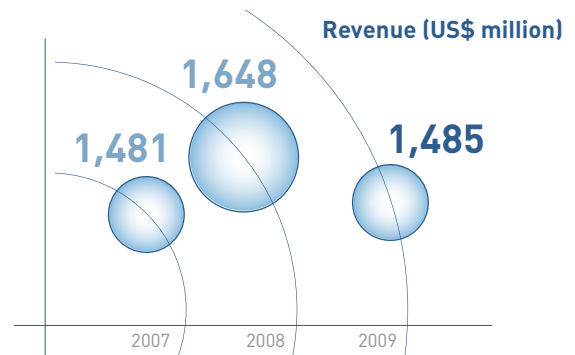
- Revenues of US\$ 1,484.8 million, up 15% year-on-year in ruble terms⁴
- OIBDA of US\$ 592.8 million, up 9% year-on-year in ruble terms⁴
- Total broadband subscribers increased by 40% to 1,298,000

Outlook for 2010

In 2010, Comstar-UTS will focus on efficiencies gained from becoming part of the MTS Group. The first aspect of this strategy is integration with the MTS Group, including the rebranding of the alternative business in Moscow and the regions, bundling wire-line, wireless mobile and WiMAX internet access in the premium segment, and maximizing cross-sales and integration in the Moscow mass market.

The second aspect is an accelerated regional strategy through modernizing existing networks and entering new regional markets. In 2010, Comstar-UTS plans to return to regional expansion as part of its longer-term aim to expand its presence to 200 cities, while selectively modernizing local networks to deliver high-speed broadband to current pay-TV subscribers. Access to MTS's network infrastructure in the regions and cooperation on developing the network will be a key driver for regional development.

The third aspect is managing MGTS as a separate business unit, while consolidating Comstar's stake. The digitization of the MGTS network is being re-launched through the use of IMS technology, the most cost-effective technological solution for replacing analogue capacity. The goal is to complete digitization in 2012 and create a stable and highly profitable regulated business.

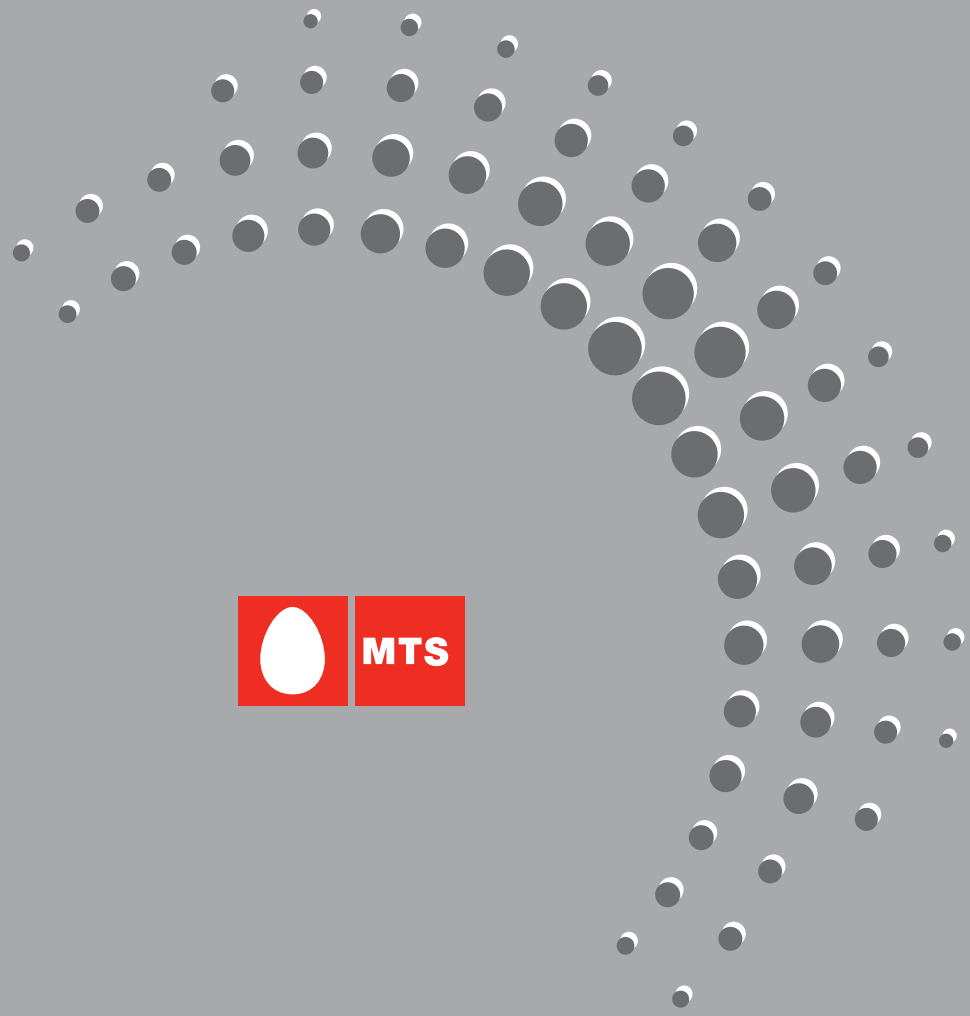


¹ Source: UralSib

² Source: ComNews Research

³ Source: Ministry of Economic Development estimate

⁴ Dynamics are in rubles, as more than 90% of revenues and operating expenses are in rubles



SMARTSPACE

Company in brief

Sistema Shyam TeleServices Ltd. (SSTL), previously known as Shyam Telelink Ltd., is a joint venture between Sistema and the Shyam Group. In 2008, SSTL acquired a pan-India license and spectrum that covers all of India, a country with a population of some 1.17 billion people. SSTL has been using the MTS brand for its services in India since March 2009, under an agreement signed with MTS in late 2008, and now operates as MTS India. The company had three million subscribers at the end of the year.

MTS India's strategy calls for differentiation from the mainstream rather than face-to-face competition with the rest of the market, which is dominated by large local players and a few global players. The company operates on CDMA-based technology that, in the case of the Indian telecom market, offers a number of notable end-user advantages compared to GSM, including better connectivity, coverage outside of urban areas, and overall reliability. Coupled with an aggressive yet customer friendly solution in distribution and well-known brand, the business model has already proven to be competitive and is expected to become profitable by 2013. SSTL aims to become one of the key local players in data with focus on select circles for voice.

Rajasthan, the first circle of operation, remains the largest individual market, with almost 38% of MTS India's subscribers at the end of 2009. The united circles of Kolkatta/West Bengal and Tamil Nadu/Kerala also had over 500,000 subscribers each. With several new circles launched towards the end of 2009 and more planned for 2010, MTS India's reliance on any single telecom circle is expected to be no more than 20% in 2010.

Sistema holds a 73.7% stake in SSTL. The investment in MTS India provides exposure to one of the largest and most rapidly developing telecommunications markets in the world, diversifying the Corporation's existing telecommunications asset portfolio in Russia and the CIS and expanding its telecom franchise abroad, in line with its strategy. With access to the deep telecommunications expertise of the Sistema group, MTS India is able to leverage one of the world's most valuable consumer brands (MTS) and gain access to equipment (Sitronics), as well as benefit from the Corporation's management expertise and established relationships with leading global technology and service providers.

Sector

The Indian mobile sector is the fastest growing telecommunications market in the world. At the end of 2009, there were around

525 million subscribers and 50 million subscribers are added each quarter. The market is primarily driven by pre-paid customers. Business Monitor International (BMI) forecasts that India will have one billion cellular subscribers by the end of 2012. Despite the impact of the global economic crisis on the Indian economy, the telecommunications market continued to grow rapidly, aided by tariffs for voice services that are among the cheapest in the world.

Competition is intensifying in the sector, and various new operators are launching and expanding services. Price competition is fierce, and major operators have reduced tariffs and/or switched from per-minute to per-second billing. At the same time, the price situation had stabilized by the end of 2009, as new entrants appeared unwilling to undergo another round of price cuts. Together, the top three operators account for 58% of subscribers and 66% of revenues. In addition, several of the world's top 30 operators have entered the Indian market with long-term ambitions.

The robust growth of subscriber additions is expected to continue through 2010, although analysts expect top-line growth to be limited to single digits for the industry as a whole. Meanwhile, broadband and data transfer services will play an ever greater role, as the overall broadband penetration rate is just 1%. This year should see the completion of 3G GSM license auctions and the beginning of the rollout of UMTS networks. Some of the private GSM operators participating in the auctions are expected to start rolling out 3G services towards the end of the year. Meanwhile, Mobile Number Portability (MNP) will come into effect in 2010. However, since India is predominantly a prepaid market, with some 2% of subscribers being postpaid voice customers, MNP should not cause a significant increase in competition.

- Around 525 million subscribers at end of 2009
- 50 million new subscribers each quarter
- One billion subscribers expected by 2012

Operational and financial results

MTS India started 2009 with one circle of operation and ended the year with eleven circles, covering over 50% of the population. It rolled out high-speed data coverage in over 30 cities, including the five largest urban markets. In recognition of its success, MTS was named the "Most Successful New Telecom Operator" by the Indian authorities (CMAI Infocom Awards).

MTS India reached the one million subscriber mark on June 1, 2009, and ended the year with three million. Furthermore, in the five weeks after launching data services, MTS India had signed up nearly 15,000 mobile broadband subscribers.

During the year, MTS India started to aggressively roll out franchised MTS branded retail stores to attract voice customers with high ARPU and customers for its leading data products. At the end of 2009, MTS India had 230 branded retail stores.

MTS India's headline financial results for 2009 were as follows:

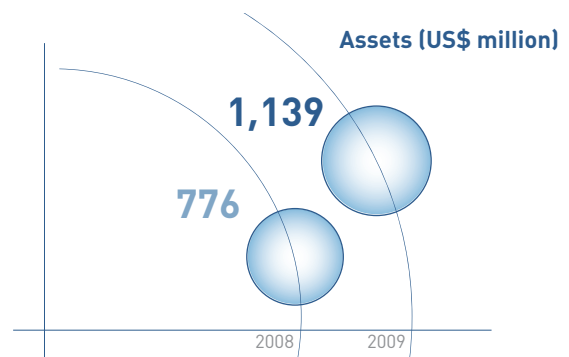
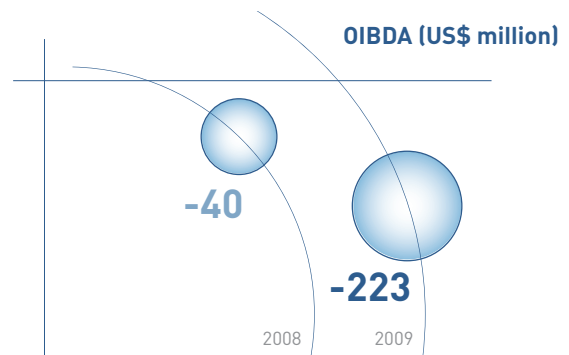
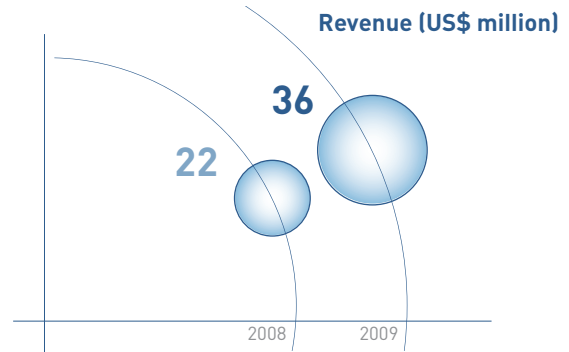
- Total revenues of US\$ 36.4 million, up 66.4% year-on-year
- Negative OIBDA of US\$ 222.7 million

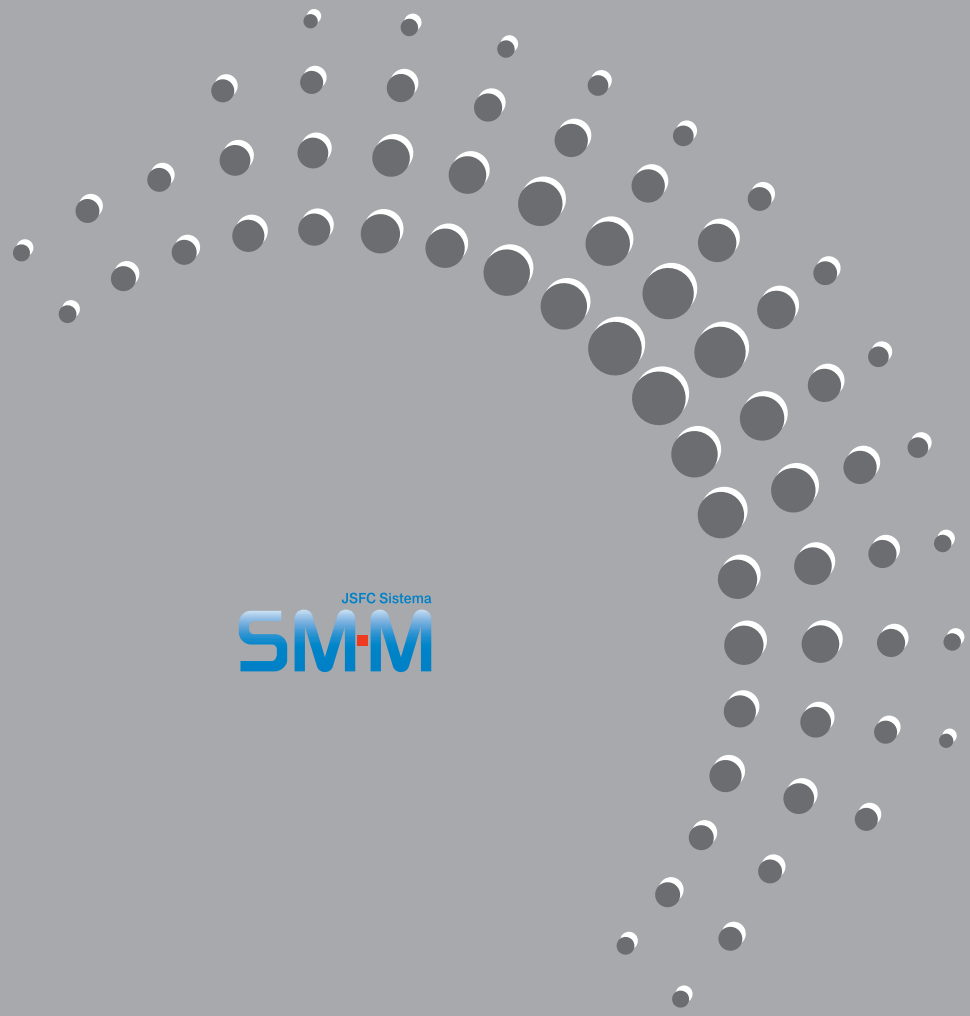
Outlook for 2010

This year, MTS India will focus on implementing its "data centric: voice enabled" strategy and leveraging its CDMA technology platform, especially in a market where initial 3G deployment will not begin until the end of 2010. It will also continue building on the MTS brand and launch a nationwide campaign to increase brand awareness. MTS India intends to lead the market in high-speed data coverage and has plans for over 80 cities by the end of 2010.

Within the voice segment, the Company aims to have nationwide coverage by the end of 2010. To achieve this, MTS India intends to continue its own network roll-out and enter into active sharing and roaming agreements with one or more incumbents. There are plans to offer international roaming for key markets. In addition, smartphones on the Blackberry and Android platforms will be launched. For the data business, MTS India intends to launch a postpaid product that will close the gap with market leaders. These innovations should allow MTS to grab a significant share of high-ARPU voice customers and around 20% of net additions in the high-speed data market.

MTS India plans to implement leading cost-control measures by leveraging a variable cost model for infrastructure, proactively managing handset costs by reducing subsidies, and partnering with leading vendors to promote "open market" handsets.





JSFC Sistema
SMM

SMARTSPACE

Company in Brief

Sistema Mass-Media (SMM) manages the Corporation's media assets and is one of Russia's largest producers and distributors of content for pay-TV networks and other media. It focuses on producing content, aggregating licenses from rights holders, distributing content on various platforms, and building an integrated content business. SMM includes Russian World Studios (RWS), STREAM Television Company, Maxima Communications Group, and Digital Television and Radio Broadcasting (DTB).

SMM's investment provides diversified exposure to specific parts of the media market with significant long-term growth potential, including content production for various media platforms' pay-TV channels and advertising. The proliferation of new media outlets, growth of broadband, and the increasing ubiquity of mobile devices capable of receiving streaming content and advertising, combined with the revival of the Russian film industry, all provide strong justifications for SMM's focus on building leading positions in these segments.

Sector

- The pay-TV television business continued to grow strongly in 2009, up 8% to US\$ 840 million
- While the market for television content dropped sharply, growth is expected to recover to around 5% in 2010
- The advertising market was the one most hurt by the crisis, but it is expected to begin recovery in 2012

While the difficult economic situation affected the Russian media industry in 2009, the impact varied considerably according to segment. In particular, the pay-TV business continued to enjoy strong growth, with the subscriber base increasing by 21% to 14.5 million people. The segment's volume grew by 8% to US\$ 840 million in 2009, J'son & Partners Consulting estimates. The most obvious fallout in this segment was reduced investment in network expansion, a trend that limited subscriber base growth rates and which is expected to continue into 2011.

The television content market suffered seriously from the crisis due to the dependence of broadcast TV channels on advertising. According to varying estimates, the segment contracted by 15-25% to some US\$ 700 million in 2009. However, a recovery is expected to begin in 2010, when growth is forecast to rebound and stabilize at approximately 5% yearly. The amount of airtime devoted to primetime TV-series will remain stable, and growth will be driven by demand for better-quality content.

The market for feature film production and box office sales has been less affected by the crisis, as it is not dependent on advertising. In 2009, box office sales increased by 15% to over US\$ 750 million, as ticket prices rose and ticket sales increased slightly. While the total number of Russian films shown in 2009 was similar to 2008, major studios and local companies carried out more joint productions. Analysts forecast stagnation in 2010, followed by a return to growth in 2011 and 10-15% growth going forward.

The advertising market was the most exposed to the crisis, as companies slashed budgets. Total spending on brand advertising fell more than 15% to around US\$ 8.5 billion. At the same time, the decline in traditional media was somewhat compensated by the development of new and more targeted advertising platforms, such as pay-TV and the Internet. PricewaterhouseCoopers estimates that the market will begin recovering in 2012 and the CAGR for 2009-13 will be around 4%.

Operational and financial results

By the end of 2009, RWS had completed more than 500 hours of television and feature projects, including 300 hours of serials. In addition, 120 hours of TV programming content was produced for the STREAM Television Company in RWS production facilities in Moscow and St.Petersburg.

SMM and Comstar-UTS completed the restructuring of Comstar-Direct in 2009, which included the separation of its content and network infrastructure.

In 2009, the transfer of the function of aggregator of over 100 channels for Comstar's Moscow network to STREAM was completed. The expansion of the aggregation function for Comstar's regional and third-party pay-TV networks is still in progress. The company also launched three new pay-TV channels and will offer nine original channels in 2010.

Channels produced by STREAM hold leading positions in terms of ratings. At the end of 2009, the aggregated subscriber base for its original channels was 5.5 million households, or over 15 million people. Average audience growth for the channels exceeded 20% year-on-year.

In the advertising business, Maxima's overall billing exceeded RUB 7.5 billion in 2009. The number of clients from outside the Sistema group doubled year-on-year, while the company launched a new advertising product aimed at providing small and mid-sized enterprises with the optimal range of services to meet limited marketing budgets.

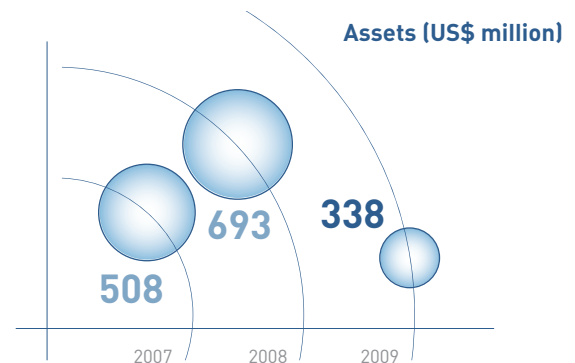
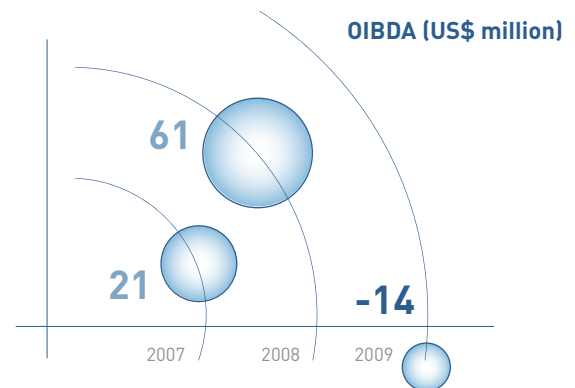
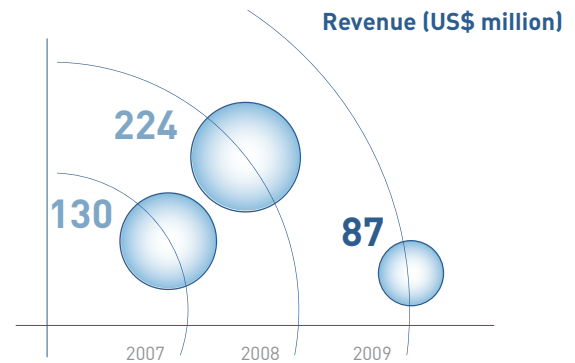
In 2009, the aggregated subscriber base for DTB's premium service for automobile TV under the DVision brand exceeded 130, including top government officials and senior business executives. The company is planning to develop the automobile TV service, switch to the MPEG-4 format and increase the number of pay-TV channels offered.

SMM headline financial results for 2009 were as follows:

- Revenues were US\$ 87.2 million, down 61.2 % year-on-year
- OIBDA was negative US\$ 14.3 million

Outlook for 2010

SMM is committed to becoming the largest media holding in Russia and creating value for shareholders. In the TV segment, SMM plans to expand its current business and create the largest pay-TV broadcaster in Russia. In the film business, its strategy is aimed at occupying leading positions in TV content creation and distribution while expanding existing production facilities. In advertising, SMM plans to introduce sales-house services for AFK Sistema and external clients and proceed with further development of buying services under the Maxima brand.



OIL AND ENERGY GROUP BUSINESS UNIT

- Bashneft



BASHNEFT

SMARTSPACE

Company in brief

Bashneft is a vertically integrated oil company that manages oil and energy assets in the Republic of Bashkortostan, Russia. Its assets include the oilfield operator Bashneft-Production, the country's most modern refining complex (3 interconnected refineries - Ufimsk Refinery, Novoil and Ufaneftekhim) and the Ufaorgsintez petrochemical plant, and it sells its oil products via its retail branch Bashkirnefteprodukt.

Sistema acquired a minority interest (ranging from 21-30%) in the above companies in 2005-2006 and secured majority stakes in March 2009. In December 2009, Sistema sold its stakes in the refineries and Bashkirnefteprodukt to Bashneft, which became the management company.

Bashneft is one of Russia's Top10 vertically integrated oil and gas companies by crude oil production, with an output of 12.2 million tons in 2009. It is in the Top3 by refining volumes, with 20.7 million tons processed in 2009, and also among the leaders in crude conversion ratio, which was 83.4% in 2009.

Sector

The main event in the global oil and gas sector in 2009 was the dramatic fall of oil prices, which hit a low of around US\$ 35 per barrel (Brent) in January 2009. This was just a quarter of the record highs achieved in July 2008 (over US\$ 140). In addition, the financial crisis had an impact across all industry sectors and caused domestic demand for motor fuels to drop. At the beginning of the year, Russian oil companies saw their revenues and profits plummet and announced plans to cut costs and scale back investment programs. This allowed the Energy Ministry to predict a decrease in national oil output for the second year in a row.

By summer 2009, however, world oil prices doubled from the January lows, to US\$ 70-75 a barrel, which enabled oil companies to renew financing for projects, including new ones in eastern Siberia. As a result, Russia set a new post-Soviet record for daily oil output of over 10 million barrels in October, as well as achieving record annual production since 1991.

In addition to the improvement in market conditions, the sector benefited from incentives introduced by the Russian Government. In particular, tax breaks were introduced for both brownfields and greenfields in remote regions. Companies also reacted to crisis by slashing costs.

Because of the crisis, some oil holdings deferred their downstream modernization programs and convinced Russian govern-

ment to delay the introduction of the new technical regulations for motor fuels. This resulted in a decrease of the efficiencies of upgrade investments already made.

Russia produced 494.2 million tons of oil and gas condensate last year, up around 1.2%. Meanwhile, the country's gas output dropped by 12.4% due to lower demand in Europe, and primary refining throughput barely changed, rising just 0.01%.

Operating results

For Bashneft, 2009 was defined by the decision to create a vertically integrated oil company on the basis of the Bashkir energy assets in which Sistema had acquired majority stakes.

Implementing this strategy allowed the company to abandon the inefficient tolling scheme that was in use at the Ufa refineries. By December 2009, Bashneft became the sole supplier of crude to its refineries, entering into direct agreements to purchase the necessary crude volumes from oil majors LUKoil, TNK-BP, Surgutneftgas, and Shell.

In 2009, Bashneft has reversed its production decline and, following two decades of production fall and stagnation, increased its oil output by 4.7% year-on-year, one of the best growth rates in Russia. Its total output was over 12.2 million tons. The success was due to organic growth, including wellstock optimization and application of various recovery enhancement techniques.

Despite the crisis and the switch from tolling schemes, the company maintained processing volumes and simultaneously continued to upgrade its refineries, increasing its conversion ratio to 83.4% and ramping up the yield of gasolines. The launch of the delayed coking unit at Ufaneftekhim brought this refinery up to the highest European production levels with a new conversion ratio of 92-95%. All three Ufa refineries increased their capacity to produce Euro-4 and 5 motor fuels.

The most important achievement of the year was the establishment of an in-house commercial function. The newly introduced Commercial block oversees both crude procurement and sales of product that had previously been the responsibility of processors (tolling third-party agents). As a result of this switch, the company saw considerable improvement in its margins.

- Oil output of 12.2 million tons, up 4.7% year-on-year
- Average daily oil production in December around 35,000 tons, up 8.9% year-on-year
- 171 new wells brought online with average daily output of 5.9 tons, an increase of almost 40% year-on-year

- Over 3000 workovers carried out at existing wellstock, yielding an average daily increase of 2.7 tons per well, up 50% year-on-year
- Primary refining throughput of 20.7 million tons, up 1.9% year-on-year
- Gasoline production of 5.06 million tons, up 4.0% year-on-year Average conversion ratio of 83.4% compared with the industry average of 71.8%

Outlook for 2010

In 2010, Bashneft's main development focus will be to strengthen the vertical integration and improve efficiencies at every level, from oil exploration to retail sales.

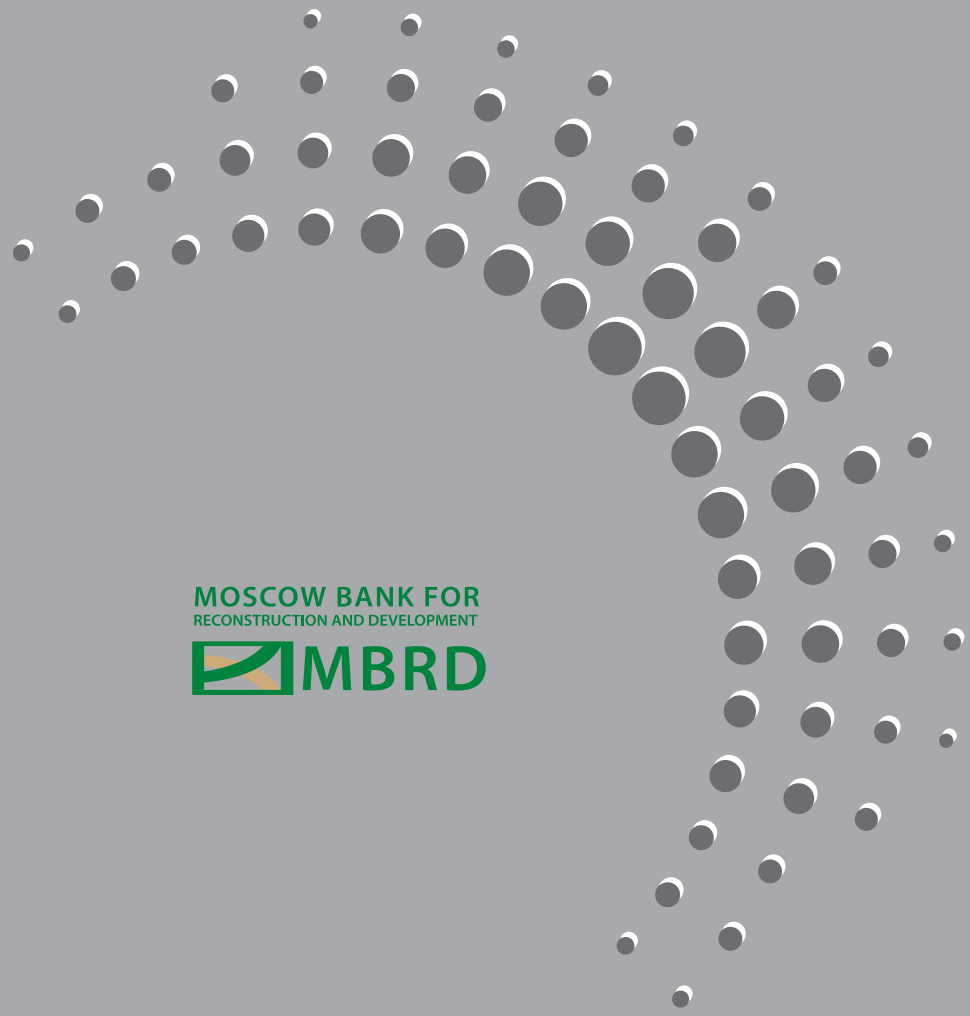
The company plans to increase output at existing oilfields to 13.4 million tons by optimizing wellstock work and waterflood patterns, adjusting drilling plans, choosing fracking candidates, and adopting other techniques to increase production. Future growth will be driven by securing new licenses to develop deposits and thru the acquisition of producing assets.

Bashneft also intends to increase its refineries' utilization rate and processing volumes, primarily using its own crude, while continuing the program to modernize its refineries. In 2013, the company aims to raise its conversion rate to 85.35% and to produce more Euro-4 and 5 motor fuels.

In order to increase its margins, Bashneft plans to secure routes to customer by expanding its presence on the most attractive markets (export, small wholesale, and retail). The company plans to extend its retail network beyond Bashkortostan by acquiring assets in target regions and by entering into franchising agreements.

CONSUMER ASSETS BUSINESS UNIT

- MBRD
- Detsky Mir
- Intourist
- Medsi



MOSCOW BANK FOR
RECONSTRUCTION AND DEVELOPMENT



SMARTSPACE

Company in brief

The Moscow Bank for Reconstruction and Development (MBRD) is one of Russia's largest universal banks and has a large retail network. The group includes Dalcombank (Khabarovsk) and East-West United Bank S.A. (Luxembourg). According to 2009 figures, MBRD was a Top30 Russian bank in terms of assets¹. It is the Authorized Bank of the Government for the city of Moscow. MBRD and Dalcombank are participants in Russia's Deposit Insurance System. At the beginning of 2010, MBRD has a presence in the Central, North-Western, Southern, Siberian and Far Eastern federal districts of Russia, covering a total of 39 regions, as well as in Luxembourg.

The Corporation's investment in MBRD provides long-term exposure to the retail and corporate banking businesses in Moscow and targeted regional markets, both of which have long-term growth potential. With a developed network and an established brand, MBRD is well positioned to benefit from the continuing consolidation in the Russian banking sector. The number of banks in Russia is forecast to decrease, with smaller banks, overleveraged institutions and banks fulfilling more limited treasury functions exiting the market as competition increases, regulatory requirements are increased and supervision improves.

Sector

Last year saw banks move to combat the impact of the crisis, as they were forced to manage credit risks and strengthen their liability portfolios. Bank assets grew by a modest 5% in 2009, compared with 39% in 2008. The bank assets to GDP ratio spiked from 68% to 75%, although this was largely due to a decline in GDP.

Negative trends in many sectors of Russian economy, including construction, were intensified by the devaluation of the ruble in 2008 and 2009. This forced banks to seriously review their approach to rating clients. As a result, lending to the non-financial sector fell by 2% in 2009, compared with increases by 53% in 2007 and 35% in 2008.

The drop in quality of their credit portfolios was a significant problem for banks in 2008, and this trend continued in 2009. In November 2009, the share of NPL to the non-financial sector in loan portfolios was 6%. The aggregate provisions of total loans increased to 9.8%.

In addition, the flow of funds from international financial markets plummeted last year; the main funding source for banks was enterprises and organizations, which accounted for 31.7% of the

banking system's liabilities. Another notable trend was the expansion of Russian banks' investment portfolios, which swelled by 82% in 2009.

2010's positive trends in the financial sector, as well as efforts by the Central Bank to overcome the global financial crisis, provide grounds for optimism that the Russian banking sector will recover rapidly. The potential growth drivers are retail and consumer credit, as well as the development of numerous high-tech products, which simplify client access to top-quality banking services.

- Total banking assets grew by 5%
- Bank assets to GDP ratio increased 75%
- Lending to the non-financial sector fell by 2%

Operational and financial results

MBRD continued to implement a conservative policy last year, significantly expanding its investment portfolio in contrast to its lending portfolio. By the end of the year, it increased its investments in bonds denominated in rubles by RUB 10.8 billion and those in U.S. dollars by US\$ 350.3 million. Significant efforts were made to support a high level of liquidity, and the Bank issued two ruble bonds together worth RUB 10 billion.

At the beginning of the year, the Bank signed a deal with the Agency for Housing Mortgage Lending (AHML) in which it acts as the official AHML agent in Moscow. This enables it to service not only to MBRD mortgage borrowers but also to borrowers of other credit organizations. Mortgage loans for total amount over RUB 97 million were restructured under the program.

MBRD raised loans collateralized by sureties of other credit organizations from the Central Bank totaling RUB 8 billion for one year. This was repaid in full and ahead of schedule due to the improving situation in the money market. The Bank also repaid on schedule a EUR 40 million syndicated loan arranged by WestLB AG, London and a US\$ 100 million Eurobond issue, and prepaid a US\$ 125 million credit facility of Dresdner Bank, London.

MBRD streamlined its regional network during the year, changing both the format of points of sale and the geography of its coverage. Seven additional offices were opened in Krasnogorsk, Ryazan, Surgut, Nizhnevartovsk, Neftekamsk, and Tuimazy and two teller offices were upgraded to branches in Novosibirsk and Kaliningrad. Ineffective branches were closed in various cities and towns.

MBRD issued 83,800 Visa and MasterCard bank cards in 2009 and the balances on bank card accounts grew by 38.2%, or RUB 769.5 million. MBRD also focused on the development of the Private

Banking, and the volume of deposits managed by the private banking group expanded by 18.5% to RUB 13.2 billion. The Bank maintained its position in the trade finance market even though its trade finance portfolio decreased to US\$ 113 million in 2009, compared with US\$ 187 million in 2008. Revenues from brokerage services exceeded RUB 30 billion.

Also in 2009, the product line of time deposits was renewed. Over the year, time retail deposit balances climbed from RUB 18.1 billion to RUB 25.9 billion.

MBRD's headline financial results for 2009 were as follows:

- Revenue was US\$ 720.4 million
- OIBDA of US\$ 18.8 million

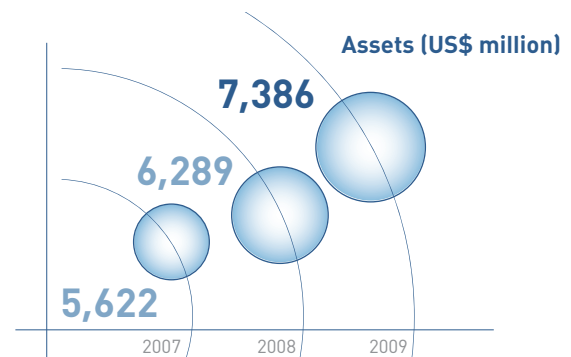
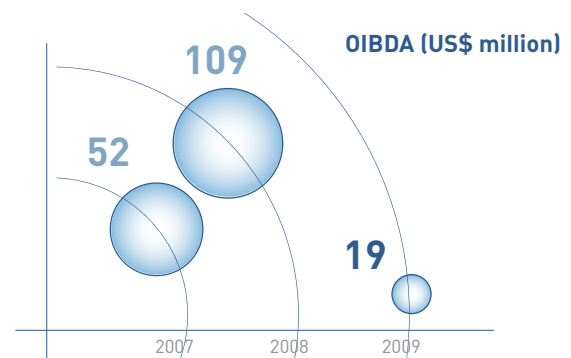
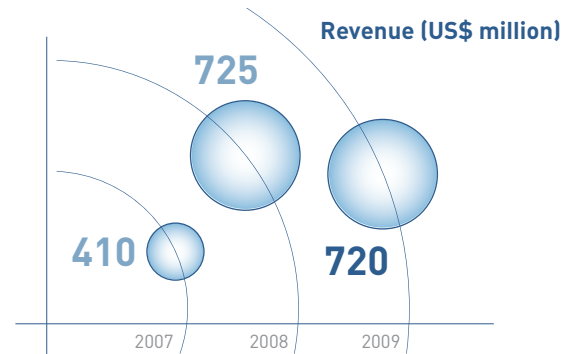
Outlook for 2010

Over 2010-12, MBRD will focus on organic growth as a universal, client-oriented credit organization with a developed network in Moscow and key regions. The number of points of sale will continue to grow in regions with the greatest potential for business development. The Bank will concentrate on strengthening its position in these regions, reducing overall advertising costs and focusing on retail products with attractive risk/return profile.

In 2010, the Bank will continue to strengthen its integration with the Sistema Group of companies in order to design and launch new products and services, including co-brands.

As for corporate business, MBRD's strategy is based on prioritizing the development of lending to medium-sized and large businesses. The Bank intends to offer corporate borrowers an integrated approach and rapid decision-making.

The development of the retail business will be based on further client service improvement and product offerings, while taking into account the varying needs of target client groups. In addition, the restructuring of the retail business will include improved IT infrastructure, which will enable clients to use new services and obtain high-quality information.



¹ Source: Interfax-Center for Economic Analysis




Detsky Mir
RETAIL CHAIN

SMARTSPACE

Company in brief

Detsky Mir Group is the leading retailer and wholesaler of children's goods in Russia, with a brand that has been established for over 50 years. The Group includes the Detsky Mir national retail chain, a leading importer and distributor of toys C-Toys, and a luxury segment retail store Yakimanka Children's Gallery. At the end of 2009 the chain had 128 stores in 68 cities in Russia with the total retail area of over 210,000 square meters.

C-Toys is one of Russia's leading importers and distributors of branded toys manufactured by world's leading toy producers, including Playmates, Lanard, Giochi Preziosi, Funrise and M&C. In 2009, C-Toys became the exclusive distributor of WinX Club dolls in Russia. The Yakimanka Children's Gallery luxury store is a full-concept shop in Moscow, with a wide assortment of goods for children under 14 years old and a total trading area of over 3,500 square meters.

Sistema's investment in Detsky Mir provides exposure to Russia's retail market, which has grown rapidly since the beginning of last decade. The Detsky Mir brand is one of the country's oldest, best-recognized, and most trusted brands and potentially can be leveraged throughout the CIS. Growing birth rates and consumer spending power will continue to translate into a highly desirable growth model.

Sector

The market for children's goods shrank by 10% to RUB 260 billion in 2009, against a background of a 20-30% fall in other consumer sectors. This decrease was mitigated by sustained birth rates in Russia and tendency by parents to keep spending on children and cut expenses on themselves during economic downturns.

The economic slowdown affected different segments of the children's market in different ways. While demand for baby goods remained stable, with the segment expanding by around 5%, demand for toys dropped, and sales of clothes and shoes plummeted.

One major factor hampering the sector last year was the rise in price of imported goods, caused by the depreciation of the ruble versus major currencies, which also reduced the population's purchasing power. In this situation, the winners were companies with long-term and stable relations with suppliers.

In 2009, some consumers switched to cheaper sales channels, such as hypermarkets and markets. Purchases via the Internet also increased, by 40%, although this segment remains small, accounting for just 4% of the overall market for children's goods.

This year, demand and revenues are expected to recover, as consumers adjust to the effects of the crisis: the market is likely to grow by 7-10%, which would bring it back to the levels seen in 2008.

Operational and financial results

Detsky Mir's headline financial results for 2009 were as follows:

- Revenues were US\$ 583.1 million, down 27.3% year-on-year
- OIBDA was negative US\$ 47.4 million

OIBDA was negatively influenced by expenses relating to new stores rolled-out in 2008, the write-off of outdated goods, the drop in consumer purchasing power, and losses from closing operations in Ukraine. As a result of these factors, high interest rates, and an adverse reappraisal of the company's foreign-currency debt, Detsky Mir posted a net loss for 2009.

Despite this, Detsky Mir significantly improved its position of market leader and continued with its development strategy. In 2009, Detsky Mir opened seven new stores, including one in Krasnoyarsk, its furthest from Moscow.

Given the shift in demand, Detsky Mir revised its product range and prices, which enabled it to maintain its client base. Managerial and marketing expenses were streamlined, and the financing structure was changed.

Last year, Raiffeisenbank and Detsky Mir signed an agreement on a RUB 3.5 billion credit facility until June 2012, which enabled the company to fully refinance its debt due in 2010 and also to finance its working capital.

In December, Sistema approved an increase in the charter capital of Detsky Mir-Center, the head of the Group, to over RUB 1.5 billion. This is in line with the Corporation's strategy to increase the capitalization of assets in its Consumer portfolio.

Outlook for 2010

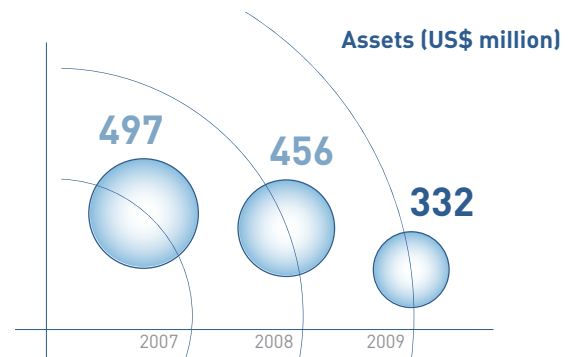
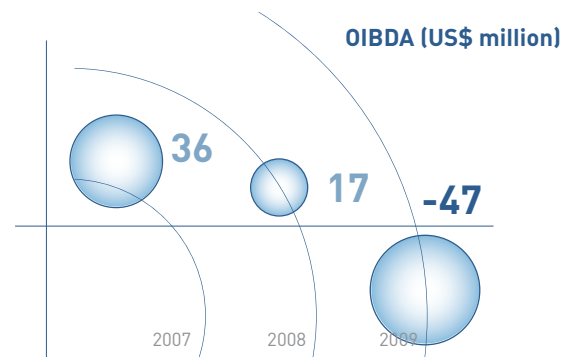
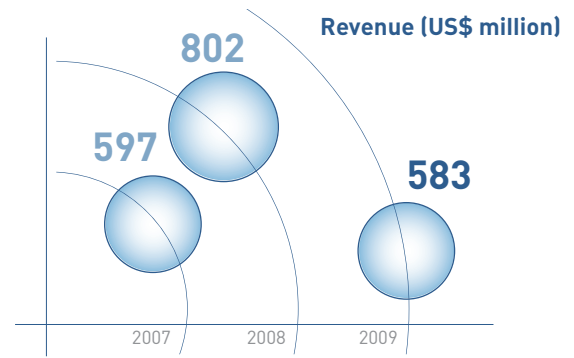
Detsky Mir's strategy focuses on increasing operating efficiency, strengthening market positions, and implementing projects with fast payback.

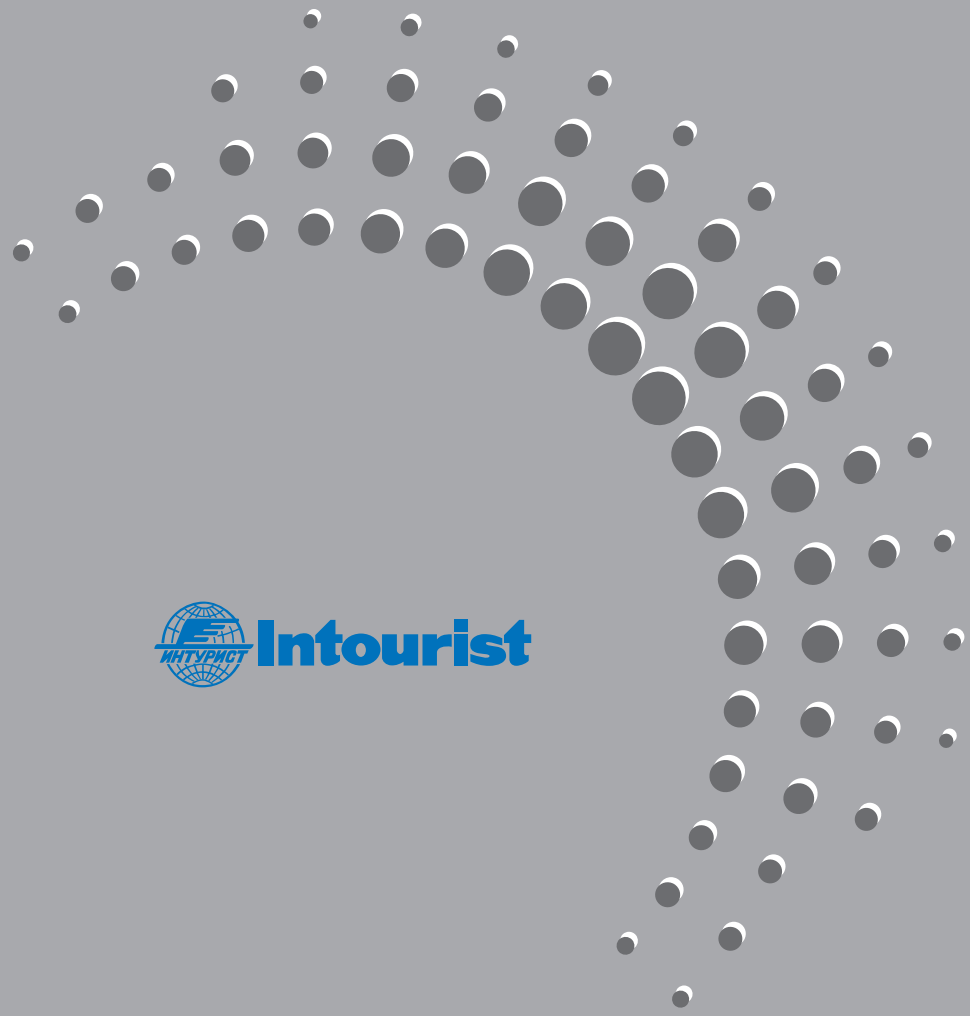
In 2010, the company intends to continue developing its retail network by opening stores in the most promising locations. The efficiency of existing stores will be increased by streamlining business processes, cutting costs, and improving logistics.

The range and price of Detsky Mir's products is structured to offer consumers the most attractive options as purchasing power recovers. One strategically important area of the business is own-brand products, which increase company profitability and customer loyalty.

Another measure that will improve efficiency is the introduction of the Oracle Retail ERP system, which will help managers make informed and quick decisions.

Detsky Mir's long-term goals are to be the undisputed leader of the children's goods market in Russia, expand its presence, and develop new sales channels, including Internet sales. As the economy recovers in 2011-12, new retail centers are expected to be launched, which will enable the company to expand its chain of stores. Detsky Mir continues to seek and develop new retail formats to maximize profits from the opportunities available.





Intourist

SMARTSPACE

Company in brief

Founded in 1929, Intourist is a vertically integrated holding that is managed by the Intourist management company. It consists of three business divisions: NTK Intourist (tour operations), Intourist Hotel Group, and Intourist Travel Store. It is active in all major segments of the tourism and hospitality industry, from packaged tours to VIP and corporate services, and is present in 80 Russian regions. Intourist works with 7,000 partners in 168 countries worldwide.

It is the established leader in the market for inbound tourists, serving visitors from 70 countries, and one of the main operators for Russians travelling abroad and within the country. Its hotel management group includes owned and third-party hotels in Russia, the Czech Republic, Italy and Latvia. Sistema owns a 66.2% stake in Intourist, while the Moscow government holds 25.036% and GAO Moskva holds 8.747%.

Sistema's investment in tourism is driven by the growth potential of the sector, where Intourist is the market leader with a diversified business model targeting inbound, domestic and outbound market and the management of hotels inside Russia and internationally. Russia's cultural heritage and natural beauty, combined with its underdeveloped tourism infrastructure, represent a clear opportunity for both international and domestic tourism. In the outbound market, rising personal incomes will continue to drive demand for packaged tours to both mass-market and sub-mass destinations.

Sector

Because of the credit crisis, demand for tourism services fell last year as real incomes dropped. The decline was not uniform in all segments or regions, however. In Moscow, for example, there was little change. Within Russia, the average cost of tours fell, bringing down the revenues and profitability of operators.

There are several trends on the Russian market at present, and the most significant is consolidation and the squeezing out of small players. Last year, amendments were approved to the federal law "On the Basis for Tourism Activity in Russia" that increase required financial resources for inbound tour operators from RUB 10 million to RUB 30-100 million. This will harm small and mid-sized players.

In 2009, outbound tourism is estimated to have shrunk by around 6% and turnover in rubles by 10-11% year-on-year. Demand has significantly shifted to budget and mass-market products. In 2008, Intourist strengthened its position in the outbound segment sub-

stantially, boosting its market share by 5%, and it successfully maintained this in 2009.

As for inbound tourism, Intourist is the leader in the segment, with a market share of 8.7% in 2009. The inflow of tourists into Russia dropped by 5.2% to around 1.6 million people last year. This was due to various factors, including an increase in independent travel, a drop in the average cost of tours, and greater price sensitivity among consumers.

Domestic demand for tours declined by approximately 18.4% in 2009, to 8.1 million. In value terms, the market shrank by 25%, with demand shifting to lower price segments. The business is also seeing a rise in independent travel and a reduction in the length of tours.

- Outbound tourism shrank by an estimated 6%, Intourist maintained market share
- Intourist is the leader in the inbound tourism segment, with a market share of 8.7%
- Russia's hotel market shrank by 24% (in value terms).

Operational and financial results

Intourist marked its 80th anniversary as Russia's leading travel company in 2009. It retained its market share in the outbound and domestic segments and remained the leader in the inbound segment. It also increased its retail sales presence throughout Russia with limited additional expense. In the hotel business, the company revised its prices according to consumer demand and cut costs.

In 2009, Intourist signed an agreement with the city of Kazan to promote the ancient city internationally as a tourist destination and to help develop its local tourism infrastructure. In November 2009, Intourist presented a new travel product – Russia, the land of three capitals: Moscow, St Petersburg and Kazan – at the World Travel Market 2009 convention in London.

Intourist was the official tour operator of Eurovision 2009 and the VII Moscow Easter Festival.

In August 2009, Intourist Hotel Group took on the management of the Bashkortostan hotel complex in Ufa. Also in 2009, Intourist Travel Store and MTS launched a joint project, "Traveller", allowing Intourist Travel Store to provide its clients with additional services.

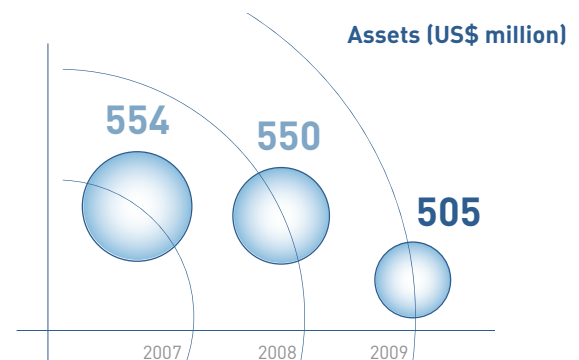
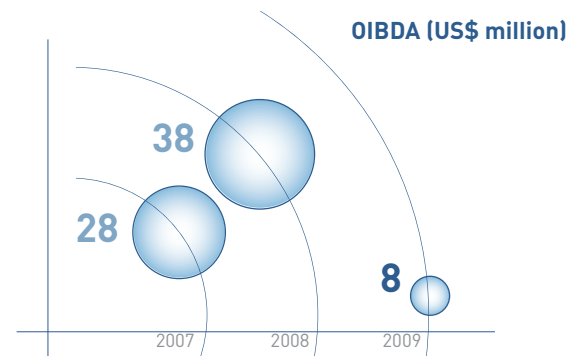
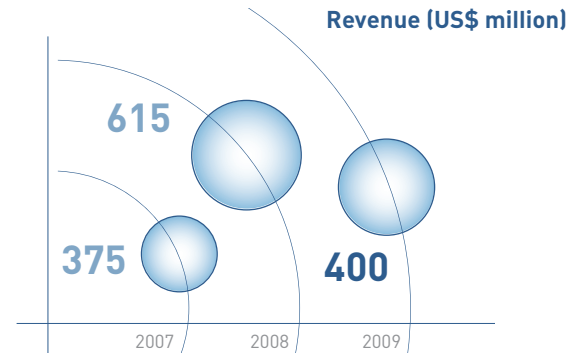
Intourist's key headline financial results for 2009 were as follows:

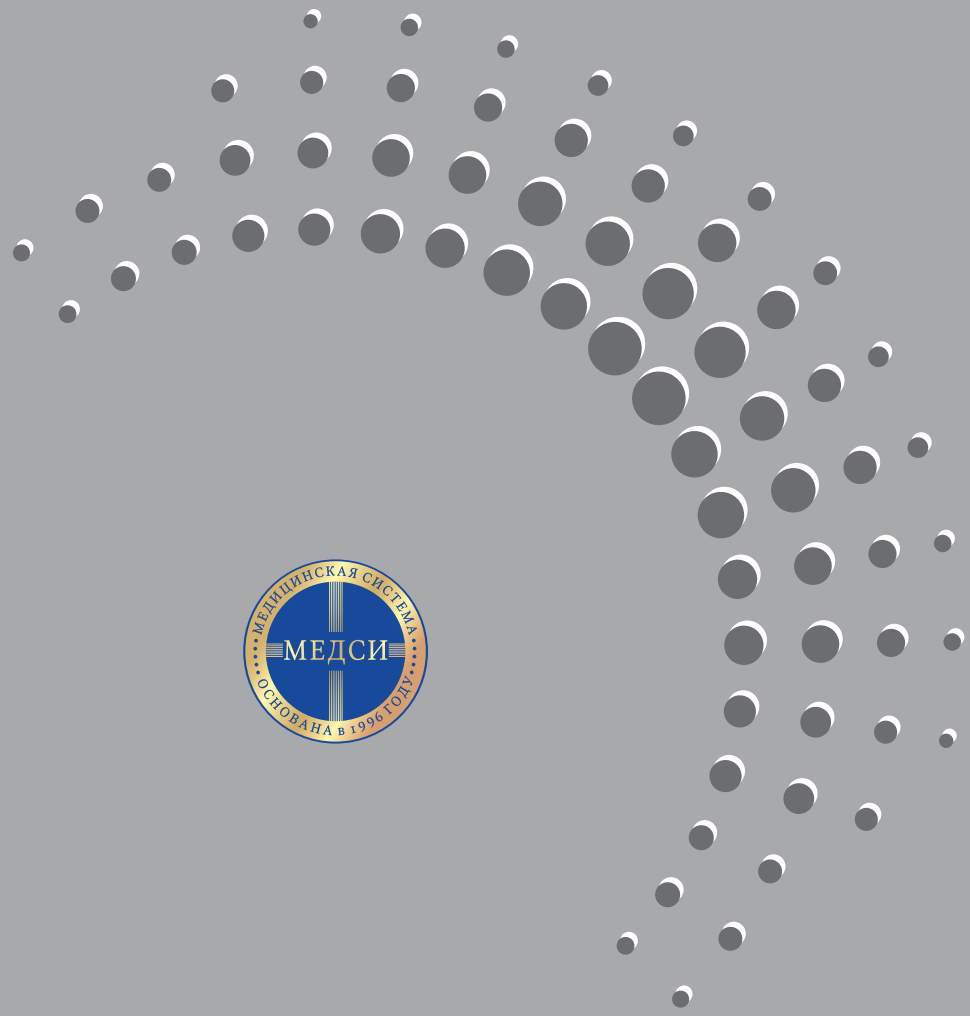
- Revenues declined by 35.1% year-on-year to US\$ 399.7 million
- OIBDA of US\$ 7.8 million

Outlook for 2010

Intourist's main goal for 2010 is restoring sales to pre-crisis levels and boosting its market share. It aims to achieve this by strengthening its competitive advantages, keeping prices flexible, focusing on the mass market in the outbound segment, and expanding its presence in key Russian regions (Moscow, St Petersburg, and Yekaterinburg).

Intourist has developed an anti-crisis strategy that involves streamlining costs and investment in working capital, boosting productivity, and increasing the quality of its products. This will steer the company through the crisis period and enable it to retain its leading position in the primary tourism segments.





SMARTSPACE

Company in brief

The Medsi group of companies is Russia's first national chain of private medical clinics, and it provides medical care and health services in Moscow and other regions around the country. The group includes more than 30 clinics offering medical services, including VIP services provided by the American Medical Center, two children's clinics, a hospital, an emergency medical service, and a chain of fitness clubs.

The group is 100%-owned by Sistema. The Corporation's investment in private medical care provision recognizes the sector's long-term growth potential, which is part of the global trend towards increasing the cost and quality of medical care and developing innovative medical treatments that extend the length and quality of life and address chronic conditions. Employer-funded private medical care has become more widespread, and wealthier individuals are opting for healthcare outside of the extensive but outdated public system. Medsi's focus on preventative and specialist care recognizes Russia's shifting epidemiological profiles and the growing prevalence of "lifestyle" disorders, while its investment in fitness clubs recognizes that modern healthcare provision is focused on wellbeing and not just illness. The Company has sought to increase direct sales to employers and individuals, rather than through insurance companies, to increase margins.

Sector

The Russian market for paid medical services continued to expand in 2009, with the commercial medicine business growing by 16% year-on-year to RUB 232.7 billion. The average cost per service rose by 16% to RUB 507. The sharp fall expected in the number of patients using commercial clinics did not happen, underlining the fact that medical care is considered a necessity rather than an optional household expenditure. The voluntary medical insurance market shrank by 4.5% to RUB 75.9 billion after several years of double-digit growth.

Market trends towards consolidation around the largest and most successful independent private care providers continued, and the financial crisis and consequent increase of commercial lending rates hastened the exit of smaller players from the marketplace. Insurance providers continue to increase standards and requirements for the medical clinics with which they contract medical services. The clients also continued to shift to the most trusted and reliable medical centers.

Revenue growth in 2009 came primarily from increasing prices for medical services. The rising costs of medical services in Russia mirror global trends towards more expensive and sophisticated treatment, as well as reflecting a scarcity of highly qualified specialists in some areas. The rise in the cost of medical services is expected to outstrip inflation between 2010 and 2015.

- Market for commercial medical services expanded to RUB 232.7 billion, up 16% year-on-year
- Average cost per service was RUB 507, up 16% year-on-year
- Market for voluntary medical insurance shrank to RUB 75.9 billion, down 4.5%

Operational and financial results

Despite the difficult economic situation, Medsi continued to grow in 2009 and led the consolidation of Russia's commercial medical sector. Revenues rose by 29% and OIBDA by 72%, thanks to the launch of new clinics. The share of revenues from insurance companies decreased by 10% year-on-year and will continue to decline in line with the growth of direct sales of medical services to companies and individuals.

The total number of patient visits to the Company's Medsi clinics increased from 1.3 million to 2.8 million year-on-year. Revenues per square meter and employee and patient numbers at Medsi's clinics, diagnostic centers and fitness clubs all increased during 2009. This reflects the increased efficiency of the facilities and continued revenue growth at existing clinics and clubs.

In 2009, the company launched a new family planning center in Stupino, Moscow Region, as well as medical clinics in Perm, Kazan and Nyagan (Urals Region), increasing the total number of clinics to 30.

The company completed the construction of the second building in its flagship hospital center near Belarusskaya in Moscow, more than doubling the medical services area and the number of doctors and diagnosticians.

In 2009, the company appointed Igor Salita as President of the company.

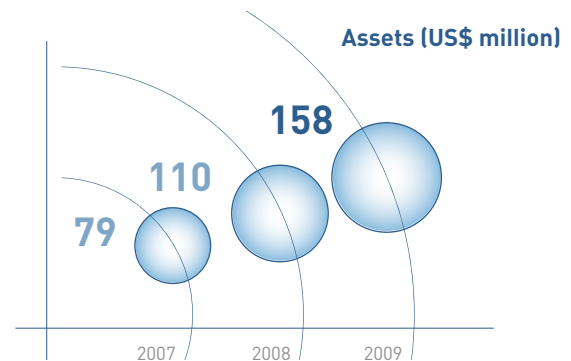
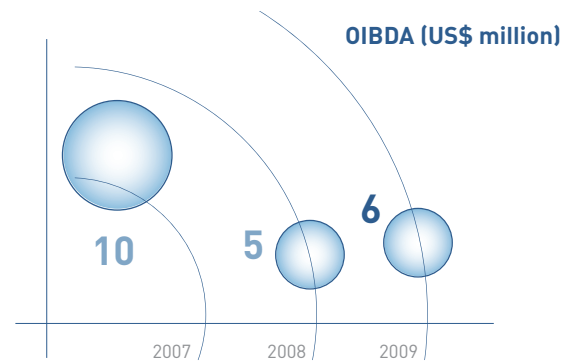
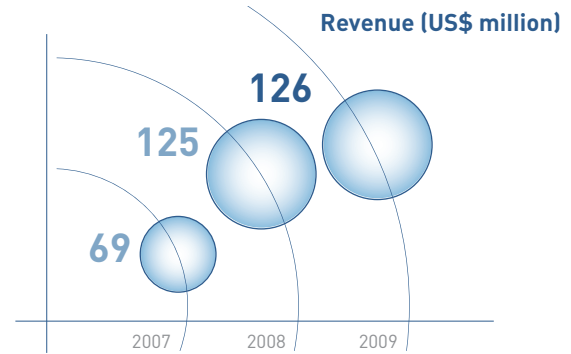
Medsi's financial highlights in 2009 were as follows:

- Revenues increased by 0.8% to US\$ 125.8 million year-on-year
- OIBDA rose by 34.9% to US\$ 6.2million

Outlook for 2010

Medsi's strategic goals in 2010 include increasing spontaneous consumer awareness of the Medsi brand to 20%, which will drive visits and therefore revenues of the group. The company also intends to launch interactive technology for personal healthcare management, and a system of chief specialists to manage and advise care in their relevant areas of specialization is being introduced.

In 2010, the company plans to introduce a patient service system in its Moscow clinics and a system for constant quality control. In addition, a single IT system and a unified client contact center are being launched in Moscow. There are also plans to bring the interiors of the Moscow clinics up to a single standard.



HIGH TECHNOLOGY AND INDUSTRY BUSINESS UNIT

- Sitronics
- RTI Systems
- Binnopharm



SITRONICS

SMARTSPACE

Company in brief

Sitronics is a leading provider of telecommunications, IT and micro-electronic solutions in Russia and the CIS, with a growing presence in EEMEA markets. It serves over 3,500 clients, with offices and branches in 32 countries. The company exports to over 60 countries worldwide and employs around 8,700 people. Its Telecommunication Solutions units are located in Prague (Czech Republic) and Athens (Greece), its Information Technology Solutions units are in Moscow (Russia) and Kiev (Ukraine), and its Microelectronics unit is in Zelenograd, near Moscow.

Sistema's investment in Sitronics aims to capitalize on the growth potential of the Russian high-tech industry, specifically in IT solutions and chip production, as well as moderate synergies across Sistema group. The long term outlook for these segments is supported by the Russian government's efforts to drive the Russian economy with a focus on growth in the hi-tech sector. Sitronics provides a balanced investment in high technology services that target both large private sector clients and Russian state-owned corporations. It also provides growing diversification through its strong and growing presence in the Indian marketplace, as well as projects in the Middle East and elsewhere.

Sector

Last year, many companies placed IT investment projects on hold due to the crisis. The largest ones were rescheduled for 2010, and the market is now seeing a return of pent-up investment demand. The major CAPEX plans announced by Russia's leading telecommunication companies indicate that investment is now back to pre-crisis levels. The main drivers of growth in developed markets are network modernization, new technologies, and new services, while in emerging markets they are rapid subscriber growth, outsourcing of IT projects and the emergence of new operators.

While the IT markets in Russia and, particularly, Ukraine were hit hard by the crisis (contracting by 47% and 57%, respectively), they are rebounding rapidly. In contrast to developed markets, the IT sector in Russia and the CIS is dominated by equipment sales. In the medium-term, spending on IT services and programs is expected to rise.

Last year, the world market for microelectronic components contracted by an estimated 22-28%. The sector is cyclical, and its recovery is expected to take two to three years. IC Insight estimates the sector's long-term CAGR at 6%.

- The IT markets in Russia and Ukraine were hit hard by the crisis, falling by 47% and 57%, respectively, but investment is rebounding
- The world market for microelectronic components shrank by 22-28% in 2009 and is expected to recover in 2-3 years

Operational and financial results

In 2009, Sitronics signed new contracts totaling US\$ 916 million, with the following breakdown: US\$ 528 million in telecommunications, US\$ 223 million in IT, and US\$ 165 million in microelectronics. The company exited the low-margin IT distribution business.

Sitronics continued to develop important partnerships with state-owned companies, such as an investment agreement with RUSNANO to set up production of integrated microcircuits using 90 nm technology. The overall cost of the project is RUB 16.5 billion. So far, RUSNANO has contributed RUB 6.5 billion and Sitronics an equal amount in the form of high-tech equipment for the Mikron plant, the contractor.

The company has continued to diversify internationally, tapping into the development potential of large emerging markets, in particular India. The Sitronics India subsidiary was set up and, in 2009, the Company signed US\$ 152 million in contracts with India's Sistema Shyam TeleServices. These contracts are to provide radio-relay equipment and RUM cards and also set up and operate both a billing system and a CRM system.

Other key international contracts included a deal with UAE mobile operator Etisalat to provide equipment forexpanding its network that is capable of handling 2G/3G traffic and offering WiFi broadband services.

Nonetheless, the Russian market remained the company's central focus. In 2009, it signed deals to supply bank cards to VTB 24 and Sberbank. Sitronics also concluded a deal to supply SIM cards to MegaFon, one of Russia's largest mobile operators. Sitronics is now the leading provider of SIM cards in Russia and the CIS.

Sitronics headline financial results for 2009 were as follows:

- Revenues of US\$ 1.0 billion, down 26.9% year-on-year
- OIBDA declined to US\$ 0.9 million

Outlook for 2010

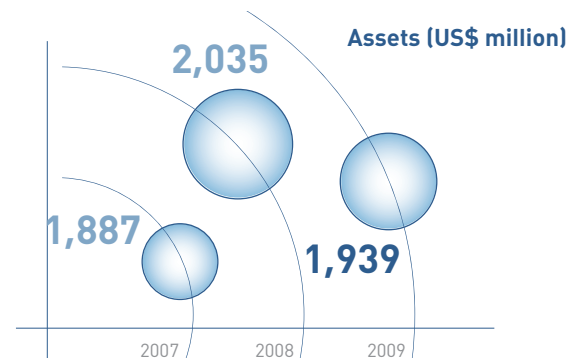
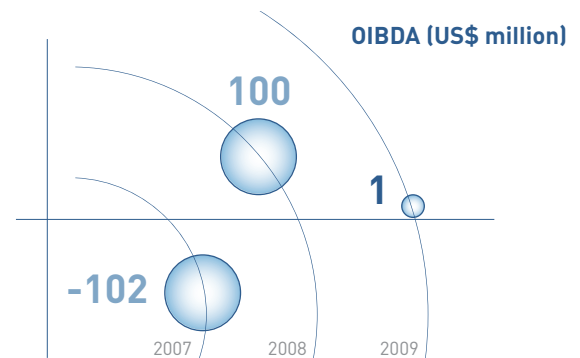
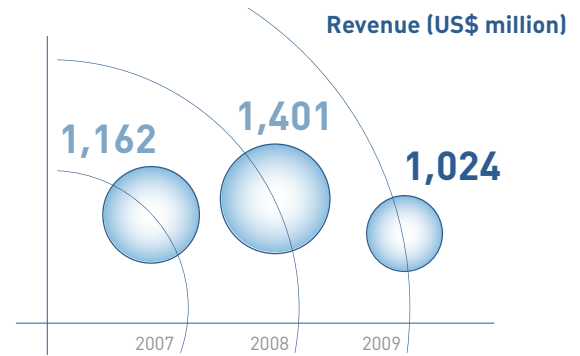
One key potential area for development over the medium-term is the project to launch production of 90 nm microcircuits. Sitronics also plans to create a public-private partnership upon completing the microelectronics program.

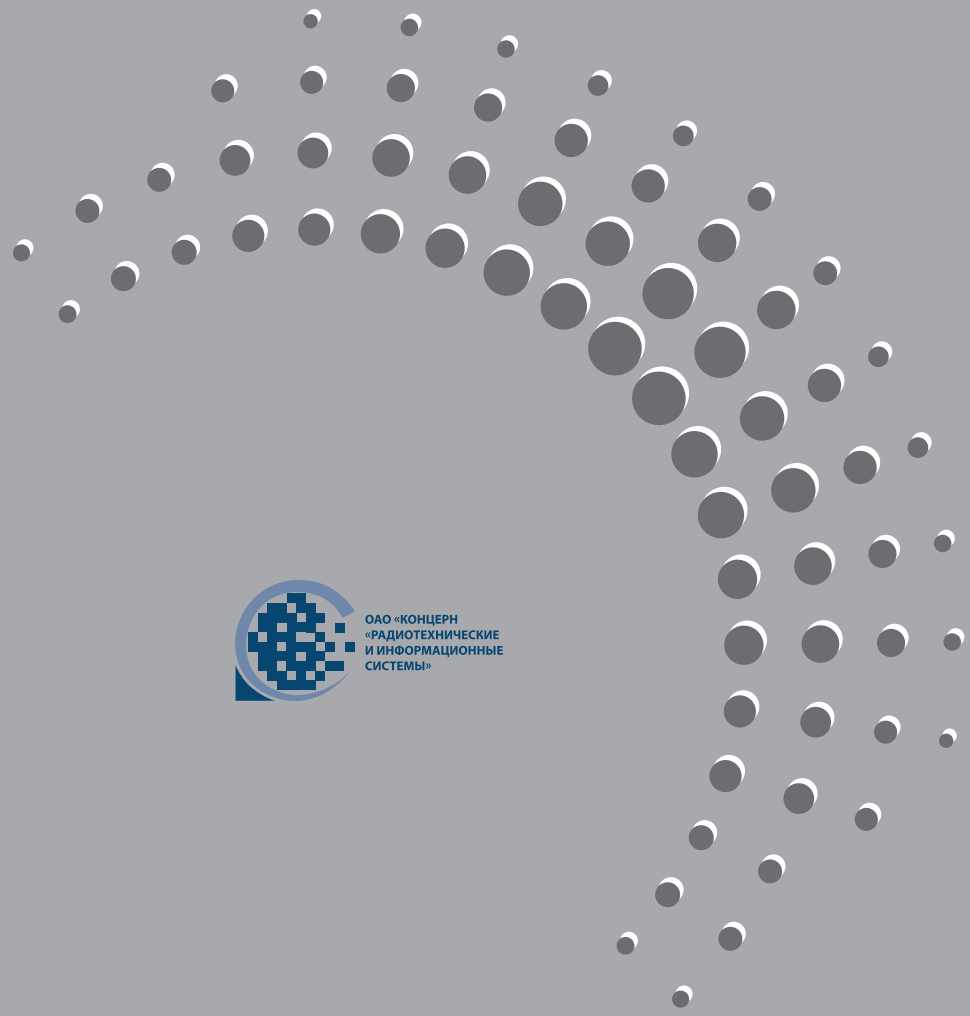
In 2010, the focus will be on expanding the use of smart cards used in 180 nm microcircuits. These are mainly chips for no-contact cards, bank cards, and other secure identification documents that are already being developed. The areas offering potential demand include federal programs and the work to create closed national standards for digital television, GLONASS and special communications.

In addition, Sitronics aims to boost sales of FORIS Charging & Billing to regional telecommunications operators in Russia.

The company also plans to continue to develop its industry expertise and own capacity and skills in the area of installing enterprise management systems, ERP, CRM, and BI, as well as the creation and modernization of IT infrastructure. Sitronics will continue to develop its outsourcing business, both in support of programming products from leading IT vendors and outsourcing of IT personnel.

Another strategically important area for the company is building mobile data processing centers and providing data processing services.





ОАО «КОНЦЕРН
«РАДИОТЕХНИЧЕСКИЕ
И ИНФОРМАЦИОННЫЕ
СИСТЕМЫ»

SMARTSPACE

Company in brief

RTI Systems Concern is one of Russia's largest industrial-defense holdings, and it manages companies with vast scientific and production potential and experience in successfully executing complex, high-tech projects. It specializes in developing and implementing large system projects in such fields as radio technology, aerospace and ground-control systems, drive technology, geoinformatics, and radio navigation. It also acts as lead contractor for the creation of information elements for ground-based ballistic missile defense systems and organizes technical operations of the current group of anti-missile defense systems (AMDS) and space surveillance systems (SSS). Its main clients include the Russian Defense Ministry, the Emergency Ministry, the Federal Security Service, the State Corporation for Atomic Energy, and the Internal Affairs Ministry.

The Corporation's investment in RTI Systems matches its strong focus on high technology, prioritizing projects with stable cash-flows and long-term prospects of growth. RTI Systems has a very strong business in defense contracting, with stable long-term revenue flows from major technology projects and the prospect of increasing expenditure by the Russian state on defense technology. The Russian armed forces are in the process of restructuring to be more streamlined and rely more on technology and the outsourcing of certain functions, such as the operation and maintenance of radar systems. RTI Systems also provides long-term exposure to high-growth technology segments in the private sector.

Sector

Russia's market for state defense contracts in 2009 amounted to around US\$ 41 billion, while the market for weaponry and military technology was worth US\$ 18.7 billion. In 2010, government contracts are expected to increase slightly to US\$ 42 billion, and the market for weaponry and military technology is forecast to reach US\$ 18.9 billion.

In 2009, the radio-technology and information systems segment of the defense sector was worth US\$ 1.86 billion, roughly equivalent to 2008 levels, and is expected to grow by around 10-15% annually. Information systems and complexes remain a priority area for the state armaments program, which should help stabilize the market. In 2009, the market for aerospace systems was US\$ 378 million, while the market for controlled drive technology, including robotics and mechatronics, was US\$ 662 million. It is forecast to grow by 30-40% per year.

The Russian market for navigation and telematics can be divided into two large segments. First, there is the regulated market, serving government and large corporate clients, that was worth US\$ 567 million in 2009. It has remained robust despite the financial crisis, particularly as customers seek solutions for monitoring and the optimization of logistics processes and cost controls. Second, there is the commercial market. The Mobile Research Group has estimated that it will be worth US\$ 2.7 billion in 2010, with subsequent annual growth of 30-60%.

- Total market for defense contracts worth US\$ 41 billion, up 2% year-on-year
- Radio technology and information systems market worth US\$ 1.86 billion

Operational and financial results

In 2009, RTI Systems was rated by Defense News as one of the Top100 defense companies in the world.

Last year, RTI continued to develop new technologies in the fields of radio technology and telecommunications as part of contracts implemented under the federal program "Development of the Defense and Industrial Complex from 2007-10 and the Period to 2015".

New projects for RTI Systems in 2009 included:

- Development of state-of-the-art broadband communications for the Ka-52 helicopter
- New Assembled Ready (FAR) radar systems
- Creation of a system for monitoring water and air conditions in the Arctic
- Development and production of an electronic components base at the Planeta special design bureau
- Development of the Sistema-Sarov Technopark, marking the first stage of the innovative stand for developing the latest information-communications technologies
- Completion of state testing of an over-the-horizon radar system
- Completion of final comprehensive checks of the chief model of the FAR radar system Voronezh-M
- A new center for integrated docking products was created to improve FAR technology

In addition, a contract was signed with the Rosoboronexport arms export agency for supplying products to China in 2010.

During the year, RTI Systems acquired a 72.7% stake in Moscow-based Center-Telco and then increased its stake to 99.9%. It also acquired 51.19% of the voting shares of Mints Radio-Technical Institute. In addition, the company increased its shareholding in the Planeta special design bureau to 100% after making a mandatory offer to minority shareholders.

RTI's headline financial results in 2009 were as follows:

- Revenues fell from US\$ 471 million to US\$ 410 million
- OIBDA declined slightly to US\$ 51.3 million

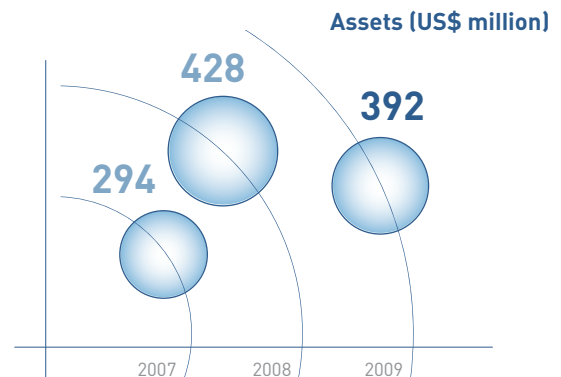
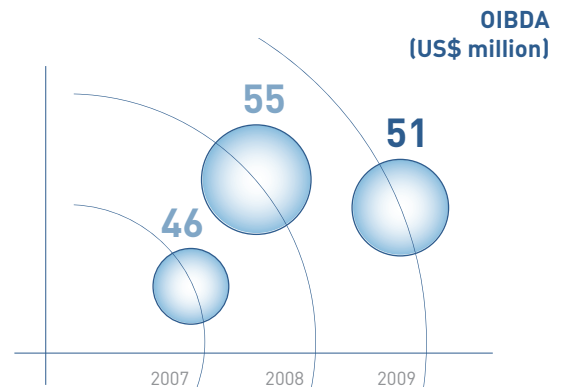
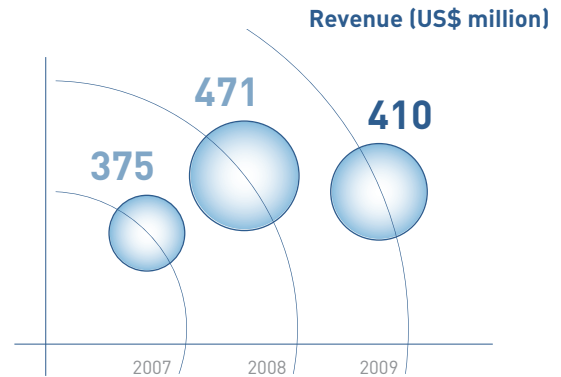
Outlook for 2010

In 2010, RTI Systems seeks to maintain its leading position and prepare the ground in each division for developing competitive advantages in the relevant industry sectors, thereby building shareholder value. Organic growth is a priority, including via gains made through investments in modernizing enterprises.

Another priority in 2010 is to win additional defense contracts, in particular those for the maintenance and servicing of radio technology equipment used in air defense systems that are to be outsourced as part of a program to reduce the size of the armed forces. The company will also aim to enter new market segments through public-private partnerships and through expanding its participation in federal target programs.

RTI Systems will continue to implement its strategy of making carefully selected acquisitions in its field, as well as in other markets related to its current private and public-sector business areas. It will also continue to participate in joint projects with other Sistema business units.

The company is continuing to develop R&D infrastructure and create centers for the training of specialists.





BINNOPHARM

SMARTSPACE

Company in brief

Binnopharm is a pharmaceutical company that operates the largest Good Manufacturing Practice (GMP) compliant bio-pharmaceutical plant in Russia, spanning more than 32,000 square meters. In addition, it has a unique R&D and production center for the development and output of medicines, as well as production lines provided by top international players for the full-cycle production of biotech medicines. Binnopharm has advanced facilities that manufacture tablets, capsules, ampoules, aerosols, and sprays. It focuses on a wide range of medicines, primarily for the hospital industry, including vaccines and other biotech formulations, medicines on Russia's Essential Medicines List, and innovative medicines. Binnopharm's distribution subsidiary, Phyta Line, is among the largest wholesalers of active pharmaceutical ingredients (API) in Russia.

Sistema owns 100% of Binnopharm. Through its investment in the pharmaceutical sector, the Corporation aims to leverage on development of innovative biotech products and substitute medicines that are imported, in line with the Russian government's strategy for developing the pharmaceutical market. While the Russian pharmaceutical market has posted double-digit growth in US dollar terms since 2000, with the exception of 2009, per capita spending on medicines is around US\$ 100 annually, a fraction of West European levels, indicating potential long-term upside.

Sector

The Russian pharmaceutical market entered its tenth year of growth in 2009, despite the impact of the financial crisis, most notably the ruble's decline against the US dollar and euro. In ruble terms, the market grew by 22.5% year-on-year to RUB 498.5 billion, according to the Pharmexpert Market Research Center. The strongest growth was in the retail sector, which expanded by 30% to RUB 375 billion, while more modest growth was seen in the state-run supplementary medicine provision (Russian abbreviation: DLO) program, which was up 6.5% to RUB 81 billion, and the hospital segment, which grew 0.5% to RUB 42.5 billion).

The retail sector grew most rapidly in the fourth quarter of 2009, due to the usual seasonal impact of viral infections and the widespread publicity accompanying the global outbreak of swine flu, the A1 (H1N1) virus. The best-selling products were immune-modulating and anti-viral medicines.

The impact of the global financial crisis was most visible in the decline in the number of trademarks in pharmacies, from 3,400 in

January 2009 to 2,700 in October 2009, according to Pharmexpert. This decline was primarily due to a reduction in high-cost and illiquid products stocked by pharmacies.

In US dollar terms, the overall market's value fell by 4% year-on-year to US\$ 15.7 billion. In 2010, the market is broadly expected to recover substantially in US dollar terms and continue growing in ruble terms.

- Overall market growth of 22.5% to RUB 498.5 billion
- Strongest growth in the retail sector, up 30% to RUB 375 billion
- Seasonal effects and swine flu concerns led to strong Q4 sales

Operational and financial results

Last year was a landmark for Binnopharm, which delivered positive OIBDA and net profits for the first time and also completed Russia's largest GMP-compliant production facility in Zelenograd. The company received a production license in May and the plant began commercial operation in September. The new complex features 20,000 square meters of GMP-certified space, with more than 200 units of automated systems and 5,700 square meters of clean rooms with controlled environments. It has one of the best-equipped quality control laboratories for biotech medicine in Russia and the CIS.

Binnopharm has positioned itself as a partner of the Russian state in providing medicine to the population. In 2009, the company won a Government I tender to supply 18 million doses of vaccine for hepatitis B to cover national requirements. Binnopharm's researchers have developed a new hepatitis B vaccine, Regevac B, and full-cycle production has been launched at the Zelenograd plant.

In October 2009, Prime Minister Vladimir Putin visited the Zelenograd facility. At a government session held at the plant, the decision was made to use Binnopharm as a base for a biopharmaceutical cluster, with the goal of developing and introducing domestic technological capacity and creating infrastructure for training skilled workers in the biotech field.

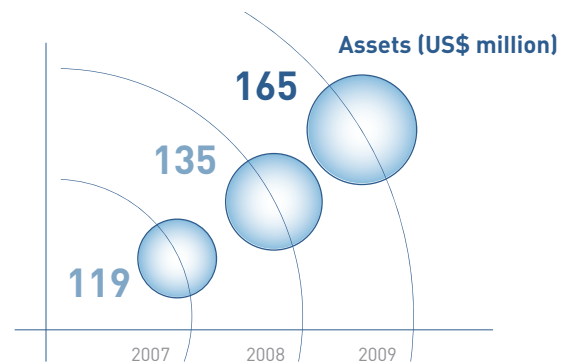
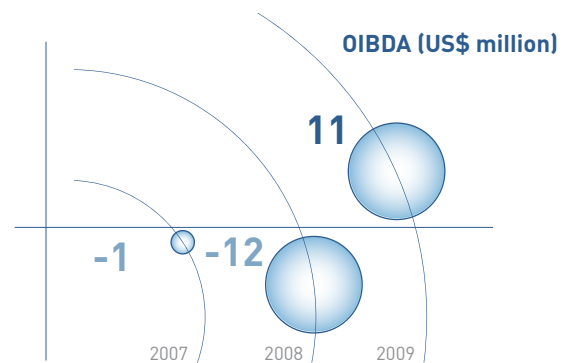
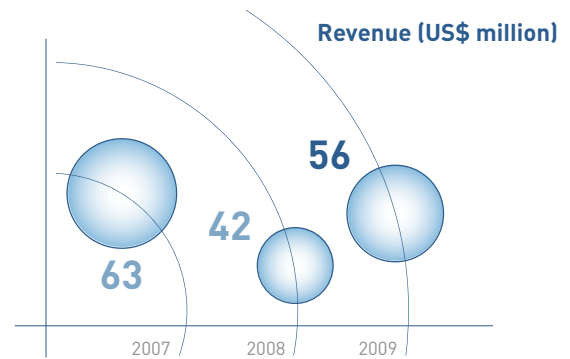
Binnopharm's headline financial results for 2009 were as follows:

- Revenues of US\$ 55.7 million, up 33.6% year-on-year
- OIBDA of US\$ 10.8 million, compared with negative OIBDA in 2008

Outlook for 2010

Binnopharm aims to become one of Russia's largest pharmaceutical producers. The company focuses on creating a high-value portfolio of medicines across various therapeutic categories, such as vaccines, antivirals, immune-modulating medicines, respiratory, oncology, blood disorders, and others. In addition, Binnopharm plans to increase its presence in the market for hospital medicines and infusion solutions.

In 2010 and 2011, the Zelenograd plant will begin producing Russian analogues of imported medicines for the hospital and retail segments. The Company's strategy also envisions ongoing investment in developing and commercializing innovative medicines using in-house R&D resources, which are enhanced by the participation of Moscow State University's Biology department and the planned development of the biopharmaceutical cluster in Zelenograd.



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