



FOR IMMEDIATE RELEASE

December 9, 2010

## THIRD QUARTER RESULTS

**Moscow, Russia** – December 9, 2010 – Sistema (the “Group”) (LSE: SSA), the largest diversified public financial corporation in Russia and the CIS, which invests in, and is a major shareholder of, companies operating in different industries, today announced its unaudited consolidated US GAAP financial results for the third quarter ended September 30, 2010.

### FINANCIAL HIGHLIGHTS

- Revenues up 5.6% QoQ to US\$ 7.3 billion
- OIBDA increased by 0.3% QoQ to US\$ 1.9 billion, with an OIBDA margin of 25.7%
- Net income attributable to the Group increased by 26.9% QoQ to US\$ 182.7 million
- Net debt at the Corporate Holding level reduced QoQ to US\$ 1.9 billion from US\$ 2.4 billion

**Leonid Melamed, President and Chief Executive Officer of Sistema**, commented:

*“We are pleased to report strong quarter on quarter growth in our results, adding to our positive performance in the first nine months of the year. In our Telecoms business unit, the third quarter was characterized by our continued efforts to consolidate our telecoms assets and create an integrated market leader. MTS reported good revenue growth reflecting the strengthening of the Russian economy. Operating results for our oil & energy business unit continue to improve, as Bashneft produced its sixth quarter of consecutive increases to production from our acquisition in 2009. Notably, the recovery we witnessed in the second quarter in our Consumer businesses was sustained in the third quarter, which showed double digit revenue growth and a turnaround in net profitability. In the Technology & Industry business unit we continued to grow our OIBDA margin despite a slight reduction in revenues.*”

*Sistema continues to meet its key strategic goals. Of note is the partnership with the Russian State via their investment in our Indian telecom business SSTL and streamlining of our portfolio with our partial sale of Intourist to Thomas Cook and sale of equity in Detskiy Mir-Center to Sberbank. In 2011 we plan to focus on improving returns in our entire asset portfolio while searching for new value enhancing opportunities in line with our 2i plus strategy.”*

## **Conference call information**

Sistema management will host an analyst conference call today at 9 am (New York time) / 2 pm (London time) / 3 pm (CET) / 5 pm (Moscow Time) to present and discuss the third quarter results.

The dial-in numbers for the conference call are:

UK/ International: +44 20 8515 2302

US: +1 480 629 9692

A replay of the conference call will be available on the Company's website [www.sistema.com](http://www.sistema.com) for 7 days after the event.

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

Investor Relations  
Evgeniy Chuikov  
Tel: +7 (495) 692 11 00  
[ir@sistema.ru](mailto:ir@sistema.ru)

Public Relations  
Vsevolod Sementsov  
Tel.:+7 (495) 730 1705  
[pr@sistema.ru](mailto:pr@sistema.ru)

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

(US\$ millions, except per share amounts)	3Q 2010	3Q 2009	Year on Year Change	2Q 2010	Quarter on Quarter Change
Revenues	<b>7,302.4</b>	5,334.8	36.9%	6,918.2	5.6%
OIBDA <sup>2</sup>	<b>1,877.8</b>	3,147.7	(40.3%)	1,871.3	0.3%
Operating income	<b>1,127.7</b>	2,466.1	(54.3%)	1,137.0	(0.8%)
Net income attributable to Sistema	<b>182.7</b>	1,684.0	(89.2%)	144.0	26.9%
Basic and diluted earnings per share (US cents)	<b>1.97</b>	18,15	(89.2%)	1.55	26.9%

## **GROUP OPERATING REVIEW**

Sistema's consolidated revenues increased by 36.9% year-on-year and by 5.6% quarter-on-quarter, largely as a result of the significant growth in the contribution from the Oil and Energy business unit. Non-telecommunications businesses accounted for 59.5% of total Group consolidated revenues in the third quarter, compared to 50.9% and 59.1% in the third quarter of 2009 and the second quarter of 2010, respectively.

<sup>1</sup> Here and further, comparative financial results for the third quarter of 2009 are presented as reported historically except for MTS results which are presented including consolidated results of Comstar, TS Retail and Metro-Telecom. The difference between comparative financial results for the third quarter of 2009, as presented in the Financial Summary and Operating Review, and corresponding income statement figures on page 17, is due to the allocation of the results of Bashkir Oil & Energy business acquisition accounting, including \$2,783 million gain on acquisition, initially recognized in the third and fourth quarters of 2009, to the second quarter of 2009, as required by authoritative guidance on business combination.

<sup>2</sup> See Attachment A for definitions and reconciliation of OIBDA to GAAP financial measures.

Selling, general and administrative expenses increased by 7.8% year-on-year and by 14.1% quarter-on-quarter to US\$ 993.8 million mainly due to the changes in selling and administrative expenses in MTS and Bashneft.

The Group's OIBDA decreased by 40.3% year-on-year as a result of a gain from the acquisition of the Bashkir Oil and Energy assets, which was recognized in the third quarter of 2009. The Group's OIBDA margin was 25.7% for the period, compared to 59.9% in the third quarter of 2009 and 27.0% in the second quarter of 2010.

Depreciation, depleting and amortization expense increased by 10.0% year-on-year and by 2.1% quarter-on-quarter to US\$ 750.0 million due to an increase in the depreciable assets base in the Telecommunications business unit.

The Group's operating income decreased by 54.3% year-on-year as a result of a gain from the acquisition of the Bashkir Oil and Energy assets, which was recognized in the third quarter of 2009, and by 0.8% quarter-on-quarter. The operating margin was 15.4% in the reporting period, compared to 46.2% in the third quarter of 2009 and 16.4% in the second quarter of 2010. The decrease in operating margin quarter-on-quarter was due to increased cost pressure in the Group's oil and energy business.

The Group's interest expense was US\$ 409.9 million in the third quarter of 2010, compared to US\$ 335.6 million in the third quarter of 2009 and US\$ 397.6 million in the second quarter of 2010.

The consolidated net income attributable to Sistema decreased by 89.2% year-on-year and increased by 26.9% quarter-on-quarter. This quarter-on-quarter growth demonstrates the Group's underlying strength across all business segments.

### **OPERATING REVIEW BY BUSINESS UNIT<sup>3</sup>**

#### ***TELECOMMUNICATIONS BUSINESS UNIT***

<i>(US\$ millions)</i>	<b>3Q 2010</b>	<b>3Q 2009</b>	<b>Year on Year Change</b>	<b>2Q 2010</b>	<b>Quarter on Quarter Change</b>
Revenues	<b>2,956.8</b>	2,621.5	12.8%	2,827.1	4.6%
OIBDA	<b>1,238.4</b>	1,151.1	7.6%	1,166.3	6.2%
Operating income	<b>709.1</b>	667.6	6.2%	666.4	6.4%
Net income attributable to Sistema	<b>162.8</b>	226.2	(28.0%)	27.1	500.9%
Indebtedness	<b>7,249.3</b>	8,567.4	(15.4%)	7,899.1	(8.2%)

<sup>3</sup> Here and further, 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.

**MTS**

Revenues	<b>2,910.8</b>	2,628.1	10.8%	2,772.6	5.0%
OIBDA	<b>1,309.4</b>	1,209.9	8.2%	1,234.6	6.1%
Operating income	<b>795.6</b>	736.0	8.1%	754.2	5.5%
Net income attributable to Sistema	<b>260.5</b>	280.8	(7.2)%	193.8	34.5%

**SSTL**

Revenues	<b>31.5</b>	9.8	221.1%	23.1	36.7%
OIBDA	<b>(85.7)</b>	(71.4)	-	(85.0)	-
Operating loss	<b>(105.2)</b>	(79.3)	-	(106.7)	-
Net loss attributable to Sistema	<b>(78.2)</b>	(59.3)	-	(106.6)	-

**Sistema Mass Media**

Revenues	<b>20.8</b>	15.0	39.1%	35.7	(41.7%)
OIBDA	<b>3.8</b>	4.5	(15.6%)	21.5	(82.2%)
Operating (loss) / income	<b>(0.2)</b>	(3.7)	-	7.3	-
Net (loss) / income attributable to Sistema	<b>(3.8)</b>	2.4	-	0.3	-

The Telecommunications business unit comprises MTS, Sistema Shyam TeleServices Ltd. (SSTL) and Sistema Mass Media. The unit's revenues increased by 12.8% year-on-year and by 4.6% quarter-on-quarter as a result of positive seasonal roaming effects and continued subscriber and usage growth at MTS. The Telecommunications business unit accounted for 40.5% of the Group's consolidated revenues in the reporting period, compared to 49.1% and 40.9% in the third quarter of 2009 and the second quarter of 2010, respectively.

The Telecommunications business unit's OIBDA increased by 7.6% year-on-year and by 6.2% quarter-on-quarter, following positive OIBDA developments at MTS. The OIBDA margin was 41.9% in the third quarter of 2010, compared to 43.9% and 41.3% in the third quarter of 2009 and the second quarter of 2010, respectively.

Net income attributable to Sistema declined by 28.0% year-on-year impacted by net loss in SSTL, however, net income increased by six fold quarter-on-quarter mainly due to a foreign exchange gain of US\$ 44.9 million recognized in the reporting period, compared to a foreign exchange loss of US\$ 85.2 million in the second quarter of 2010.

MTS' total mobile subscriber base (including subscribers in Belarus) exceeded 105.2 million customers as of September 30, 2010. MTS' revenues were up 10.8% year-on-year and 5.0% quarter-on-quarter primarily due to a positive increase in usage and subscriber growth. The

average monthly service revenue per subscriber (ARPU) in Russia increased to RUB 269.4 in the third quarter of 2010, compared to RUB 255.8 in the corresponding period of 2009. Russian subscribers' monthly Minutes of Use (MOU) increased year-on-year to 244 in the third quarter of 2010, compared to 213 in the third quarter of 2009. MTS' broadband subscriber base increased by 19.5% year-on-year and by 2.0% quarter-on-quarter to 1.5 million customers and the Pay-TV customer base was down 2.7% year-on-year and 6.8% quarter-on-quarter to 2.0 million subscribers.

MTS' OIBDA increased by 8.2% year-on-year and by 6.1% quarter-on-quarter in line with overall growth in revenues. The OIBDA margin was 45.0% in the third quarter of 2010, compared to 46.0% in the same period of 2009 and 44.5% in the previous quarter.

SSTL's revenues more than tripled year-on-year and increased by 36.7% quarter-on-quarter as a result of a growing subscriber base and moderate improvement in ARPU. SSTL's mobile subscriber base increased by 26.9% quarter-on-quarter and reached almost 6.6 million customers as of September 30, 2010. Mobile subscribers' MOU stayed approximately at the same level quarter on quarter and amounted to 303 min.

SSTL reported an OIBDA loss in the third quarter of 2010 due to an increase in expenses associated with the rollout of mobile networks in new circles. SSTL launched its mobile data services in 22 new cities with total number of cities covered by high speed data services increasing to 96 out of 100 biggest cities in India, including all five Metro areas, at the end of the third quarter. The number of mobile broadband subscribers more than doubled quarter-on-quarter to 260 thousand subscribers as of September 30, 2010.

Sistema Mass Media' revenues increased by 39.1% year-on-year, however revenues declined by 41.7% quarter-on-quarter, due to the TV-series production and sales cycles specifics of Russian World Studios (RWS). During the quarter, RWS's copyright library received an independent valuation of US\$ 60 million from SRG-Appraisal agency.

Sistema Mass Media's OIBDA declined by 82.2% quarter-on-quarter, in line with overall change in revenues.

In July 2010, MTS acquired a 100% stake in CJSC Multiregion, one of the leading regional broadband and cable TV providers in Russia, from Cavolo Trading Limited (Cyprus) for US\$ 123.5 million and assumed debt amounting to approximately US\$ 94.4 million.

In August 2010, MTS acquired a 95% stake in Metro-Telecom CJSC from Invest-Svyaz CJSC, a wholly owned subsidiary of Sistema, for RUB 339 million (approximately US\$ 11.01 million). Metro-Telecom has an optical fibre network in the Moscow Metro.

In September 2010, Comstar-UTS sold its stake in Svyazinvest to Rostelecom and repaid a RUB 26 billion loan to Sberbank.

In September 2010, MTS announced that a Voluntary Tender Offer to acquire approximately 9% of the issued share capital of Comstar expired on September 21, 2010 and MTS' shareholding in Comstar consequently increased from 61.97 % to 70.97% (or 73.33% when excluding treasury shares).

In September 2010, the Government of the Russian Federation approved an equity investment in SSTL. It is expected that the Russian Government will participate in an issuance of additional

shares of SSTL, paying an equivalent of US\$ 600 million in the form of Indian rupees held in accounts representing Indian governmental debt to the Russian Federation.

#### ***OIL & ENERGY BUSINESS UNIT<sup>4</sup>***

<i>(US\$ millions)</i>	<b>3Q 2010</b>	<b>3Q 2009</b>	<b>Year on Year Change</b>	<b>2Q 2010</b>	<b>Quarter on Quarter Change</b>
Revenues	<b>3,498.3</b>	1,924.4	81.8%	3,327.2	5.1%
OIBDA	<b>658.7</b>	404.4	62.9%	720.4	(8.6%)
Operating income	<b>480.2</b>	239.9	100.2%	539.4	(11.0%)
Net income attributable to Sistema	<b>173.8</b>	286.7	(39.4%)	290.9	(40.2%)
Indebtedness	<b>3,701.7</b>	2,706.6	36.8%	2,199.8	68.3%
<b>Oil production</b>					
Revenues	<b>3,136.0</b>	1,457.4	115.2%	2,957.0	6.1%
OIBDA	<b>523.6</b>	239.6	118.5%	475.5	10.1%
Operating income	<b>473.6</b>	193.5	144.7%	428.8	10.5%
Net income attributable to Sistema	<b>197.9</b>	119.9	65.1%	242.3	(18.3%)
<b>Refinery</b>					
Revenues	<b>357.1</b>	389.4	(8.3%)	401.5	(11.1%)
OIBDA	<b>143.3</b>	141.7	1.1%	181.5	(21.1%)
Operating income	<b>48.2</b>	59.8	(19.4%)	81.4	(40.8%)
Net income attributable to Sistema	<b>28.0</b>	54.4	(48.6%)	41.4	(32.5%)
<b>Energy</b>					
Revenues	<b>448.4</b>	340.9	31.5%	418.2	7.2%
OIBDA	<b>24.6</b>	16.5	49.3%	46.4	(46.9%)
Operating (loss) / income	<b>(4.5)</b>	(12.8)	-	16.9	-
Net (loss) / income attributable to Sistema	<b>(3.5)</b>	(2.7)	-	2.9	-
<b>Marketing</b>					
Revenues	<b>241.4</b>	189.4	27.4%	211.1	14.3%
OIBDA	<b>(8.3)</b>	14.4	-	12.9	-
Operating (loss) / income	<b>(12.5)</b>	7.2	-	8.2	-
Net (loss) / income attributable to Sistema	<b>(6.3)</b>	6.3	-	5.7	-

<sup>4</sup> OIBDA, Operating income and Net income attributable to Sistema's Oil and Energy business unit in the third quarter of 2009 are shown without an effect of the gain on the acquisition of Bashkir Oil & Energy assets.

The Oil and Energy business unit comprises oil and energy companies of the Bashkir Oil and Energy Group as well as Sistema's 49% stake in RussNeft which is accounted for by the equity method. The unit's revenues increased by 81.8% year-on-year and by 5.1% quarter-on-quarter as a result of the increased sales volumes of oil and oil products. Significant revenue growth in the third quarter of 2010, compared to the previous year, was further supported by an increase in oil prices. The unit contributed 47.9% of the Group's consolidated revenues in the third quarter of 2010, compared to 36.1% and 48.1% in the third quarter of 2009 and the second quarter of 2010, respectively.

The business unit's OIBDA increased by 62.9% year-on-year primarily due to growth in sales, however OIBDA decreased by 8.6% quarter-on-quarter as a result of losses in the refineries from a disposal of fixed assets, an extensive maintenance programme carried out at Bashkirenergo before the start of the winter season and provision for business litigation made by Bashkirnefteproduct. The OIBDA margin was 18.8% in the third quarter of 2010, compared to 21.0% in the prior year and 21.7% in the previous quarter.

The net income attributable to Sistema decreased by 39.4% year-on-year and by 40.2% quarter-on-quarter following an increase in interest payments and losses relating to the appreciation of the Russian ruble against US dollar in the third quarter of 2010 compared to gains reported in the previous quarter.

Bashneft's revenue more than doubled year-on-year and increased by 6.1% quarter-on-quarter as its oil production reached approximately 3.6 million tonnes of oil, a 3.8% increase quarter-on-quarter, and sales grew to 5.3 million tonnes of oil products, compared to 4.9 million tonnes in the previous quarter. Bashneft exported 790 thousand tonnes of crude oil in the third quarter.

Bashneft's OIBDA more than doubled year-on-year and was up by 10.1% quarter-on-quarter as a result of growth in oil and oil products sales volumes and an increase in light-product yield and refining depth.

The Group's refineries, which consist of four oil refinery companies, Ufaneftekhim, Ufimsky NPZ, Novoil and Ufaorgsintez, processed 5.5 million tonnes of crude oil in the third quarter of 2010, compared to 5.6 million tonnes in the second quarter of 2010. The Group's refineries revenue decreased by 8.3% year-on-year and by 11.1% quarter-on-quarter primarily driven by sales of technological inventory to Bashneft in the second quarter of 2010.

The Refinery business OIBDA increased by 1.1% year-on-year, however OIBDA declined by 21.1% quarter-on-quarter primarily due to losses relating to the disposal of fixed assets in the third quarter of 2010.

Bashkirnefteproduct's revenues increased by 27.4% year-on-year and by 14.3% quarter-on-quarter mainly due to an increase in sales volumes. As of September 30, 2010 the total number of petrol stations owned and operated by Bashkirnefteproduct was 370.

Bashkirnefteproduct generated an OIBDA loss in the third quarter due to certain provisions allocated for business litigation in the third quarter of 2010.

The energy business' OIBDA increased by 49.3% year-on-year, however OIBDA declined by 46.9% quarter-on-quarter mainly due to extensive maintenance programme before the start of the winter season.

Bashkirenergo's revenues increased by 31.5% year-on-year and by 7.2% quarter-on-quarter mainly as a result of an increase in wholesale energy market sales. Significant revenue growth in the third quarter of 2010, compared to the previous year, was further supported by an increase in tariffs. Bashkirenergo generated 5,299 million kW/h of electricity and supplied 2,681 thousand Gcal of heat in the third quarter of 2010, compared to 4,699 million kW/h of electricity and 4,137 thousand Gcal of heat supplied in the previous quarter.

In July 2010, Bashneft transferred 100% of its oil products trading to the B2B-Bashneft e-platform.

In July 2010, Bashneft acquired 49.99% of ASPEK holding company (owns an oil and petrochemicals trading business) as part of Bashneft's retail marketing strategy in the Udmurt Republic of Russia.

In August 2010, Bashkirenergo constructed a sixty kilometer-long double circuit high voltage transmission line to supply energy to Asha metallurgical plant in the Chelyabinsk region of Russia.

In September 2010, the Board of Directors of Bashneft set the date for the Extraordinary General Meeting of shareholders for December 8, 2010.

### **CONSUMER BUSINESS UNIT**

<i>(US\$ millions)</i>	<b>3Q 2010</b>	<b>3Q 2009</b>	<b>Year on Year Change</b>	<b>2Q 2010</b>	<b>Quarter on Quarter Change</b>
Revenues	<b>531.2</b>	514.5	3.3%	462.8	14.8%
OIBDA	<b>27.3</b>	(3.6)	-	12.2	124.4%
Operating income / (loss)	<b>12.4</b>	(15.5)	-	(3.5)	-
Net income / (loss) attributable to Sistema	<b>11.1</b>	(32.1)	-	(11.1)	-
Indebtedness	<b>422.5</b>	421.0	3.6%	437.9	(3.5%)
<b>Banking</b>					
Revenues	<b>136.9</b>	184.9	(26.0%)	154.3	(11.3%)
OIBDA	<b>(2.9)</b>	20.5	-	4.5	-
Operating (loss)/ income	<b>(7.3)</b>	17.3	-	(0.1)	-
Net (loss) / income attributable to Sistema	<b>(4.7)</b>	8.0	-	(0.3)	-
<b>Retail</b>					
Revenues	<b>178.4</b>	151.7	17.6%	134.1	33.0%
OIBDA	<b>15.8</b>	(8.2)	-	(4.2)	-
Operating income / (loss)	<b>11.8</b>	(13.7)	-	(7.8)	-
Net income / (loss) attributable to Sistema	<b>12.7</b>	(18.0)	-	(16.3)	-
<b>Tourism</b>					



Revenues	<b>174.2</b>	147.4	18.2%	143.9	21.1%
OIBDA	<b>5.2</b>	7.6	(31.9%)	10.1	(48.5%)
Operating income	<b>2.3</b>	5.7	(59.6%)	7.6	(69.6%)
Net (loss) / income attributable to Sistema	<b>(1.9)</b>	4.4	-	1.0	-
<b>Healthcare</b>					
Revenues	<b>33.1</b>	30.6	8.0%	40.7	(18.7%)
OIBDA	<b>2.8</b>	0.1	2,354%	6.7	(58.6%)
Operating income / (loss)	<b>0.5</b>	(1.2)	-	4.5	(89.5%)
Net loss attributable to Sistema	<b>(0.6)</b>	(1.9)	-	(0.5)	-

The Consumer business unit comprises the Banking, Retail, Tourism and Healthcare businesses. The Consumer business unit's revenues increased by 3.3% year-on-year and by 14.8% quarter-on-quarter largely due to a robust growth in the Tourism and the Retail businesses. The unit accounted for 7.2% of consolidated revenues in the third quarter of 2010, compared to 9.6% and 6.8% in the third quarter of 2009 and the second quarter of 2010, respectively.

The Consumer business unit OIBDA increased to US\$ 27.3 million in the third quarter from a loss of US\$ 3.6 million in the prior year as a result of growth in medical services, the optimization of retail product range and sales practices, as well as tight cost control in the Healthcare and Retail businesses. The unit's OIBDA also more than doubled quarter-on-quarter following further operational improvements in the Retail business. The OIBDA margin reached 5.2% in the third quarter of 2010, compared to an OIBDA loss in the prior year and 2.6% in the previous quarter.

The Consumer business unit reversed net income losses of US\$ 32.1 million for the third quarter of 2009 and US\$ 11.1 million for the second quarter of 2010 to net income of US\$ 11.1 million in the reporting quarter mainly due to operational improvements in the Retail business.

The Banking business' revenues decreased by 26.0% year-on-year and by 11.3% quarter-on-quarter due to the continuing reduction in debt securities' and credit loans' portfolio as well as a decrease in average interest rates charged on loans to corporate and individual customers.

The Banking business' loan portfolio, excluding leases, decreased by 7.4% year-on-year to US\$4,488.3 million in the third quarter of 2010. The retail deposits-to-loans ratio stood at 246.2% in the third quarter of 2010. Interest income received from retail and corporate lending operations decreased by 23.2% year-on-year to US\$128.0 million in the third quarter of 2010. The retail banking business at the end of the third quarter comprised 166 points of sales, including 24 points located in Moscow and 141 points in 37 Russian regions, as well as 1 in Luxembourg.

The Banking business reported negative OIBDA of US\$ 2.9 million in the third quarter of 2010 compared to positive OIBDA of US\$ 20.5 million in the corresponding period of 2009 and positive OIBDA of US\$ 4.5 million in the second quarter of 2010.

Revenues from the Retail business increased by 17.6% year-on-year due to store traffic growth and changes in the basket mix. Revenues were also up 33.0% quarter-on-quarter mainly due to

traditionally strong Detskiy Mir sales in the third quarter. The network of retail outlets included 131 stores located in 68 Russian cities, whilst the aggregate retail space amounted to approximately 215.1 thousand square metres at the end of the third quarter 2010. During the quarter, Detskiy Mir opened a new store in Omsk.

The Retail business reported an improvement in OIBDA, both year-on-year and quarter-on-quarter, with a significant margin expansion in the third quarter of 2010, as a result of a large-scale cost cutting programme which was undertaken by the business. The Retail business also reported a growth in gross margins, as well as positive seasonal effect on sales in the third quarter.

The Tourism business' revenues increased by 18.2% year-on-year thanks to an improvement in market conditions with quarter-on-quarter revenue increase by 21.1% as a result of the positive holiday season. The business serviced 304,700 customers in the third quarter of 2010, compared to 285,500 clients in the third quarter of 2009. At the end of the third quarter of 2010 the hotel group's total number of rooms owned, managed and rented was 3,054, compared to 3,362 rooms in the previous year. During the quarter, Intourist opened a luxury boutique hotel Principe in Forte dei Marmi, Italy.

The Tourism business' OIBDA decreased by 31.9% year-on-year and by 48.5% quarter-on-quarter due to high competition and pricing pressure experienced in the tour operating and hotel markets.

The Healthcare Services business' revenues increased by 8.0% year-on-year following an increase of 9.1% in services provided, 3.7% in visits to medical clinics and 4.1% in the average cheque. The unfavorable weather and environmental conditions affecting Moscow Region in July and August did have a negative impact on the Healthcare business revenues.

The total number of visits to medical clinics stood at 772,185 in the third quarter of 2010, compared to 774,336 visits in the third quarter of 2009. At the end of the third quarter of 2010, the network consisted of 30 medical clinics and hospitals, including 17 based in Moscow and 13 in the regions, 49 medical first-aid stations and 4 fitness centres. The business provided more than 1.4 million medical services in the third quarter of 2010, a 9.1% increase year-on-year.

The Healthcare Services business' OIBDA increased year-on-year mainly due to the reduction in operating costs, as well as numerous recently opened clinics becoming profitable.

In August 2010, Detskiy Mir-Centre completed a secondary share offering amounting to RUB 1.6 billion. The shares were placed with Sistema.

## ***TECHNOLOGY & INDUSTRY BUSINESS UNIT***

<i>(US\$ millions)</i>	<b>3Q 2010</b>	<b>3Q 2009</b>	<b>Year on Year Change</b>	<b>2Q 2010</b>	<b>Quarter on Quarter Change</b>
Revenues	<b>379.2</b>	337.7	12.3%	396.8	(4.4%)
OIBDA	<b>40.7</b>	20.8	95.8%	39.0	4.3%
Operating income	<b>16.0</b>	1.0	1,507.4%	3.4	373.3%
Net loss attributable to Sistema	<b>(3.7)</b>	(11.8)	-	(17.0)	-

Indebtedness	<b>976.7</b>	714.2	36.8%	935.0	4.5%
<b>High Technology</b>					
Revenues	<b>223.6</b>	221.4	1.0%	268.1	(16.6%)
OIBDA	<b>17.2</b>	11.6	48.3%	26.1	(34.1%)
Operating income/ (loss)	<b>0.3</b>	(3.1)	-	(4.9)	-
Net loss attributable to Sistema	<b>(8.4)</b>	(12.4)	-	(20.3)	-
<b>Radars and Aerospace</b>					
Revenues	<b>129.4</b>	102.7	25.9%	115.3	12.2%
OIBDA	<b>22.8</b>	11.5	99.1%	20.8	10.0%
Operating income	<b>19.4</b>	7.2	169.0%	17.5	10.7%
Net income attributable to Sistema	<b>9.5</b>	1.2	689.8%	10.9	(12.9%)
<b>Pharmaceuticals</b>					
Revenues	<b>9.0</b>	9.0	0.4%	9.8	(8.0%)
OIBDA	<b>1.7</b>	1.9	(11.0%)	(0.8)	-
Operating income / (loss)	<b>0.2</b>	1.1	(83.0%)	(2.1)	-
Net (loss) / income attributable to Sistema	<b>(0.1)</b>	1.0	-	(2.6)	-

The Technology and Industry business unit comprises the High Technology, Radars and Aerospace, and Pharmaceuticals businesses. The unit's revenues declined by 4.4% quarter-on-quarter, however revenues increased by 12.3% year-on-year mainly as a result of high levels of growth in the High Technology and Radars and Aerospace businesses. The unit accounted for 4.3% of the Group's consolidated revenues in the third quarter of 2010, compared to 5.2% in the third quarter of 2009 and 4.4% in the second quarter of 2010.

The Technology and Industry business unit's OIBDA nearly doubled year-on-year and increased by 4.3% quarter-on-quarter in the third quarter of 2010 thanks to the level of revenue growth recorded during the reporting period as well as the impact of cost control programs in both High Technology and Radars and Aerospace businesses. The OIBDA margin increased in the third quarter of 2010 to 10.7%, compared to 6.2% and 9.8% in the third quarter of 2009 and the second quarter of 2010, respectively.

The Technology and Industry business unit reported a significantly reduced net loss in the third quarter following a growth in net income in the Radars and Aerospace business as well as a reduction in the losses in the High Technology business.

Revenues for the High Technology business were up 1.0% year-on-year, however, revenues decreased by 16.6% quarter-on-quarter mainly due to the completion of significant projects in the second quarter.

The High Technology business' OIBDA increased by 48.3% year-on-year and was down 34.1% quarter-on-quarter.

The Radars and Aerospace business' revenues increased by 25.9% year-on-year and by 12.2% quarter-on-quarter, as the business fulfilled a number of contracts. During the quarter, the business won a RUB 1.2 billion (approximately US\$ 40 million) project to create digital navigation maps of the Central, Volga, Urals and Far Eastern federal districts of Russia from the Federal Service of State Registration, Land Register and Mapping. Additionally, MTU Saturn, a subsidiary of the business, completed the installation of new telecommunications systems in the Office of the President of the Russian Federation.

The Radars and Aerospace business' OIBDA doubled year-on-year and increased by 10.0% quarter-on-quarter as a result of the higher profitability achieved on newly completed projects in the reporting period.

The Pharmaceuticals business' revenues were stable year-on-year and decreased slightly by 8.0% quarter-on-quarter.

The Pharmaceuticals business reported OIBDA of US\$ 1.7 million in the reporting period compared to OIBDA of US\$ 1.9 million in the corresponding period of 2009. The business also reported an OIBDA loss of US\$ 0.8 million in the second quarter of 2010.

In July 2010, following the allocation of shares under the share option program, SITRONICS introduced changes to the Management Board's shareholdings in the company and repurchased their shares in accordance with the existing share repurchase agreement.

In July 2010, Sistema acquired a 51% stake in OJSC M2M Telematics, the leader in the Russian market of transport monitoring, navigation and telematics based on GLONASS/GPS technologies. Sistema has a right to acquire the remaining 49% stake in the next two to five years in accordance with the agreement between the companies.

In September 2010, SITRONICS redeemed its RUB denominated 3 billion bonds.

### ***CORPORATE & OTHER***

<i>(US\$ millions)</i>	<b>3Q 2010</b>	<b>3Q 2009</b>	<b>Year on Year Change</b>	<b>2Q 2010</b>	<b>Quarter on Quarter Change</b>
OIBDA	<b>(75.4)</b>	(61.9)	-	(63.8)	-
Net loss	<b>(198.2)</b>	(193.2)	-	(99.0)	-
Indebtedness	<b>2,119.1</b>	2,981.8	(28.9%)	2,557.0	(17.1%)

The Corporate and Other segment comprises the companies that control and manage the Group's interests in its subsidiaries. The segment reported an OIBDA loss of US\$ 75.4 million in the third quarter of 2010.

In July 2010, Sistema announced changes and new allocations to its Board of Directors' shareholdings. In line with its remuneration policy for the members of the Board of Directors, shareholdings in the Company of seven members were increased by 89,139 shares, and three Directors were awarded a first allocation of shares with two being granted 93,237 shares each

and one receiving 89,139 shares. Each allocation represents approximately 0.0009% of the total outstanding shares (9,650,000,000).

In September 2010, Sistema's Board of Directors approved new terms for Sistema's 3-year long-term incentive program for senior and middle management. Under the new terms, additional remuneration linked to the growth of Sistema's capitalization can be granted to this program's participants both in the form of cash bonuses and ordinary shares. The total amount of Sistema's stock to be used to fund the program will amount to 2.4% of Sistema's total issued share capital, with a potential increase to 3%, subject to management meeting all targets.

## **FINANCIAL REVIEW**

Net cash provided by operations in the third quarter of 2010 increased by 96.9% year-on-year due to the growth in operating results exclusive of a gain on acquisition of BashTEK companies in 2009. The net cash position provided by operations, however, decreased by 9.6% quarter-on-quarter to US\$ 1,168.8 million, as a result of changes in working capital.

Net cash used in investing activities totaled US\$ 246.1 million in the third quarter of 2010, compared to US\$ 972.8 million and US\$ 836.9 million used in the third quarter of 2009 and the second quarter of 2010, respectively, mostly due to the US\$ 556.6 million decrease in loans to customers and banks. The Group spent US\$ 572.2 million on capital expenditure, compared to US\$ 864.6 million and US\$ 463.8 million spent in the third quarter of 2009 and the second quarter of 2010, respectively. The Group paid US\$ 128.5 million for the acquisition of businesses in the third quarter, largely for the purchase of 100% stake in Multiregion group of companies by MTS.

Net cash inflow from financing activities amounted to US\$ 695.4 million in the third quarter of 2010, compared to an inflow of US\$ 3,226.3 million in the third quarter of 2009 and an outflow of US\$ 1,891.4 million in the second quarter of 2010. Major changes in financing in the third quarter of 2010 included:

- a refinancing by MTS of a RUB 53 billion loan portfolio with Sberbank at a lower rate of 9.25%, compared to 10.65%, for a RUB 47 billion loan, and from 9.75% to 8.75% for a RUB 6 billion loan;
- a US\$ 280 million (13 billion Indian rupees) loan received by SSTL from the State Bank of India;
- a repayment of credit loans amounting to US\$ 280 million by Sistema (Gazprombank, Raiffaisenbank, Sberbank, the Royal Bank of Scotland);
- a RUB 2.86 billion credit agreement signed by Sitronics with the Bank of Moscow for one year;
- a repayment by Sitronics of US\$ 92 million of bonds due in September 2010;
- a RUB 15 billion loan (approximately US\$ 468 million) under agreement between Bashneft and Gazprombank at the rate of 11.85% which matures in 2017;
- a US\$ 200 million loan facility agreement signed by Bashneft with VTB at a rate of 3.59% for one year;
- a loan agreement signed by Bashneft with VTB-Capital for a RUB 15 billion (approximately US\$ 468 million) loan at the rate of 11.95% for seven years, as well as a loan for US\$ 250 million of LIBOR + 6.5% for seven years and a credit loan from VTB-Capital amounting US \$250 million with a 3m-LIBOR+6.5% till 2017

The Group's cash balances stood at US\$ 4,009.5 million as of September 30, 2010, compared to US\$ 2,395.3 million as of June 30, 2010. The Group's net debt (short-term and long-term debt

less cash and cash equivalents) amounted to US\$ 10,459.8 million as of September 30, 2010, compared to US\$ 11,633.5 million as of June 30, 2010.

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

### **Telecommunications Business Unit**

In October 2010, Comstar completed a series of transactions with OJSC Rostelecom involving the sale of Comstar's 25%+1 share stake in Svyazinvest to Rostelecom for RUB 26 billion. The proceeds from the sale were used by Comstar to pay off its debt to Sberbank.

In October 2010, Comstar announced the reorganization of its wholly-owned subsidiary CJSC Comstar-Regions, through the integration of sixteen regional incorporated subsidiaries into the company.

In October 2010, MTS completed the redemption of US\$ 400 million Eurobond issue. The Eurobond was issued in October 2003 with a semi-annual coupon rate of 8.375%.

In October 2010, MTS sold a 100% stake in ZAO Teleforum, a retailer with 180 retail points of sale throughout Russia, in order to further optimise MTS' corporate and retail management structure.

In November 2010, MTS completed a placement of Series 07 and Series 08 ruble-denominated bonds totaling RUB 25 billion. The Series 07 bond in the amount of RUB 10 billion was placed with a semi-annual coupon rate of 8.7% maturing in 2017. The Series 08 bond in the amount of RUB 15 billion carries a semi-annual coupon rate of 8.15% with a 2020 maturity and a five year put option.

In November 2010, MTS announced its plans to acquire 100% of Sistema Telecom LLC, a non-operating subsidiary of JSFC Sistema, following the signing of a non-binding indicative offer for RUB 11.59 billion (approximately US\$ 379.01 million).

### **Oil & Energy Business Unit**

In November 2010, the Board of Directors of Bashneft set the date for the EGM for December 8, 2010. The Board recommended the EGM to elect members to the Board of Directors and to the Audit Commission of the company.

In November 2010, the Board of Directors of Bashneft set the date for the EGM for December 17, 2010. The Board recommended the EGM to approve the dividend payment for the first nine months of 2010.

In October 2010, each of Bashneft's five subsidiaries held Extraordinary General Meetings of shareholders. The EGMs approved a new edition of the Charter and the regulations for General Meetings of shareholders, as well as bylaws relating to the Board of Directors, the General Director and the Audit Commission.

In October 2010, the Board of Directors of Bashneft adopted a Code of Business Conduct and Ethics and approved a Regulation on the Corporate Secretary of Bashneft.

In December 2010, Federal Agency for Subsoil Use recommended Bashneft as the preferred bidder for Trebs and Titov oil fields to the Russian Government. Official result of the auction is expected in due course.

### **Consumer Business Unit**

In November 2010, OJSC Intourist and Thomas Cook Group Plc have agreed to establish a joint venture for Intourist's tour operating and retail businesses and a sale of a 50.1% stake in the newly formed entity to Thomas Cook for a total stock and cash consideration of US\$ 45 million. The new joint venture will include Intourist's tour operating and retail businesses. Intourist will have a 49.9% stake in the joint venture while Thomas Cook will acquire a 50.1% stake in the joint venture for a total consideration of US\$45 million of which US\$ 10 million is to be payable in cash and US\$ 35 million due in Thomas Cook's shares listed on the London Stock Exchange (based on the average share price for twenty trading days preceding completion of the deal). Intourist will retain its hotel business. In addition, Thomas Cook and Intourist entered into an option agreement exercisable over the next five years under which Thomas Cook may call, and Intourist may put, Intourist's remaining shares in the new company.

In December 2010, Sistema JSFC completed the sale of its 27.6% stake in Sistema-Hals to Blairwood Limited and Stoneflower Limited (each acquired the stake of 13.8%) for a total cash consideration of US\$ 70 million.

In December 2010, OJSC Detskiy Mir-Center increased the company's share capital through an additional share issue offered to Sberbank in a private placement (additional issue was approved by the Extraordinary General Meeting of shareholders in November 2010). Detskiy Mir-Center issued 743 shares with a par value of RUB 100, representing 25%+1 share of the company's share capital after the additional issue. Sberbank acquired the stake in Detskiy Mir-Center for a total consideration of approximately RUB 3.4 billion. The strategic objective of the shareholders is to use the proceeds of the investment to grow the value of the business, with the ultimate aim of attracting a strategic investor or achieving a similar liquidity event. If such liquidity event is not achieved within three years, and under certain other conditions, Sberbank will have the right to sell its stake in Detskiy Mir-Center to Sistema. The parties also agreed to certain pre-emptive and tag-along and drag-along rights in relation to their respective stakes in Detskiy Mir-Center. As a 25%+1 shareholder of Detskiy Mir-Center, Sberbank is able to elect two out of eight board members, and Sberbank's two representatives have already joined the board.

### **Technology & Industry Business Unit**

In October 2010, RTI Systems signed an investment agreement with the Russian Corporation of Nanotechnologies (RUSNANO), the Joint Institute for Nuclear Research, IT.Co. Ltd. and JSC Special Economic Zones, to establish International Innovative Nanotechnology Center in Dubna, Russia.

In October 2010, SITRONICS placed RUB 3 billion non-convertible interest-bearing series BO-02 three-year bonds with a put option exercisable in two years following the fourth coupon payment. The annual coupon rate was set at 10.75% for the first four semi-annual coupon payments. The proceeds will be used to refinance the Group's short-term debt.

In November 2010, the Extraordinary General Meeting of SITRONICS' shareholders approved a number of related party transactions with regard to guarantying obligations of Mikron JSC and SITRONICS-Nano, LLC.

## Corporate & Other

In October 2010, Sistema completed the transactions described in the Memorandum of Understanding signed between OJSC Comstar-UTS, Sistema JSFC and OJSC Svyazinvest on November 23, 2009. Svyazinvest transferred its 28% ordinary share stake in MGTS (23.3% of the share capital of MGTS) to the Group in exchange for Group's 50% ordinary share stake in CJSC Sky Link ("Sky Link") (which, combined with the indirect ownership, effectively totals 100% of Sky Link's share capital) to Svyazinvest. In addition, Sistema sold Sky Link's shareholders debt to subsidiaries of Svyazinvest for RUB 8.1 billion. Comstar-UTS and its subsidiary MGTS Finance S.A. transferred a 25% + 1 share in Svyazinvest to OJSC Rostelecom in return for a cash payment of RUB 26 billion, with OJSC Comstar-UTS using these funds to pay off its debt obligations to Sberbank.

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

Investor Relations  
Evgeniy Chuikov  
Tel: +7 (495) 692 1100  
[ir@sistema.ru](mailto:ir@sistema.ru)

Public Relations  
Vsevolod Sementsov  
Tel.:+7 (495) 730 1705  
[pr@sistema.ru](mailto:pr@sistema.ru)

**Sistema is the largest diversified public financial corporation in Russia and the CIS, which invests in and is a major shareholder of 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. Founded in 1993, the company reported revenues of US\$ 7.3 billion for the third quarter of 2010, and total assets of US\$ 42.0 billion as at September 30, 2010. Sistema's global depository receipts are listed under the symbol "SSA" on the London Stock Exchange. Sistema's ordinary shares are listed under the symbol "AFKS" on the RTS Stock Exchange, under the symbol "AFKC" on the MICEX Stock Exchange, and under the symbol "SIST" on the Moscow Stock Exchange (MSE).**

*Some of the information in this press release may contain projections or other forward-looking statements regarding future events or the future financial performance of Sistema. You can identify forward looking statements by terms such as "expect," "believe," "anticipate," "estimate," "intend," "will," "could," "may" or "might" the negative of such terms or other similar expressions. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. In addition, there is no assurance that the new contracts entered into by our subsidiaries referenced above will be completed on the terms contained therein or at all. We do not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, general economic conditions, our competitive environment, risks associated with operating in Russia, rapid technological and market change in our industries, as well as many other risks specifically related to Sistema and its operations.*



**SISTEMA JSFC AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE THREE MONTHS AND THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009**  
*(Amounts in thousands of U.S. dollars except per share amounts)*

	Three month ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Sales	\$ 7,169,270	\$ 5,154,083	\$ 19,965,787	\$ 11,819,652
Revenues from financial services	133,126	180,694	457,617	505,057
<b>TOTAL REVENUES</b>	<b>7,302,396</b>	<b>5,334,777</b>	<b>20,423,404</b>	<b>12,324,709</b>
Cost of sales, exclusive of depreciation and amortization shown separately below	(2,960,810)	(2,015,582)	(8,255,678)	(4,721,358)
Financial services related costs, exclusive of depreciation and amortization shown separately below	(87,399)	(112,932)	(295,801)	(323,148)
Selling, general and administrative expenses	(993,843)	(804,364)	(2,714,424)	(2,173,717)
Depreciation, depletion and amortization	(750,014)	(683,117)	(2,189,233)	(1,764,593)
Transportation costs	(142,444)	(37,874)	(424,239)	(71,018)
Provision for doubtful accounts	(26,768)	(100,103)	(99,865)	(169,809)
Loss from impairment of other long-lived assets	(12,090)	(54,923)	(34,836)	(97,988)
Taxes other than income tax	(1,089,676)	(578,354)	(3,014,369)	(932,371)
Other operating expenses, net	(126,533)	(180,183)	(248,097)	(319,405)
Equity in net income (loss) of investees	14,926	(11,958)	50,553	(18,492)
Gain on BashTEK acquisition	-	-	-	2,782,835
Loss on disposal of interests in subsidiaries and affiliates	-	(349,869)	-	(401,392)
<b>OPERATING INCOME</b>	<b>1,127,745</b>	<b>405,518</b>	<b>3,197,415</b>	<b>4,114,253</b>
Interest income	16,359	39,951	99,133	102,693
Change in fair value of derivative instruments	(532)	(13,926)	(1,538)	(22,370)
Interest expense, net of amounts capitalized	(409,915)	(335,587)	(1,237,918)	(803,557)
Currency exchange and translation (loss)/gain	(40,306)	168,488	26,636	(126,446)
Income from continuing operations before income tax, equity in net income of energy companies in the Republic of Bashkortostan	693,351	264,444	2,083,728	3,264,573
Income tax expense	(176,950)	(195,595)	(693,520)	(369,722)
Equity in net income of energy companies in the Republic of Bashkortostan	-	-	-	4,400
Income from continuing operations	\$ 516,401	\$ 68,849	\$ 1,390,208	\$ 2,899,251
(Loss)/income from discontinued operations, net of income tax expense of US\$ nil, US\$ nil and US\$ nil, respectively	(9,255)	-	(39,269)	1,473
Loss from disposal of discontinued operations, net of income tax effect of US\$ nil	-	-	-	(27,627)
<b>NET INCOME</b>	<b>\$ 507,146</b>	<b>\$ 68,849</b>	<b>\$ 1,350,939</b>	<b>\$ 2,873,097</b>
Non-controlling interest	(324,443)	(300,223)	(879,487)	(765,051)
<b>NET INCOME attributable to JSFC Sistema</b>	<b>\$ 182,703</b>	<b>\$ (231,374)</b>	<b>\$ 471,452</b>	<b>\$ 2,108,046</b>
Earnings/(loss) per share, basic and diluted (US cent per share):	1.97	(2.49)	5.08	15.77

**JSFC SISTEMA AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS OF SEPTEMBER 30, 2010 AND DECEMBER 31, 2009**  
*(Amounts in thousands of U.S. dollars, except share amounts)*

	September 30, 2010	December 31, 2009
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 4,009,539	\$ 3,845,427
Short-term investments	447,952	575,966
Loans to customers and banks, net	3,507,117	4,775,518
Accounts receivable, net	1,956,818	1,334,169
Prepaid expenses, other receivables and other current assets, net	1,876,456	1,358,226
VAT receivable	456,844	302,703
Inventories and spare parts	1,462,223	1,137,294
Deferred tax assets, current portion	375,915	348,965
Assets of discontinued operations	557,846	-
Total current assets	14,650,710	13,678,268
<b>NON-CURRENT ASSETS:</b>		
Property, plant and equipment, net	18,742,673	19,266,950
Advance payments for non-current assets	246,842	502,481
Goodwill	1,902,708	1,647,102
Licenses, net	958,016	1,025,462
Other intangible assets, net	1,830,486	1,772,540
Investments in affiliates	696,209	631,822
Investments in shares of Svyazinvest	-	859,668
Loans to customers and banks, net of current portion	1,539,501	1,614,968
Debt issuance costs, net	103,673	162,525
Deferred tax assets, net of current portion	310,415	243,569
Long-term investments	386,529	342,168
Other non-current assets	229,552	263,517
Total non-current assets	26,946,604	28,332,772
<b>TOTAL ASSETS</b>	<b>\$ 41,597,314</b>	<b>\$ 42,011,040</b>

**JSFC SISTEMA AND SUBSIDIARIES**
**UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)**
**AS OF SEPTEMBER 30, 2010 AND DECEMBER 31, 2009**
*(Amounts in thousands of U.S. dollars, except share amounts)*

	September 30, 2010	December 31, 2009
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 1,579,076	\$ 1,416,118
Bank deposits and notes issued, current portion	3,496,659	3,789,248
Taxes payable	793,699	736,834
Deferred tax liabilities, current portion	124,946	87,415
Subscriber prepayments, current portion	506,081	554,409
Accrued expenses and other current liabilities	3,123,399	2,359,643
Short-term loans payable	542,563	504,458
Current portion of long-term debt	1,990,203	3,736,708
Liabilities of discontinued operations	296,061	-
<b>Total current liabilities</b>	<b>12,452,687</b>	<b>13,184,833</b>
<b>LONG-TERM LIABILITIES:</b>		
Long-term debt, net of current portion	11,936,595	11,204,055
Subscriber prepayments, net of current portion	141,080	130,153
Bank deposits and notes issued, net of current portion	937,803	1,455,402
Deferred tax liabilities, net of current portion	1,550,063	1,610,726
Asset retirement obligation	216,535	189,490
Postretirement benefits obligation	33,607	31,870
Property, plant and equipment contributions	110,769	112,255
<b>Total long-term liabilities</b>	<b>14,926,452</b>	<b>14,733,951</b>
<b>TOTAL LIABILITIES</b>	<b>27,379,139</b>	<b>27,918,784</b>
Commitments and contingencies	-	-
Redeemable non-controlling interests	127,919	82,261
<b>SHAREHOLDERS' EQUITY:</b>		
Share capital (9,650,000,000 shares issued; 9,280,157,139 and 9,278,981,940 shares outstanding as of September 30, 2010 and December 31, 2009, respectively, with par value of 0.09 Russian Rubles)	30,057	30,057
Treasury stock (369,842,861 and 371,018,060 shares as of September 30, 2010 and December 31, 2009, respectively, with par value of 0.09 Russian Rubles)	(464,868)	(466,345)
Additional paid-in capital	1,776,511	1,745,386
Retained earnings	5,978,145	5,577,759
Accumulated other comprehensive loss	264,662	(93,647)
<b>Total JSFC Sistema shareholders' equity</b>	<b>7,584,507</b>	<b>6,793,210</b>
Non-controlling interests in equity of subsidiaries	6,505,749	7,216,785
<b>TOTAL EQUITY</b>	<b>14,090,256</b>	<b>14,009,995</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 41,597,314</b>	<b>\$ 42,011,040</b>

**JSFC SISTEMA AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009**  
(Amounts in thousands of U.S. dollars)

	September 30, 2010	September 30, 2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 1,350,939	\$ 2,873,097
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation, depletion and amortization	2,189,233	1,764,593
Loss on disposal from discontinued operations	39,269	26,154
Equity in net income of investees	(50,553)	14,092
Deferred income tax benefit	(126,555)	(164,628)
Change in fair value of derivative financial instruments	1,538	22,370
Foreign currency transactions losses/(gains)	(26,636)	126,446
Debt issuance cost amortization	85,505	22,740
Non-cash compensation to employees of subsidiaries	9,174	7,431
Non-cash expenses associated with asset retirement obligation	6,720	4,333
Loss from impairment of goodwill and other assets	34,836	31,688
Loss/(gain) on disposal of interests in subsidiaries and affiliates	-	401,392
Loss/(gain) on disposal of property, plant and equipment	(1,928)	4,487
Gain on BashTEK acquisition	-	(2,782,835)
Amortization of connection fees	(29,943)	(36,562)
Provision for doubtful accounts receivable	99,865	204,583
Provision for post-retirement benefit	-	999
Allowance for loan losses	26,463	6,284
Changes in operating assets and liabilities, net of effects from purchase of businesses:		
Trading securities	85,942	(324,198)
Accounts receivable	(718,356)	(217,580)
VAT receivable	(152,407)	(86,809)
Prepaid expenses, other receivables and other current assets	(197,679)	450,203
Inventories	(353,404)	(174,618)
Accounts payable	351,392	(539,003)
Subscriber prepayments	(10,983)	(12,862)
Taxes payable	48,429	345,996
Accrued expenses, subscriber prepayments and other liabilities	173,838	141,855
Dividends received from affiliates	34,937	107,735
Postretirement benefit obligation	1,737	(1,246)
Net cash provided by operations	\$ <u>2,871,373</u>	\$ <u>2,216,137</u>

**JSFC SISTEMA AND SUBSIDIARIES**

**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (CONTINUED)  
(Amounts in thousands of U.S. dollars)**

	September 30, 2010	September 30, 2009
	<u>                    </u>	<u>                    </u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments for purchases of property, plant and equipment	(1,228,763)	(2,088,668)
Payments for purchases of intangible assets	(257,867)	(477,826)
Payments for purchases of businesses, net of cash acquired	(322,622)	(1,653,417)
Proceeds from sale of subsidiaries, net of cash disposed	-	123,165
Payments for purchases of long-term investments	(262,137)	(63,495)
Payments for purchases of short-term investments	(674,463)	(725,394)
Payments for purchases of other non-current assets	(25,542)	(656,570)
Proceeds from sale of other non-current assets	91,729	99,541
Decrease / (increase) in restricted cash	(32,220)	13,108
Proceeds from sale of property, plant and equipment	1,385	4,058
Proceeds from sale of long-term investments	44,320	-
Proceeds from sale of short-term investments	445,428	176,523
Net (decrease) /increase in loans to customers of the banking division	1,341,892	21,482
Net cash used in investing activities	\$ <u>(878,860)</u>	\$ <u>(5,227,493)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
(Principal payments on) / proceeds from short-term borrowings, net	(90,086)	472,729
Net (decrease)/increase in deposits from customers of the banking division	(569,850)	498,068
Net decrease in promissory notes issued by the banking division	(161,579)	(105,313)
Proceeds from long-term borrowings, net of debt issuance costs	3,323,097	7,876,227
Debt issuance costs	(26,653)	(129,930)
Principal payments on long-term borrowings	(3,681,879)	(1,744,354)
Payments on exercise of stock option	-	(97,296)
Principal payments on capital lease obligations	(10,420)	(13,133)
Acquisition of noncontrolling interests in existing subsidiaries	(615,568)	(330,084)
Proceeds from sale of treasure stocks	1,477	-
Payments to shareholders of subsidiaries	-	(6,339)
Net cash provided by financing activities	\$ <u>(1,831,461)</u>	\$ <u>6,420,575</u>
Effects of foreign currency translation on cash and cash equivalents	\$ 3,060	\$ 203,824
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>\$ 164,112</b>	<b>\$ 3,613,043</b>
CASH AND CASH EQUIVALENTS, beginning of the period	3,845,427	1,936,413
CASH AND CASH EQUIVALENTS, end of the period	\$ <u><u>4,009,539</u></u>	\$ <u><u>5,549,456</u></u>
<b>SUPPLEMENTAL INFORMATION:</b>		
Interest paid	\$ (1,269,433)	\$ (637,790)
Income taxes paid	(722,647)	(343,883)

**JSFC SISTEMA AND SUBSIDIARIES**  
**UNAUDITED SEGMENTAL BREAKDOWN FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009**  
**(Amounts in thousands of U.S. dollars)**

<b>For the nine months ended September 30, 2010</b>	<b>Tele- commu- nications</b>	<b>Techno-logy and Industry</b>	<b>Consumer Assets</b>	<b>Oil and Energy</b>	<b>Corporate and Other</b>	<b>Total</b>
Net sales to external customers <sup>(a)</sup>	8,420,299	845,241	1,421,992	9,722,987	12,885	20,423,404
Intersegment sales	298	222,426	11,100	1,580	27,390	262,794
Equity in net income of investees	35,272	-	546	14,735	-	50,553
Interest income	59,369	5,731	2,606	35,725	74,981	178,412
Interest expense	703,173	70,432	38,045	237,307	269,702	1,318,659
Net interest revenue <sup>(b)</sup>	-	-	17,529	-	-	17,529
Depreciation, depletion and amortization	1,514,283	87,801	44,651	535,890	6,608	2,189,233
Operating income/(loss)	1,962,000	12,008	6,822	1,444,535	(179,038)	3,246,327
Income tax expense/(benefit)	426,076	6,764	934	269,096	(9,350)	693,520
Investments in affiliates	216,809	220,891	4,991	201,158	52,360	696,209
Segment assets	17,739,677	2,914,214	7,309,960	14,353,993	3,504,684	45,822,528
Indebtedness <sup>(c)</sup>	7,249,307	976,739	422,513	3,701,721	2,119,081	14,469,361
Capital expenditures	1,096,261	56,575	60,076	273,565	153	1,486,630

<b>For the nine months ended September 30, 2009</b>	<b>Tele- commu- nications</b>	<b>Techno-logy and Industry</b>	<b>Consumer Assets</b>	<b>Oil and Energy</b>	<b>Corporate and Other</b>	<b>Total</b>
Net sales to external customers (a)	7,173,196	733,917	1,304,763	3,090,936	21,897	12,324,709
Intersegment sales	4,001	172,881	25,776	872	11,334	214,864
Equity in net income of investees	15,451	(519)	(33,424)	4,400	-	(14,092)
Interest income	74,799	13,999	4,368	19,304	90,852	203,322
Interest expense	389,634	55,451	54,986	150,282	231,940	882,293
Net interest revenue (b)	-	-	97,750	-	-	97,750
Depreciation, depletion and amortization	1,337,041	49,807	36,746	332,127	8,872	1,764,593
Operating income/(loss)	1,748,660	6,792	(120,491)	3,053,060	(132,134)	4,555,887
Income tax expense/(benefit)	355,054	5,091	432	2,293	6,852	369,722
Investments in affiliates	350,036	9,005	2,570	-	6,037	367,648
Segment assets	20,634,347	2,422,985	9,769,958	10,763,318	3,873,461	47,464,069
Indebtedness (c)	8,567,380	714,167	1,906,879	2,706,593	2,981,750	16,876,769
Capital expenditures	1,949,308	116,673	55,869	301,855	142,789	2,566,494

(a) – Interest income and expenses of the banking division are presented as revenues from financial services in the Group’s consolidated financial statements. (b) – The banking division derives a majority of its revenue from interest. In addition, management primarily relies on net interest revenue, not the gross revenue and expense amounts, in managing that division. Therefore, only the net amount is disclosed. (c) – Represents the sum of short-term and long-term debt

## Attachment A

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

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

	3Q 2010	3Q 2009	2Q 2010
Operating Income	1,127.8	2,466.1	1,137.0
Depreciation, depletion and amortization	750.0	681.6	734.3
<b>OIBDA</b>	<b>1,877.8</b>	<b>3,147.7</b>	<b>1,871.3</b>