

Preliminary approved by  
The Board of Directors of  
OAO AFK Sistema  
“26” April 2008  
Minutes # 4-08

Approved by the Annual Meeting  
of Shareholders of акционеров  
OAO AFK Sistema  
“ ” 2008  
Minutes # \_\_\_\_\_

# **ANNUAL REPORT of Open Joint-Stock Company Joint-Stock Financial Corporation SISTEMA for the year 2007**

Drafted in accordance with requirements set by Resolution of FCSM of the Russian Federation dated 31 May 2002 # 17/ps “On Approving the Regulation on Additional Requirements to the Procedure of Preparing for, Calling and Conducting General Meetings of Shareholders”. The financial information provided in the Annual Account is based on the data of Balance Sheet put together in accordance with the laws of the Russian Federation and does not contain information on consolidated financial statements.



**Moscow 2008**

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## **1. COMPANY'S POSITION IN THE SECTOR**

Open Joint-Stock Company Joint-Stock Financial Corporation SISTEMA is the largest in Russia and the CIS public diversified company whose assets are concentrated in the most rapidly growing and perspective sectors of service industry. OAO AFK SISTEMA was founded in 1993 and is the only in Russia public Holding controlling large public assets in different businesses.

After the IPO held in February 2005 19% of OAO AFK SISTEMA shares in the form of global depositary receipts (GDR) were approved for trading in the LSE official quotation list under the symbol "SSA". Ordinary shares of OAO AFK SISTEMA are also included in the RTS "B" list under the symbol "AFKS" and in the quotation list of the Moscow Stock Exchange under the symbol "SIST".

Besides the Corporation itself, IPOs were conducted by all large operational assets: MTS, Comstar-OTS, Sistema-Gals, Cytronics, which shows high financial flexibility of the Corporation on the whole and of Sistema as a holding company in particular.

The assets portfolio includes nine business directions: telecommunications, real estate, high technologies, finances, retail, mass-media, tourism, radiotechnics and medicine.

On the whole, the companies controlled by OAO AFK SISTEMA are serving over 80 million consumers in Russia, the CIS, East and West Europe. The activities of OAO AFK SISTEMA are concentrated on the development of high technologies not only for maximum increase of long-term profits of shareholders but also for the purposes of developing the economy of Russia and of the markets in which we are operating.

The basis of competitive stability of OAO AFK SISTEMA at present is made of:

- Wide diversification with a focus on non-primary branches;
- Efficient financial policy;
- Highly skilled administration team.

## **2. COMPANY'S BUSINESS PRIORITIES**

### **Strengthening leading positions in main markets:**

AFK SISTEMA is at present one of the largest in Russia and the CIS public diversified conglomerates. The principal trend of business and development of OAO AFK SISTEMA is investment (equity) management. Most assets of AFK SISTEMA are concentrated in rapidly growing sectors of service industry of the Russian economy and are focused on segments having leading positions in their branches or which can potentially have them. The Corporation sees excellent possibilities for growth in this sphere and has no wide-scale plans of entering the manufacturing sector in midterm.

### **Diversification of the portfolio of Corporation's investments in different businesses:**

The basis for the development of the Corporation were investments in telecommunication assets in the 1990s. With the development of telecommunication assets investments were gradually made in companies in the sectors of real estate, high technologies, finances, mass-media and other rapidly growing sectors of economy.

AFK SISTEMA is a Holding company, the main type of activities of which is operational assets management including their purchasing and selling in favorable conditions. The Corporation has determined for itself nine key branches (strategic business directions) with a long-term horizon of investing and development: telecommunications, real estate, high technologies, finances, retail, mass-media, tourism, radiotechnics and medicine.

Defining strategic business directions reduces the sphere of investing and enables to concentrate on the development of directions on which the Corporation has considerable competence, knowledge and experience. At the same time in favorable conditions AFK SISTEMA makes financial investments in non-core sectors, e.g. acquisition of minority equities in oil-and-gas assets of the Bashkortostan Republic.

### **Defining strategy and principles of assets portfolio management**

The strategy of AFK Sistema is aimed at creating business leaders in service branches of the Russian economy.

AFK Sistema is conducting active search for and realization of long-term investment possibilities with the purpose of creating and subsequent realization of shareholder value.

The strategy of the Corporation's assets portfolio management is based on the following principles:

- *Investing in rapidly growing non-public businesses.* AFK Sistema concentrates its investments in non-public companies with the biggest potential of creating shareholder value (retail, banking, mass-media business directions);
- *Orientation at mergers and acquisitions.* AFK Sistema is an active player in M&A market and is oriented at active development of the selected business directions not just organically but also by advantageous acquisitions. The Corporation conducts active search for target objects for acquisition by own

means and renders support in conducting acquisitions and mergers to its subsidiaries.

- *IPOs of businesses at the emergence of more profitable investment possibilities.* AFK Sistema conducts IPOs of its non-public companies after their entering the trend of stable growth continuing to create profit margin higher than the capital value.

- *Partnership with the state.* AFK Sistema in the person of its business directions (high technologies, radiotechnics, medicine etc.) cooperates with the state as a partner/ supplier on infrastructure projects (e.g. GLONASS, setting up a National center for management in emergency situations), development of high technologies etc.

- *Attraction of a strong team of managers and development of an efficient motivation system.* AFK Sistema attracts the best managers and experts in the labor market and introduces different optional schemes for the motivation of employees: all monetary means of stimulation are related to the fulfillment of key efficiency factors (KPI).

- *Control over the financial and operational activities of subsidiaries.* The Corporation does not participate in the management of daily activities of its subsidiaries, however it is involved in strategic planning for them.

Investment principles are related to concrete types of assets and the efficiency of managing concrete assets is evaluated on the basis of establishing KPI for each business direction. The KPI system consisting of not more than 5-7 factors for each business direction aims the management of the companies of the Corporation at creating shareholder value and increasing efficiency as compared to competitors.

### 3. REPORT BY THE COMPANY'S BOARD OF DIRECTORS ON THE RESULTS OF COMPANY DEVELOPMENT ON PRIORITY DIRECTIONS

#### 3.1. Financial results of activities

in thousands of rubles

| Item  | 2007               | 2006               |
|---|--------------------|--------------------|
| Revenue   | 9,215,166          | 6,920,839          |
| Self-cost   | (2,318,207)        | (1,379,632)        |
| Gross revenue   | 6,896,959          | 5,541,207          |
| Management expenses (audit expenses)                                  | (25,804)           | (29,790)           |
| <b>Sales profit</b>   | <b>6,871,155</b>   | <b>5,511,417</b>   |
| Other incomes and expenses  | 167,581,250        | 112,741,465        |
| <b>Profit (loss) before taxation</b>                                  | <b>174,452,405</b> | <b>118,252,882</b> |
| Current profit tax, dividend tax, deferred tax assets and liabilities | (4,214,910)        | (1,244,054)        |
| <b>Net profit (loss) of the period under review</b>                   | <b>170,237,496</b> | <b>117,008,828</b> |

#### Revenue structure:

In thousands of rubles

| Item   | 2007             | 2006             | Growth %    |
|--|------------------|------------------|-------------|
| Income from participating in the authorized capital of other organizations | 8,628,893        | 6,381,772        | 35.2        |
| Income from leasing property   | 273,636          | 233,944          | 17.0        |
| Income from extending sureties and from agency agreements                  | 312,637          | 295,148          | 5.9         |
| Income from rendering informational and consulting services                | -                | 9,975            | -           |
| <b>TOTAL:</b>  | <b>9,215,166</b> | <b>6,920,839</b> | <b>33.2</b> |

Income from participation in the authorized capital of other organizations amounted to 8,628 thousand rubles which in the first place is due to dividends from OAO Mobile Telesystems (71.3% of this revenue item).

Sales income on all basic types of activities according to the results of the year under review was 6,871,155 thousand rubles which is 24.7% more than in 2006.

## Structure of other incomes and expenses:

In thousands of rubles

| Item                         | 2007               | 2006               | Changes                   |
|------------------------------|--------------------|--------------------|---------------------------|
| Interest receivable          | 843,606            | 355,765            | 2.4 times increase        |
| Interest payable             | (2,117,693)        | (2,265,487)        | Non-significant           |
| Revaluation of listed shares | 151,489,675        | 108,790,979        | 1.4 times increase        |
| Other incomes (net)          | 17,365,662         | 5,860,208          | 3.0 times increase        |
| <b>TOTAL:</b>                | <b>167,581,250</b> | <b>112,741,465</b> | <b>1.5 times increase</b> |

The basic sum of other incomes and expenses is due to the reevaluation of shares of OAO MTS, OAO Comstar-OTS, OAO Sistema-Gals, OAO Cytronics, OAO Bashneft, OAO Ufaorgsintez and OAO Efaneftekhim which is shown in accounting for the end of quarters under review by the value of listing for trading in foreign and Russian stock-exchanges.

Sales profit less interest income (net) in 2006 grew by 55.4% as compared to 2006 and amounted to 5,597,068 thousand rubles.

Return on assets (with regard to sales income) practically did not change compared to 2006 and is at the level of 1.3%.

## Characteristic of the Company's financial position.

### Balance structure

In thousands of rubles

| Item  | 2007               | 2006               | Growth %      |
|---|--------------------|--------------------|---------------|
| Long-term assets (without accounts receivable payments on which are expected in more than 12 months)    | 474,781,872        | 309,682,253        |               |
| Long-term obligations   | 9,982,187          | 22,346,807         |               |
| <b>Long-term assets (net)</b>   | <b>464,799,685</b> | <b>287,335,446</b> | <b>61.8%</b>  |
| Short-term assets (including accounts receivable payments on which are expected in more than 12 months) | 39,442,547         | 31,191,129         |               |
| Краткосрочные обязательства   | 22,149,833         | 6,523,322          |               |
| <b>Short-term obligations (net)</b>   | <b>17,292,714</b>  | <b>24,667,807</b>  | <b>-29.9%</b> |
| <b>Core capital</b>   | <b>482,092,399</b> | <b>312,003,253</b> | <b>54.5%</b>  |
|   |                    |                    |               |
| <b>Balance currency</b>   | <b>514,224,419</b> | <b>340,873,382</b> | <b>50.9%</b>  |

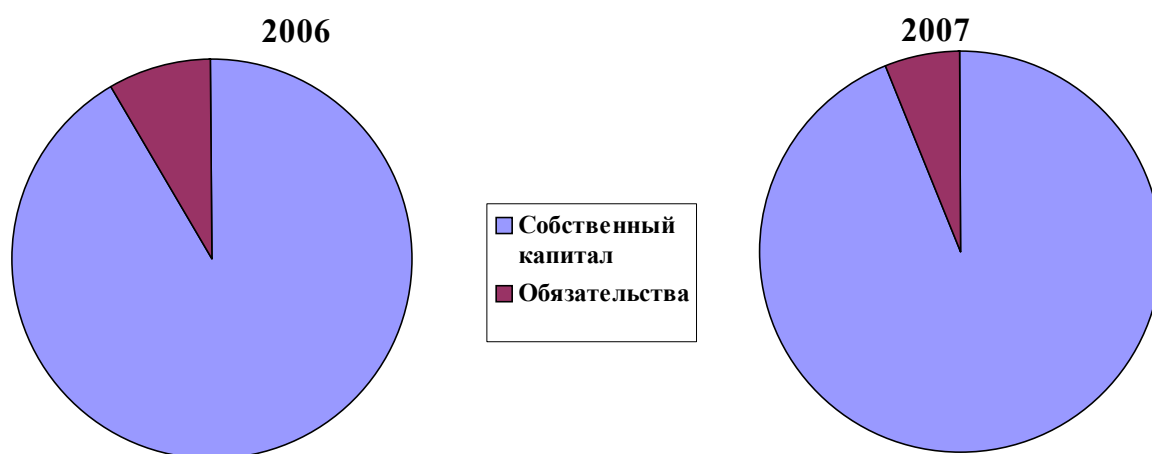
Considerable growth of long-term assets is due to the growth of long-term financial investments, in the first place of investments in subsidiaries and related companies. This growth is related to reevaluation of listed shares, primarily

shares of OAO MTS which demonstrated considerable dynamics of listings during 2007.

Decrease of net short-term assets is due to a considerable increase of short-term obligations (attracting short-term loans and credits).

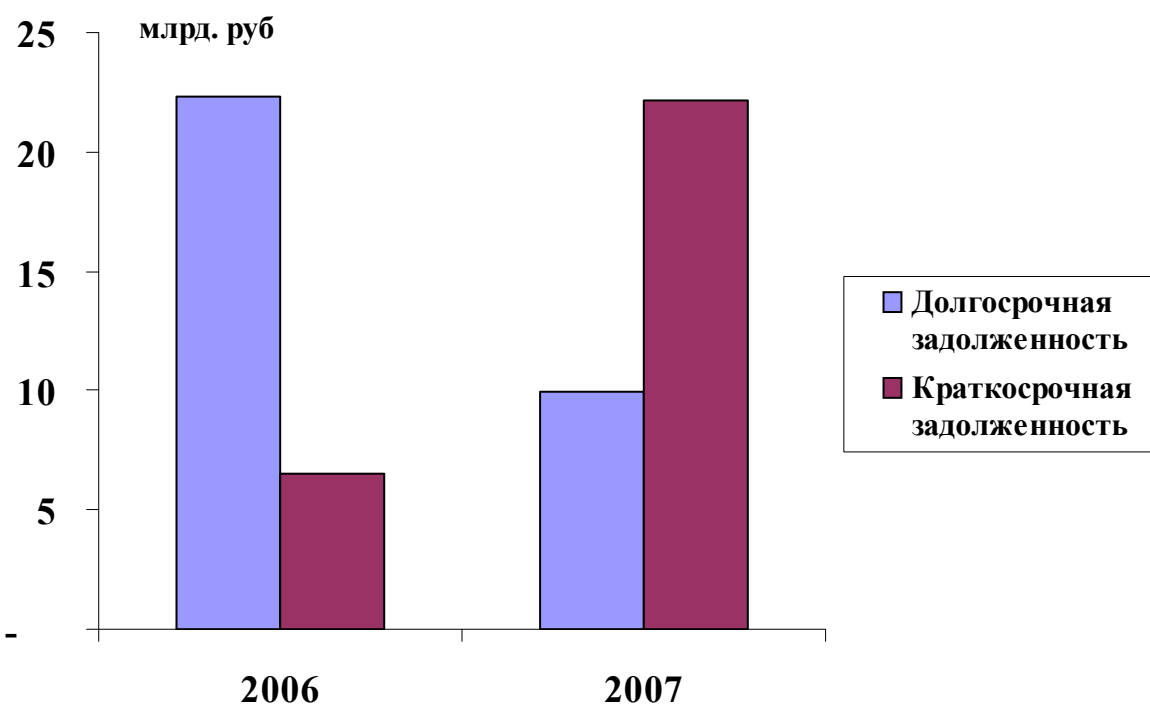
The volume of short-term accounts receivable decreased 4.1 times. The share of accounts receivable in the total volume of current assets went down as compared to 2006 and was 2% (10% at the beginning of the year).

### Obligations and core capital.



The dynamics of the structure of liabilities is characterized by an increase of the share of core capital from 92% (in 2006) to 94% (in 2007). This growth was facilitated by increase of undistributed profit in 2006 by 62.2%.

### Dynamics of the structure of borrowed funds.





The dynamics of the structure of borrowed funds is characterized by a growth of the share of short-term indebtedness from 23% to 69% of the total amount of indebtedness on credits and loans.

### **Liquidity ratio**

|                          | <b>2006</b> | <b>2007</b> |
|--------------------------|-------------|-------------|
| Absolute liquidity ratio | 4.27        | 1.73        |
| Terminal liquidity ratio | 4.76        | 1.77        |
| Current liquidity ratio  | 4.78        | 1.78        |

The values of liquidity ratios are satisfactory. Nevertheless, the considerable growth of short-term obligations during 2007 resulted in a decrease of liquidity indexes.

### **Financial dependence indexes**

|   | <b>2006</b> | <b>2007</b> |
|---|-------------|-------------|
| Debt load ratio                               | 0.09        | 0.06        |
| Interest coverage ratio                       | 53.20       | 83.38       |
| Ratio "received dividends / interest payable" | 2.82        | 4.07        |

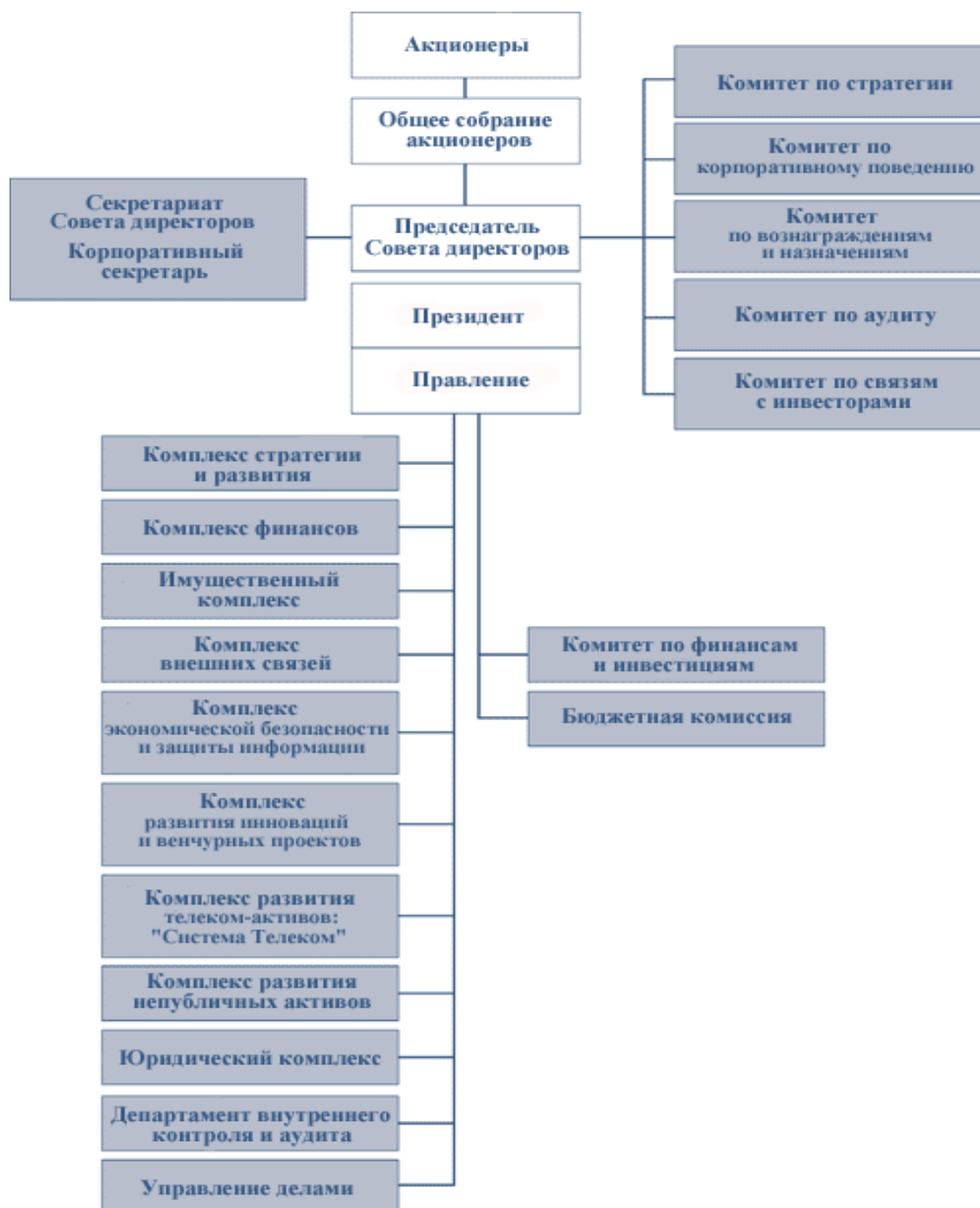
The drastic growth of profit before tax in 2007 resulted in a considerable increase of the value of interest coverage ratio. The outrunning growth of incomes from participating in other organizations (dividends of subsidiaries) as related to the growth of debt load resulted in an increase of the degree of interest coverage by received dividends.

## **3.2 Corporate management structure of OAO AFK SISTEMA**

The basic principles of building the corporate management system of OAO AFK Sistema are transparency and clearness of all internal processes for investors and partners, active and professional Board of Directors carrying out constant leadership of the Corporation in the fields of strategic management, financial accounting and reporting, audit, risk management, staffing policy, corporate management and social policy.

The Articles of Association of the Company define the structure and authority of management bodies. The corporate behavior code and the Ethical code contain additional duties assumed by OAO AFK Sistema with regard to more openness, collegial decision-making, social responsibility, ethical norms of conducting business with regard to partners, state, employees and shareholders.

The management bodies of OAO AFK Sistema are the General Meeting of Shareholders, the Board of Directors, the President and the Management. Attached to the Board of Directors and the President are profile committees. The organizational structure of OAO AFK Sistema is based on complexes in which competences are concentrated necessary for making decisions with regard to operative management of the Corporation. The scheme of management of OAO AFK Sistema is presented in the following chart:



### **3.2.1 General Meeting of Shareholders**

The supreme management body of OAO AFK Sistema is the General Meeting of Shareholders. The General Meeting of Shareholders of the Company functions on the basis of the Federal Law on Joint-Stock Companies, the Articles of Association of the Company and the provision on General Meetings of Shareholders.

In 2007 2 General Meetings of Shareholders were held. The Annual General Meeting of Shareholders on 30 June 2007 and an extraordinary General Meeting of Shareholders on 17 September 2007 in the form of absentee vote on the issue of splitting the Company's shares.

The General Meeting of Shareholders of OAO AFK Sistema in 2007 reviewed the following issues: approving the annual account and reporting, distribution of profits, approving the amount, procedure, form and terms of dividends payment for 2006, defining the number and election of members of the Board of Directors, electing members of the Audit commission, confirming the auditors of the Company, approving the new version of the Articles of Association of the Company, splitting the Company's shares.

The procedure of holding General Meetings of Shareholders meets the requirement to provide for effective protection of the shareholders' rights. The information and materials for meetings are presented to shareholders in Russian and in English 30 days before holding the meeting. Materials and information on the meeting are published on the site of OAO AFK Sistema ([www.sistema.ru](http://www.sistema.ru))

Together with the notification of the planned meeting shareholders are also sent bulletins for voting on the issues of the agenda which provides for the possibility to participate by absentee vote. Herewith OAO AFK Sistema tends to hold meetings of shareholders only in the region of the Company's location in premises providing for the possibility to attend by all shareholders or by their representatives.

### **3.2.2 Company's Board of Directors**

The center of strategic management of OAO AFK Sistema is the Board of Directors. The principal fields of activities of the Board of Directors are defining the principal directions of the Company's activities, strategic and financial planning of activities, shaping the approach to carrying out investing, evaluating the results of management activities, assessing the risks borne by OAO AFK Sistema, defining the structure of corporate management, approving deals and internal documents of the Company.,

## **Planning and holding meetings of the Board of Directors.**

The Board of Directors of OAO AFK Sistema works on the basis of the Articles of Association of the Company, the Provision on the Board of Directors approved by the General Meeting of Shareholders and the new Regulation on the work of the Board of Directors of OAO AFK Sistema approved by the Board of Directors of OAO AFK Sistema in October 2007.

The new Regulation on the work of the Board of Directors envisages a number of novelties in the work practice, such as less frequent but more prolonged meetings with detailed preliminary studying of materials, limiting the number of those invited to attend, preliminary examination of materials of the Board of Directors by the Company's Management, steady information flow between members of the Board of Directors and the Management during the periods between meetings.

There were no considerable changes in the planning of the work of the Board of Directors in 2007. The Board of Directors was functioning in accordance to the annual plan of work (1 January – 31 December 2007). This practice was found positive, as it allows to maintain continuity in the work of the Board of Directors, the newly elected Directors having the plan of work until the end of the year, at the same time there is a sufficient time interval for developing the plan of work for the next calendar year.

The plan of work of the Board of Directors adopted for 2008 envisages less meetings and more detailed consideration of issues. In the analysis of business directions development it is planned to group several business directions in one issue and to view it in the perspective of strategic goals of OAO AFK Sistema. It is suggested to consider separately the issues of defining or adjusting strategic directions of business directions functioning. Also in the plan of work issues were included of financial planning and reporting, international development, OAO AFK Sistema positioning in the media field, corporate management and staff policy.

In 2007 11 meetings in person of the Board of Directors were held and one absentee meeting by absentee vote on an issue which required prompt decision. All in all in 2007 12 meetings of the Board of Directors of OAO AFK Sistema were held. The frequency of meetings in 2007 was 1 meeting per month.

The agenda of a meeting on the average included 3 planned issues in the following fields: OAO AFK Sistema strategy, issues of business directions development, results of financial activities in the periods under review, issues of corporate management and staff policy. Other issues arising in the process of the Corporation's activities, not included in the plan of work of the Board of Directors, were usually included in the section of the agenda "Miscellaneous", namely: issues of emission and circulation of securities of OAO AFK Sistema, participation in the capital of subsidiaries, approving related-party transactions and transactions on acquiring shares in the capital of other organizations.

Hearing the report and discussing the basic issues of the agenda on the average took about 1 hour on each issue. Discussing the issues of the agenda section “Miscellaneous” took not more than 10% of the time of the meeting of the Board of Directors.

#### **Meetings quorum:**

Analysed by six-months periods:

First six months of 2007 - 100%

Second six months of 2007 - 97%.

There were no cases of adjournment of meetings of the Board of Directors due to absence of quorum in the practice of work of the Board of Directors of OAO AFK Sistema.

#### **Contents of considered issues.**

Issues relating to the competence of the Board of Directors are conventionally classified into the following groups for the purposes of analyzing the basic directions of work of the Board of Directors in 2007:

- strategy, investing, new types of activities
- financial accounting, planning and audit
- corporate management
- appointments and staff policy
- emission and circulation of securities, work with authorized capital
- participation in subsidiaries, groups or associations, branches
- approving of suiting transactions
- approving internal documents and policies

Quantitative distribution of agenda issues is given in the following table.

#### **Subjects of issues considered in 2007**

|  | Strategy, investment, new types of activities | Emission and circulation of securities, work with authorized capital | Appointments and staff policy | Participation in societies, groups or associations, branches | Approving transactions and defining the value of assets for the purposes of transactions | Approving suiting internal documents and policies | Financial accounting, planning and audit | Corporate management | TOTAL       |
|--|---|--|-------------------------------|--|--|---|--|----------------------|-------------|
|  | <b>26</b>                                     | <b>4</b>   | <b>13</b>                     | <b>16</b>  | <b>17</b>  | <b>2</b>  | <b>12</b>                                | <b>14</b>            | <b>104</b>  |
|  | <b>25.0%</b>                                  | <b>3.9%</b>  | <b>12.5%</b>                  | <b>15.4%</b>   | <b>16.4%</b>   | <b>1.9%</b>                                       | <b>11.5%</b>                             | <b>13.5%</b>         | <b>100%</b> |

Besides the issues of approving related party transactions and transactions related to participation in subsidiaries, the requirement of approving which is contained in the corporate law of the Russian Federation, the main focus of the

work of the Board of Directors in 2007 was on the issues of strategic planning, as well as on corporate management and staff policy.

### **3.3. Work of Committees of the Board of Directors**

In OAO AFK Sistema there are 5 Committees of the Board of Directors:

- Committee on audit
- Committee on remuneration and appointments назначениям
- Committee on corporate behavior
- Committee on relations with investors
- Committee on strategy

The main task of Committees of the Board of Directors is preliminary consideration of issues within the limits of their competence before bringing them for the consideration by the Board of Directors, as well as consideration of other issues within the limits of their competence as defined by the provisions on the relevant Committees. Committees of the Board of Directors are accountable to the Board of Directors of the Company.

#### **3.3.1. Committee on strategy**

Members of the Committee as of 31 December 2007:

1. Evtushenkov V.P. – president of the Committee
2. Abugov A.V.
3. Almakayev R.F.
4. Aslanyan S.G.
5. Boyev S.F.
6. Buyanov A.N.
7. Goncharuk A.Yu.
8. Drozdov S.A.
9. Evtushenkov F.V.
10. Zubov D.L.
11. Kopyev V.V.
12. Muratov D.G.
13. Utkin E.V.
14. Cheremin S.E.
15. Savelyev V.G.
16. Khidasheli D.

Madorski E.A. – secretary of the Committee

The main function of the Committee is considering and analyzing strategic issues of the development of OAO AFK Sistema and of its business directions.

In 2007 9 meetings of the Committee were held.

#### **3.3.2. Audit Committee**

Members of the Committee as of 31 December 2007:

Gorbatovski A.I. – president of the Committee;  
Leiviman A.L.  
Newhouse S

Gorbatova L.V. – secretary of the Committee

The main functions of Committee on audit is organizing control of the preparation of financial accounting, monitoring the conducting of external audit of financial accounting of OAO AFK Sistema and its subsidiaries and coordinating the activities of the bodies of internal control and audit. Being a committee of the Board of Directors of OAO AFK Sistema, the Committee on audit directly presents recommendations on the appointment of external auditors, setting their fees and control of their work, including coordinating the settlement of disputes between the leadership of OAO AFK Sistema and the auditor on issues of financial accounting. Besides, the Committee on audit acts on behalf of the Board of Directors when monitoring the system of internal control and audit of OAO AFK Sistema. In accordance with its functions the Committee conducts preliminary consideration of issues brought to the attention of the Board of Directors of OAO AFK Sistema.

In 2007 7 meetings of Committee on audit were held.

### **3.3.3. Committee on corporate behaviour**

Members of the Committee as of 31 December 2007:

1. Kopyev V.V. – president of the Committee
2. Belikov I.V.
3. Drozdov S.A.
4. Ermakov G.V.
5. Petrov
6. Semyonov
7. Cheremin S.E.

Tulupov E.G. – secretary of the Committee

The main tasks of Committee on corporate behavior are:

- organizing the development of proposals on the development of practice of corporate management in the Company;
- promoting the elaboration of the practice of corporate management in subsidiaries and controlled companies;
- monitoring the observance by the Company, its subsidiaries and controlled companies of the requirements of the laws in effect, the Articles of Association of the Company and internal regulation, setting the norms of corporate management;
- prevention and settlement of corporate ethical conflicts and conflicts of interests;

- preparing conclusions on projects of resolutions of the Board of Directors of the Company affecting material interests of shareholders and investors.
- In 2007 10 meetings of Committee on corporate behavior were held.

#### **3.3.4. Committee on remuneration and appointments**

Members of the Committee as of 31 December 2007:

1. Evtushenkov V.P. – president of the Committee;
2. Goncharuk A.Yu.
3. Zubov D.L.
4. Kopyev V.V.

Buyanov A.N. – secretary of the Committee

The main tasks of the Committee are defining staff policy of the Company, preparing recommendations for the Board of Directors on appointments on executive posts of the Corporation, including selection of candidates to the boards of directors of subsidiaries and controlled companies, and shaping the system of motivation of the Corporation's staff including recommendations on the amount of remuneration for the leadership.

In 2007 2 meetings of Committee on remuneration and appointments were held.

#### **3.3.5. Committee on relations with investors**

Members of the Committee as of 31 December 2007:

1. Sommer R. – president of the Committee;
2. Abugov A.V.
3. Buyanov A.N.
4. Newhouse S
5. Cheremin S.E.

Kim P.V. – secretary of the Committee

The main task of the Committee is defining the policy of the Corporation with regard to relations with investment community in Russia and abroad and presenting relevant recommendations to the Board of Directors of the Company.

In 2006 10 meetings of Committee on relations with investors were held.

#### **3.2.3 Management**

The Management of OAO AFK Sistema is a collegial executive body set up for making decisions on operational issues of Company management. Within the competence of the Management are issues of coordinating the activities of subsidiaries, considering investment and innovations projects, preparing



proposals on the budget and financial and economic plan of the Company, approving internal documents and other issues brought to the attention of the Management by the President of the Company.

The Management functions on the basis of Federal Law on Joint-Stock Companies, the Article of Association of the Company and the Provision on the Management of the Company.

In 2007 21 meetings of the Management were held.

#### **3.2.4 Development of the system of corporate governance of OAO AFK Sistema in 2007**

In October 2007 OAO AFK Sistema adopted new regulations of the work of the Board of Directors aimed at raising the efficiency of corporate management system functioning. The new regulations envisage holding less meetings during a year, but the meetings are to be planned longer with detailed preliminary studying of the materials to be considered. The number of those invited to attend is limited for ensuring more efficient discussion of agenda issues. Materials of the Board of Directors are preliminary considered by the Company's Management and subsequently by the profile committees of the Board. According to the new regulations the staff of the Board of Directors also shall provide for steady information flow between members of the Board and the Management during the periods between meeting.

In June 2007 at AFK Sistema for the first time internal rating of the level of corporate management of operational subsidiaries was prepared. The methods making the basis of conducting monitoring of the level of corporate management included basic requirements of rating agencies Standard & Poors, Moody's, Fitch and Expert-RA. On the results of the monitoring programs of developing corporate management systems of subsidiaries were put together.

In 2007 the first social report of OAO AFK Sistema came out in which the Corporation gave an account of its activities in the field of developing social environment in which the companies of the Corporation operate, setting up dialogue with all participants of the process of Corporation development, the principles of interacting with the environment and of financing social programs. At present work is being conducted for shaping comprehensive policy of the Corporation in the field of corporate social responsibility on the basis of which OAO AFK Sistema is planning to build in future its activities in the field of social responsibility of business.

## **4. DEVELOPMENT PROSPECTIVE AND STRATEGY**

JSC AFK Systema Strategy is aimed at developing its companies as market leaders. The most important aspects of the Strategy are: effective investments as a target, diversification of business portfolio, partnership with strategic investors, top quality of management resources and thoroughness in financing. We plan to achieve our aims administrating actively our businesses and enhancing operations in the principal sectors of our activity, as by organic means and M&A, as by selective investments in new activity sectors. In our opinion, size of our Company, experience of successful cooperation with international strategic investors, effective management structure and assets diversity constitute a good potential for the fulfillment of our strategic goals.

In the framework of our strategic business-sectors we have the following principal development objectives:

### **Telecommunications**

The main strategic objectives of Telecom group of companies are:

- to obtain position of leading integrated Telecom group,
- to maintain and strengthen leadership in all main segments of the Russian Telecom market, key CIS markets and emerging markets with good growth prospects.

To achieve the above Telecom companies plan:

- to secure growth through M&A;
- to participate in major state Telecom companies privatization, expected in Russia and the CIS;
- to enter the emerging Telecom markets with good growth prospects outside the CIS;
- to develop convergent services and adjoining businesses;
- to reorganize existing Telecom companies with the view of increasing their performance and developing new technologies (such as ADSL, CDMA, WiFi and WiMax).

### **Fixed communication lines**

JSC Comstar-UTS, our fixed communication lines operator, plans to secure growth via:

- acquisition of alternative operators in major regions of Russia and the CIS;
- investments optimization;
- operations cost reduction; and
- integrated products development (with mobile communication also).

Main objectives of JSC MGTS are:

- to construct a NGN (IP) network;
- to modernize and update transport and Internet access networks;
- to enhance communication services product line; and
- to increase operational and investment effectiveness.

Strategy of JSC Comstar-Direct is aimed at maintaining leadership in Moscow and obtaining it in the Russian regions at the markets of Internet access services and additional services, based at wide band technologies (TV, video on demand, etc.) for the mass market and corporate clients. To increase maximally its subscribers base JSC Comstar-Direct will apply active marketing policy and build up its channel velocity (FTT and JSC MGTS project).

Main objectives of JSC MTT are:

- to maintain position of leading alternative national operator at the market of distant communication, where fixed and mobile communication operators are present;
- to enhance services product line;
- to increase the share of high income services in company proceeds; and
- to increase company performance.

Mobile communication

JSC MTS will take efforts to maintain its presence as a leading national mobile communication operator of Russia and the CIS, counted as by subscribers number and proceeds, as by geography of operations. With that the Company will continue pay attention to the following focal points:

- cost control,
- balanced investment policy, and
- convergency advantages use.

The aim of JSCL Sky Link is to create a first 3G operator in Russia, with services to be offered on a base of high speed mobile data exchange network. The Company has long term plans of maintaining its position of the first mobile Internet operator in Russia. Cost control and investment policy rationalization are also seen as priority objectives.

The aim of Shyam Telelink Ltd. is to create a pan-Indian mobile communication network of CDMA 800 Mhz standard and to develop on this base an effective and competitable Telecom business. Through acquisition of this

company JSC AFK Systema was able to enter one of the greatest markets of the world, showing good growth dynamics.

### **High Technologies**

JSC AFK Systema assets in Hi Tech sector are administered by JSC SITRONICS. The main strategic priority of SITRONICS is to increase capitalization and become one of the greatest Hi Tech companies in Russia, the CIS, Eastern Europe, Middle East and Africa by means of:

- organic growth and strategic acquisitions;
  - strengthening its positions as technological leader in Russia and the CIS;
- and
- enhancing its presence at the international markets.

To achieve the above SITRONICS plans to:

- concentrate its efforts on the markets with maximal growth speed and low competition level (RF, the CIS, Central and Eastern Europe, Middle East, Africa);
- use existing R&D potential;
- invest in product and technology development;
- enhance clients base and market activity by effective marketing and new acquisitions.

SITRONICS aims to provide best service to its clients. Company plans to become a provider of complex solutions improving its proprietary know-how, widening product line and services, strengthening long term partnership relations with the world Hi Tech leaders. One of SITRONICS' priority objectives is to increase quality of human resources. Its achievement will enable Company to build up performance and flexibility of production facilities, with the view of best satisfaction of growing clients needs. Company plans to combine low costs, inherent in emerging markets, and access to competences and technologies of developed markets.

In the sector of Telecom solutions SITRONICS plans to obtain positions of one of the leading Telecom Equipment and Software developers and providers in the Eastern Europe and Middle East. Company's development priorities include continuing internal consolidation of this business-activity, aimed at setting up a united company with united product portfolio and sales channels. The following intellectual services and solutions will be considered as focal points:

- billing systems development,
- software for Next Generation Networks (NGN),
- solutions for wide band access,
- content delivery networks, and
- other products, that meet requirements of contemporary Telecom operators.

Other important issues also to be addressed:

- increase of sales outside AFK Systema and outside Russia,
  - strengthening of existing and setting up new alliances in R&D sphere,
- and
- entering the market with joint solutions, made in partnership with the leading world players.

Production cost will continue to be relatively low and production capacities in proximity to main consumers due to the placement of developing and producing centres in Russia, Czech Republic, Greece and Romania. Existence of local production will also enable SITRONICS to acquire status of national producer, important for receiving state certifications and participating in local tenders.

In the segment of IT-solutions SITRONICS plans to obtain leading positions at the IT-markets of the CIS, Central and Eastern Europe and Middle East, due to strong positions at the CIS market of system integration and software development, destined for:

- Telecommunications,
- Banking,
- Retail,
- Education,
- State.

The main strategic priorities for this business-sector are as follows:

- growth of high-marginal services share and profitability of business as a whole;
- priority development of consulting, system integration and outsourcing.

SITRONICS plans to:

- attract the most experienced experts in Russia and the CIS;
- apply cost-effective business model;
- strengthen strategic alliances with sector leaders with a view of accelerating access to newest technologies and markets; and
- use product and geographical synergies with other business-sectors.

In the sector of Microelectronic Solutions SITRONICS plans to maintain positions of the biggest in Russia producer of semi-conductors chips and transform the sector in one of the leaders of **IS** design and production in the CIS, Central and Eastern Europe. Aiming at production diversification and profitability growth SITRONICS also plans to forge its positions at the Russian smart-cards market.

The main strategic priorities in this sector are:

- rising of production upto a new technological level of 0,13-0,18  $\mu$  in view of receiving State and Defence orders for bio-passport chips manufacturing; and
- moving up in value chain to the area of more high-marginal segments (strengthening positions in segments of SIM-cards, transport cards, RFID and other types of smart-cards of RF).

Focal points will be the following:

- design center development,
- providing complex services, and
- use of State support in R&D, investments and new markets creation.

In the sector of Contractual Electronics Production SITRONICS plans to become a leading provider of services of contractual assembling in the CIS, offering integral services of production and logistics.

In the framework of developing Consumer Electronics business SITRONICS plans to develop its own brand, creating for the market unique trade offers, based on proprietary technological solutions. Focusing on high-marginal product groups and innovations with high added value ratio will be the main strategic priorities.

## **Real Estate and Construction**

Strategy in this business-sector is aimed at forming and administrating of diversified and balanced real estate portfolio, including objects for sale and lease. Our objective is to increase market share and obtain leading positions in main market segments.

### **A and B class offices**

We consider Systema-Gals well positioned at the market of A and B class offices specifically and having extensive experience in that segment precisely. We plan to increase considerably existing projects portfolio in that segment, purchasing a number of prospective sites in Moscow, major Russian cities and Kiev.

### **Development of major land lots and cottage construction**

Our participation in stock capital of JSC Mosdachtrest guarantees to us a leading position at this market in Moscow and Moscow province. Strong base of Mosdachtrest assets includes landlease rights in Serebrianiy Bor and on several hundreds of hectarea, viable for cottage construction in the best places of Moscow province, enabling the Company to construct modern villages for the purpose of subsequent sale and lease. Besides we have purchased, purchase and will continue to purchase interesting lots for development in all prospective directions of Moscow province. Existence of big proprietary lots portfolio will ensure for us a constant development projects flow for several years ahead.

### **Elite and non-typical residences**

Our main objective in this segment is to create a portfolio of prospective development lots and implement in 2007-2010 several major projects with our participation (i.e. project of complex reconstruction of Kuntsevo district at the West of Moscow).

A stable progress of the Russian economy and quick formation and development of private businesses have created a new class of realty buyers. Such buyers seek for quality residences, situated in places with favourable ecology and high transport accessibility.

Projects portfolio we are creating meets the highest requirements of the market and such buyers.

## Regions

Moscow market continues to be the most priority for our real estate development. But its pronosticated saturation forces us to search for attractive development opportunities in Moscow province market and other prospective regions. Hence, we will actively continue to use opportunities, arising at attractive regional markets of the Russian cities-millonaries, where our main efforts will be concentrated on big multi-functional projects, combining residential and commercial realties. With that, before entering regional markets, we are to be assured of high quality of the objects, planned for entry at these markets.

## Banking Services

Our strategy regarding ACB MBRR (JSC) consists in transforming it into the bank, offering complete spectrum of banking services and capable of providing quality services to legal entities and physical persons over all national territory.

We plan to integrate recently acquired JSC Dalcombank into banking business-sector of AFK Systema, thus promoting enhancement of geographycal business coverage and financial indicators growth of AFK Systema banking business-sector.

We intend to extend the presence of ACB MBRR (JSC) in the segment of Banking Services for physical persons, using possibilities offered by Telecom and Retail units of AFK Systema, and also by broadening the product line and geographycal coverage. Due to specifics of its activities, these companies deal with and have access to a great number of physical persons. It presents a very good opportunity for effective use of its marketing channels and existing infrastructure for banking services promotion.

In the framework of our strategy of transforming ACB MBRR (JSC) into the bank offering complete spectrum of banking services, we plan to diversify its activities beyond existing functions of finance manager for our Daughter Companies and Interrelated Persons, and to build up corporate clients base of ACB MBRR (JSC). Corporate segment development is to be targeted on major corporate clients, including regional ones. We intend to expand the product line, offered by MBRR for corporate banking, and to increase significantly a share of "external" corporate clients in the assets and liabilities structure of the Bank. One of the ways to achieve it, is by developing programs of financing for small and

medium entities.

As for Luxembourgean East-West United Bank, controlling stake in stock capital of which has been from December 2007 in property of MBRR, it will develop jointly with MBRR Private banking services, apart from its today's product portfolio.

## **Retail**

Strategy in this business-sector consists in further development of Detskiy Mir, biggest children's goods (for 0-14 years old) retail network in Russia and the CIS. The main target group of Detskiy Mir business are middle class families. Assortment matrix of this business sector includes the following categories: toys, children's clothes and shoes, goods for infants and pregnant, stationery, sport goods. All trading centres of the network have a unique style and design, as well as united control system for administration of assortment, purchases, merchandising, marketing and advertising, HR, logistics and IT. The network development is to be carried out mainly by means of opening new trading centres at leased areas. For the new trading centres, planned to be opened in Moscow and other major cities of Russia and the CIS, a priority format (with enlarged sales area superior of 2000 sq.m) is stipulated. We plan to open trading centres in at least half of the subjects of the Russian Federation, and also in priority cities of Ukraine. In medium term perspective we consider a possibility of entering the market of Kazakhstan.

## **Mass media**

Company's strategy includes the following objectives:

- to obtain leadership of Stream-TV as paid TV/Internet operator in major cities of RF, and
- to provide multimedia services at mass market, using all possible signal delivery technologies (cable, satellite, broadcast) for obtaining maximum audience coverage in RF.

In 2008 the main development trend in Moscow and Russian regions will be paid TV projects. Mass media unit jointly with JSC Comstar-UTS is developing a paid TV project under the trade mark of Stream-TV. One of priority objectives here is a transition of all regional companies in paid TV segment to operations under united brand "Stream-TV".

Medium term objectives of the Company include also setting up a content business for paid TV (topical TV channels, interactive services).

In 2008 assets consolidation and minority shares buy-out are to be continued.

## **Radio engineering**

Radio engineering business-sector is represented by JSC RTI Systems Corporation (to be named Corporation herein) and its Daughter companies. Corporation is a scientific and industrial union, specialized in major systemic and



research-prolific projects in the following areas:

- Defence radio-construction,
- aerospace and surface control systems,
- power equipment construction.

Main contractor of the Corporation's production is the Ministry of Defence of the Russian Federation.

Main strategic priorities of this business-sector are as follows:

1. Obtain leadership at the markets of major programs in specialty areas of Defence radio-construction and aerospace and surface control systems;

2. Set up one of the biggest companies in Defence technology area by means of strengthening its positions at existing markets of major State projects, as well as via possible entry to the new markets, including international ones.

To achieve the above goals Corporation plans to continue further development of R&D and create newest products and technologies.

Actually a major part of Corporation's contracts portfolio constitutes the State Defence Order (SDO). In the future we expect SDO volumes at the existing markets to be increased, as well as a share of orders of other State, Ministerial and major corporate contractors. Corporation plans a further increase of its participation in various major projects in form of State-Entrepreneurial Partnership. Total volume of Corporation's long term State contracts portfolio nowadays is of \$2.5 billions.

## **Tourism**

Business-sector of Tourism is represented by VAO Inturist and its daughter companies.

Strategic aim of VAO Inturist is to obtain leadership at the tourism markets of Russia and the CIS, and by 2010 enter the Top-10 of the European market.

To that end VAO Inturist plans to finish the already started process of setting up a vertically integrated touristic holding, which would control all value chain in the sector. Actually the Company's assets include already tour-operators at the entry, departure and internal markets, retail sale units network, hotels network under hotel operator control, charter flights consolidator and automobile fleet.

In a medium term perspective VAO Inturist makes provisions for maintaining its leadership at the entry tourism market, obtaining leadership at the departure and internal tourism markets, setting up a biggest retail network in Russia and the CIS, development of hotel business and formation of controlled air fleet.

The most important aspects of VAO Inturist strategy are:

- target on effective investments;
- business-portfolio diversification;
- partnership with strategic investors; and
- assuring high level of management resources.

In 2008 VAO Inturist will continue to increase the size of controlled hotel fund at priority directions of its tour-operatorship.

## **5. STATEMENT ON PAYMENT OF DECLARED (ACCRUED) DIVIDENDS ON SHARES OF SOCIETY**

Resolution on dividends payment for 2006 year results was adopted on June 30th, 2007 by Annual General Meeting of Shareholders (Protocol No.1-07).

In accordance with the resolution of General Meeting of Shareholders, for dividends payment purposes a part of profit for 2006 year was directed in the sum of 463,200,000 (Four hundred sixty three million two hundred thousand) Roubles, corresponding to a payment of 48 Roubles 00 kopecks on one ordinary registered share.

Total sum of dividends paid at the date of December 31st, 2007, was of 461,761,296 Roubles; retained tax on income in form of dividends, paid to foreign legal persons, was of 14,437,012.80 Roubles, and the tax on income of physical persons non-residents was of 72 Roubles.

Total sum of dividends not paid at the date of December 31st, 2007, was of 1,438,704 Roubles (One million four hundred thirty eight thousand seven hundred four) Roubles. Reasons of non-payment of declared dividends were as follows:

- no information of bank requisits of legal and physical persons, recipients of dividends (required for dividends transfer);
- no information of status of physical persons (resident or non-resident);
- no information of factual addresses of shareholders.

## **6. DESCRIPTION OF MAIN RISK FACTORS RELATED TO ACTIVITIES OF SYSTEMA JSFC OAO**

The favourable economic situation formed during the last years, the positive dynamics of the main macroeconomic indices, and also a stable growth of real wages contribute to further increase of the population consumer demand. The consumer sector of the economy of Russia and CIS, which such sector is the main one for the Corporation's business, continues to exert a determining influence upon maintenance of the general economic dynamics at a high level. Nevertheless, it bears substantial risks, which may be reflected on development rates of the Corporation subsidiaries.

The risks the Corporation's business may face are diverse. They represent manifestation of processes and factors the influence upon which from the direction of Systema JSFC is impossible or quite limited. Therefore, the effective assessment and risk management remain to be an important component of then strategy of Systema JSFC.

Risk management is performed in a centralized way within provisions and regulations approved both at the level of Systema JSFC and at the level of business directions. This process touches all activities of the Corporation and is directed at revealing and reducing the probability and scale of impact from events, which may exert a negative influence upon the Corporation. Corresponding arrangements are a reasonable guarantee to implement strategic targets of the Corporation's activities.

### **Political climate**

During the passed year the political situation in Russia was characterized by a quite high level of stability. Along with that, instability in a number of neighbouring CIS member states became stronger, especially accounting for the fact that the economy of those countries, private companies in particular, remains to be dependent on influence from different political forces.

### **I. Financial risks**

#### **Economic situation**

During the whole 2007 the economic growth rate remained to be at a high level. In general for the year 2007 the GDP growth has achieved 8.1% (against 7.4% in 2006). The economic situation in Russia was contributing to further growth of the investment market and increase of the consumer demand. However, acceleration of inflation rates has happened against this background: the index of consumer inflation came to 11.9% against 8.5% hypothecated to the budget. The said level is the maximum one for the last three years. Acceleration of inflation in 2007 was significantly determined by a noticeable growth of prices for raw materials and food in the world markets. The substantial increase in volumes of gold-currency reserves and stabilization fund indicates at weighed fiscal and monetary policy conducted by the Ministry of Finances and by the Central Bank. However, the positive impact upon the economy is limited by growing budget expenses and growth of regulated tariffs. A substantial additional factor is the credit crisis, which has involved the world's financial markets in August 2007 against the background of problems in the mortgage crediting market in the USA. In this connection the objective to maintain the stability of the banking system and its filling with sufficient liquidity may become a barrier on the way of achieving the price stability. Therefore, inflation on the whole and the growing expenses in the consumer sector are the main macroeconomic risks. A substantial risk is the problem of exclusive dependence of the Russian economy and economics of the CIS countries on prices for

hydrocarbon raw. In the CIS countries there is a risk that positive economic trends may become weaker as a result of political instability or of the desire to strengthen the state interference to the economy.

### **Currency exchange rate**

Possible change in the exchange rate of rouble, euro and grivna relatively to the American dollar represents a risk for Systema JSFC. Against the background of stable decrease in the dollar exchange rate, a number of the Corporation's companies have decided to transfer to fixing the prices for services in roubles. This step has made it possible to increase revenues in the dollar term and to implement advantages from cheaper dollar financing since a noticeable part of the engaged funds is nominated in US dollars. However, there is a risk that the Central Bank of the Russian Federation will reject the policy of a strong rouble as a measure to fight inflation and will make a preference towards its weakening in order to protect national companies from loss of the competitiveness and to slow down the import growth.

### **Stock markets**

There is a risk that shares of Russian companies will grow slower than the analogues in other developing markets. The main reasons of that are the methods of forming of their just assessment and the current level of the Russian market liquidity. There is also a risk of abated flow of capital due to global reduction of liquidity, political risks and reassessed perspectives of market development.

### **Interest rate and other credit risks**

Changes of interest rates in the Russian and international markets caused by the credit crisis and decreased level of liquidity in the banking system may substantially affect the cost of borrowings and the conditions for engaging of additional capital. Systema JSFC carries out its business in capital-intensive industries; therefore, changes in the cost of borrowings may negatively affect the development of the Corporation. In addition to that, if the Russia's sovereign credit rating becomes lower, it may negatively affect the rating of the Corporation and to increase the cost of funding in the world's financial markets.

## **II. Industry risks**

### **Telecommunications**

The business direction of Telecommunications of Systema JSFC OAO is one of the largest private telecommunication associations in Russia. Companies of this direction operate in two main sectors the description of whose industry risks is presented below:

- Fixed communication lines
  - Internet and data transmission
  - Long-haul communication
- Mobile communication.

It is necessary to note that some industry risks of one sector are also favourable possibilities for another one.

Fixed communication lines

- The market of fixed telephony services shrinks because of development of new technologies and mobile communication services;
- Consolidation of assets in the market of fixed communication leads to stronger competition in the market;
- A substantial part of the MGTS OAO infrastructure has become obsolete, and the company is forced to invest significant funds to its modernization and construction of NGN networks;
- Rapid growth of subscribers of broadband access in Moscow leads to appearance of new large players and stronger competition in the market;
- There is a development of competitive technologies of high-speed access – WiFi, WiMax, iP-technology, and also household networks and cable TV networks;
- Competition in the market of long-haul communication increases as a result of liberalization of this market. The subscriber's right to choose a long-haul communication operator has been fixed; the regulator has issued more than 30 licences for intercity and international communication;
- The cellular operators of the “large three” intend to implement the intercity and international communication licences in 2008; it increases the risk of the traffic withdrawal from MTT OAO to own networks of MTS OAO and Megaphone OAO.

#### Mobile communication

- The growing competition in all segments of mobile communication from the direction of the existing operators who hold licences may lead to reduction in the profits of MTS OAO from the main activities and loss of the market share;
- The slower growth and saturation of the mobile communication market makes MTS to come to search of new income sources (mainly at the expense of developing the data transmission services, provision of additional services and entry to new markets);
- Acquisition of one of the competitors by a large global mobile operator with access to the western market of capital may worsen the MTS OAO ability to compete in investments for construction of networks and basic infrastructure;
- The MTS OAO adherence to the GSM standard may hamper the successful competition with other existing and new technologies that will lead to loss of subscribers; the currently being implemented joint project with Sky Link ZAO is called to reduce this risk thanks to development of services dealt with mobile data transmission. The MTS OAO recently obtained 3G licence and the company's process strategy regarding the construction and launch of the 3G network in Moscow and 14 Russian cities, which have population of 1 million inhabitants and more, in Russia in 2007-2008 also reduce this risk;
- Purchase of a private resource, obtaining of licences and construction of the network in competing technologies – 3G and WiMax, will lead to increased capital expenditure, and consequently – to decreased market capitalization of the company.
- The high competition of the market where Shyam Telelink Ltd. operates leads to the ARPU drop and large outflow of subscribers. In addition to that, the company's financial results in a significant degree depend on the market availability of not expensive mobile phones capable to support the CDMA standard of 800 MHz.

The companies of the telecommunication direction of Systema JSFC OAO are adhered to an active strategy of counteraction against the above-listed risks. They have prepared and currently implement a whole number of arrangements directed both at general strengthening of the telecommunication group and strengthening of its separate parts. In particular, they conduct a systematic policy dealt with reconstruction and modernization of their own network for further diversification of the services: widening of the list of services of fixed and mobile telephony, and also development of new technologies. In addition to that, being introduced along with the services are new tariff plans, which allow our companies to successfully compete in the market; and also started to be actively used are convergent possibilities provided by the telecommunication companies of Systema JSFC OAO.

### **High tech**

The “High tech” business direction is presented by SITRONICS OAO, its subsidiaries and dependent companies and does its activities in several industries – production of telecommunication equipment, information technologies and system integration, microelectronics and production of electronics. SITRONICS performs its activities both in the domestic and in the foreign markets. Due to globalization of economic processes, the industry risks of SITRONICS will be present both in the domestic and in the foreign markets. Typical for all industries, where the SITRONICS subsidiaries and dependent companies SITRONICS perform their operating activities, are the following risks:

- Some types of products of SITRONICS subsidiaries and dependent companies may become subjected to the general price reduction that may negatively affect their activities, financial situation and work results. The products and services of SITRONICS subsidiaries and dependent companies may become obsolete if no new types of products and services are designed or the existing ones are not improved.

SITRONICS assesses this risk as minimum because with reduction of prices for finished products the prices for raw materials and components to manufacture such products also go down. SITRONICS possesses a significant potential in the area of research-and-development activities, has several development centres both in Russia and abroad, actively cooperates with foreign companies, which are leaders of the industry, within development of new and improvement of existing products and solutions. In addition to that, SITRONICS actively invests to innovations and update of the product line.

- The SITRONICS subsidiaries and dependent companies operate in the sphere of high competition, including from the number of recognized world companies.

Many of such companies are more known in the market, possess large customer bases and significantly larger capabilities in the sphere of financing, technology, marketing, distribution and other resources compared with the SITRONICS operating subsidiaries; it gives competitive advantages to them.

SITRONICS endeavours to minimize the influence of this risk through assuring the competitive advantages for its own products by satisfying the customer's specific requirements, through adapting the products and solutions to requirements of the markets where SITRONICS operates, offer of products and solutions, which do not have direct analogues in the market, and also lower prices due to a relatively low production cost, performance of research-and-development activities and low expenses for qualified personnel;

- The SITRONICS subsidiaries and dependent companies depend on mutual relations with suppliers and sellers. Any loss, breakdown or cutback of such relations may negatively affect the production, financial situation and results of the company.

The influence of this risk is not so significant because the outside raw, components and services do not occupy a dominant position in the product prime cost. In addition to that, SITRONICS endeavours significant efforts to diversify the base of suppliers and sellers and to constantly monitor the most profitable offers in the market regarding the supplies and sales;

- SITRONICS also bears risks related to international activities. A significant part of the products is sold in countries of the South Eastern Asia (microelectronics), Eastern Europe and Northern Africa (telecommunication equipment and software).

In the event of serious political shocks in these regions the activities of the business direction in these regions may be suspended; it may entail substantial losses. At the same time, there is a significant number of alternative suppliers and potential buyers of the products of the business direction in other countries, and SITRONICS when necessary is able within a reasonable period of time to switch to such countries and markets.

### **Real estate and construction**

The activities in the sphere of construction and real estate are represented by Systema Gals OAO, its subsidiaries and dependent companies.

The work in this sphere is conjugated with a significant risk because a typical project requires significant investments and a lengthy period for implementation.

Rapid growth and development of the real estate market also may create difficulties in obtaining of sufficient managerial and on-line resources and strengthen the load on our financial resources restricting the ability for business expansion.

This business direction has a high market risk practically in all segments. For example, the expected increase in the supply of office and commercial premises in 2008-2010 may negatively affect the level of prices; in the sector of non-standard housing a part of experts predicts slowdown in the growth rates and stagnation during the next few years due to stable growth of prices during several years and insufficient development of mortgage in the country.

In addition to that, development of this business direction happens both at the expense of own funds and at the expense of a significant quantity of borrowed funds. Because of that there is a high interest risk - in case of long-term crediting the growth of interest rates will lead to increased interest payments on borrowed funds and lower profitability of the business. The liquidity crisis, which has struck the financial markets in 2007, has significantly affected the sphere of development, which requires significant funds. As a result of that, developers with a limited access to capital began to sell their objects of construction in progress; it reduces the prices. Another trend is withdrawal from real estate objects of those investors for whom it is just an auxiliary type of their activities, for example – retail operators.

Development of real estate objects is a lengthy process. Due to a lengthy period of project implementation in conditions of changing economic indices, a substantial operational risk appears – excess of forecasted investment costs caused by increased prices for construction materials, which may reduce profitability of the projects being implemented.

As a specific industry risk it is necessary to note a large number of permits and approvals to be obtained from local governments and industry supervising authorities.

Change in the existing procedures to obtain permits or increase of their number may negatively affect the time of our project implementation.

In order to minimize the above-described risks, we strive to shorten the time of the project implementation, to quickly respond the changing structure of the demand and supply in different segments, to engage long-term credits for the project implementation and to have a balanced portfolio of projects both for sale and for lease.

The real estate market is a sensitive barometer of the level both of the economic and of the political situation and is strongly subjected to the influence of such risks - when unfavourable changes emerge in the political climate or the general economic situation aggravates, it is possible that the demand for office premises and shopping and amusement centre will decline, and the situation in the housing market and cottage construction will also more rapidly change because of the population high subjection to psychological influence of a potential crisis.

Due to the specifics of this market, no effective hedging from a sharp change in the political situation in Russia in this market is possible. Decrease of this risk can be achieved by reducing the time of the project implementation and more effective management of the development process.

### **Banking services**

The activities in the financial and banking sphere are represented by MBRR JSCB (OAO), DalComBank OAO and East-West United Bank S.A., Luxemburg.

Low capitalization of a significant number of Russian banks, incompleteness of the Bank of Russia's carried out reforms of the business accounting and reports with respect to lending agencies, and also imperfection of the current legislation with respect to assuring the rights of creditors and prudential supervision etc. remain to be substantial risk factors of the Russian banking system.

According to the Bank of Russia, as of 01.01.2008 the share of credits issued to State and commercial enterprises (with the exception of banks), including outstanding indebtedness, is maintained at a high level and is 65.7% from the total volume of the granted funds. The largest part of these credits is referred to a category of large requirements (credit risks) in relation to the banking sector. In order to minimize this type of risk, MBRR JSCB (OAO) and DalComBank OAO plan to diversify their assets and liabilities for the service engaging the companies not affiliated with Systema JSFC OAO, developing the programme of consumer crediting of individuals, and also increasing the share of deposits, which are made by individuals, in the bank's assets.

Noted in the market of banking services is aggravated competition struggle, especially for deposits of individuals. As a result, as of 01.01.08 the share of SberBank of Russia in the individuals' deposits engaged by the banking sector was 53.5% in rouble and 37.7% in foreign currency deposits. Stronger competition may lead to a situation when with the purpose to engage new customers the bank will be forced to increase rates on deposits and/or reduce rates on granted credits that may negatively affect the profitability of the banking business. In order to minimize this type of risk, MBRR JSCB (OAO) and DalComBank OAO plan to more fully use synergetic possibilities arising during its interaction with other companies of Systema JSFC OAO (for example, joint marketing shares, complexes of joint services for customers of MTS OAO and Detskiy Mir Centre OAO, co-branding projects etc.).

The activities of East-West United Bank in a significant degree are concentrated in the market of securities and on fiduciary transactions. In order to reduce the corresponding risks, East-West United Bank implements a conservative policy directed at limiting the size of the risk the bank undertakes with respect to each transaction separately and totally for the portfolio.



### **Retail trade**

The activities in the sphere of trade are represented by the Detskiy Mir Centre Group of Companies, which unites Detskiy Mir Centre OAO and other subsidiaries and dependant companies.

The main risks in this business direction are:

- Insufficient supply of format trade areas and purchasing ability of population may potentially restrict growth rates in some regions;
- Rates of development of transport and information infrastructure in some regions may not fully correspond to rates of the business direction development and to impose restrictions upon the network development in regions;
- Development of modern retail formats in the market of children goods – trade networks both of the federal level and of local large-format shops may require correction of the business direction strategy;
- Development of universal retailers and potential entry of large international trade networks may also strengthen the competition in the market of goods for children;
- Macroeconomic risks related to potential decrease of the price for energy carriers and consequent decrease of the target audience purchasing ability and scopes of the State social programmes may lead to lower growth rates of the demand for goods for children;
- Country-wise risks during entry to markets of Ukraine and Kazakhstan are related to political instability, differences in legislation and business practice as well as some differentiation in models of the buying behaviour and may affect the time of the business direction entry to those countries.

### **Mass media**

The activities in the sphere of mass media are represented by Systema Mass Media OAO, its subsidiaries and dependent companies.

The markets where SMM OAO operates, in particular the market of advertising, pay TV etc., are distinguished by a high degree of competition. Some mass media groups, which dispose of significant financial resources, actively invest to construction and modernization of networks; it leads to more intense competition.

The pay TV project uses new process solutions, which may also turn out to be risky from the investment point of view.

In order to reduce risks in the described segments, the company performs control over the prime cost of products and services, constant monitoring of the market and competitors, and for process projects also uses suppliers with technical solutions proved abroad.

### **Radio engineering**

In the market of large system science intensive [high-end] projects where RTI Systemy Concern operates it is possible to distinguish the following main types of marketing, production process and personnel recruitment risks:

- Marketing risks: When determining the principal contractor on a large project, State enterprises may have a priority before enterprises with higher effectiveness. During the last time more and more often the decisions are made in favour of effective

enterprises; however, if the State changes the strategic benchmarks, it may lead to actual emergence of a risk when the priorities of orders are formed depending on who is a proprietor of the enterprise. For the purpose to reduce this risk, the Concern performs an active GR activity, and also intensively participates in the State elaboration of long-term development plans on projects of the national importance.

- Production process risks: a risk of an increasing gap between a high level of research-and-development activities and depreciation of the production base. In order to reduce such risk, the Concern actively invests to complex modernization of production process at enterprises.

Personnel recruitment risks: a risk related to age disproportion. The Concern employs experienced designers of the senior age group (in the rank of chief designers and chief engineers). The inflow of young specialists grows but practically no experienced specialists of the middle age group are present, also including with respect to the labour market. Such situation may lead to a situation when in several years the Concern may face shortage of chief designers and chief engineers.

### **Tourism**

The travel industry in Russia at this time is one of the most dynamically developing industries in the country's economy. According to expert appraisal, the annual growth rates of this market till the year 2010 will come to approximately 16% a year.

Important influence upon the development of the inbound tourism, just as of outbound tourism, is exerted by the dynamics of prices for energy carriers because the growth of prices for fuel entails more expensive air travel, which in its turn leads to more expensive travel products and accordingly reduces the demand.

In order to reduce the influence of this factor, Intourist VAO constantly reviews the contractual bases with service suppliers, which such bases are used in forming of a travel product; it makes it possible to avoid negative consequences caused by fluctuated cost of particular suppliers' services.

The main industry risks, with the exception of the dynamics of prices for energy carriers, may include increased intensity of competition because of relatively low barriers of entry to the industry. The high activity of the consumer demand initiates the withdrawal of the market participants to new segments of the market and leads to appearance of new players in the market. The pursuit to the aggressive growth causes the excess of the supply over the demand; in its turn it leads to stronger pricing competition with widely used dumping.

In these conditions Intourist VAO conducts a policy of flexible use of pricing mechanisms, including the system of discounts, bonuses and other arrangements of sale incentives. Simultaneously with that the company makes arrangements in order to reduce direct costs; for that it practices annual wholesale purchase of hotel and transport services and improves contractual relations with suppliers. Along with the cost-wise tools the company also builds up its competitive advantages in the area of quality of travel products and services paying large attention to issues of suppliers selection and monitoring of the customers satisfaction.

In addition to that, the activities of Intourist VAO are largely influenced by the risks related to stability of the world economy.

Based on diversification of its activities, Intourist VAO adheres to an active strategy of counteraction against global risks of the world travel industry. At this moment in time the share indices of sales in any country where the company performs its operations are not critically significant for economic results of Intourist VAO on the whole.

A stagnation and negative economic growth in the country, which will stipulate lower solvency of population, may also be a reason of decreased tourist flows both from Russia and within it.

### **III. Managerial risks.**

#### **Risks related to integration of existing or newly acquired companies.**

In a significant degree the Systema JSFC growth is stipulated by multiple acquisitions made during the past periods and also by acquisitions planned for the future. The results of such acquisitions in many respects will depend on how effectively the new enterprises are integrated to the structure of our Corporation. We cannot guarantee that such integration will be fully successful and timely. The integration requires significant time expenditures, attention from the direction of the company's supreme leadership responsible for current activities.

The integration may be conjugated with significant complications because the Corporation's culture will be different from the culture of new companies; in addition to that, unpopular measures may be required for adoption with the purpose to reduce costs. Difficulties related to the transitional period and integration processes may exert substantial unfavourable influence upon incomes, expenses and results of the united company's activities.

**Due to the sweeping growth and expansion of the activities, our company may experience difficulties with provision of adequate managerial and production resources that may limit the capabilities of our company for expansion of its activities.**

Systema JSFC has achieved substantial growth and development of its activities within the duration of a relatively short period of time; and we consider that this trend will stay in the foreseeable future. Such growth has led to complication of our economic activities and responsibility vested in the leadership; in this connection the load on our administrative and production resources became significantly higher. Future results of our activities in a significant degree depend on work indices of a limited number of the supreme leadership members and technical specialists.

For the purpose to assure further growth and development, we have to continue improvement of our production and financial systems as well as tools and procedures of administrative control. We also should provide close interaction of our services.

Successful activities of our company will also depend on to what extent we shall be able to attract, hold and interest the qualified personnel.

**7. LIST OF DEALS, WHICH THE COMPANY HAS MADE IN THE ACCOUNTING PERIOD AND WHICH IN ACCORDANCE WITH THE FEDERAL LAW “ON JOINT-STOCK COMPANIES” ARE RECOGNIZED AS LARGE DEALS, AND ALSO OF OTHER DEALS WHOSE MAKING IN ACCORDANCE WITH THE COMPANY’S ARRICLES OF ASSOCIATION IS COVERED BY THE PROCEDURE OF APPROVGAL OF LARGE DEALS**

During 2007 the Company’s Board of Directors was not involved in approval of deals, which in accordance with the Federal Law “On joint-stock companies” are recognized as large deals, and also other deals whose making in accordance with the company’s articles of association is covered by the procedure of approval of large deals.

**8. LIST OF TRANSACTIONS WHICH, IN ACCORDANCE WITH THE FEDERAL LAW “ON JOINT STOCK COMPANES”, ARE CONSIDERED TO BE THE ONES WITH INTERESTED MOTIVES IN THEIR CONCLUSION, MADE BY THE COMPANY IN THE YEAR OF 2007**

| <b>No. of the minutes by the body approved the transaction and the date</b> | <b>Object of the deal</b>   | <b>Contractors of the deal</b>  | <b>Amount of the deal</b>  | <b>People who are considered to be the ones with interested motives in the conclusion of a deal according to the law</b> |
|---|---|---------------------------------|--|--|
| Board of Directors<br>Minutes No.1-07 of<br>20.01.2007                      | Liability insurance for the members of Board of Directors and management of OJSC JSFC “SISTEMA” | OJSC “ROSNO”                    | Equivalent of 100,000,000 (one hundred million) USD in RUR                                       | Goncharuk A.Yu.  |
| Board of Directors<br>Minutes No.2-07 of<br>17.02.2007                      | Purchasing of shares of OJSC “Sitronics”  | ECU GEST HOLDING S.A.           | Equivalent of 223,296,038.64 USD   | Evtushenkov V.P.<br>Goncharuk A.Yu.<br>Drozdov S.A.<br>Buyanov A.N.  |
| Board of Directors<br>Minutes No.2-07 of<br>17.02.2007                      | Purchasing of shares of CJSC “Company Medexpress”   | OJSC “ROSNO-MS”                 | 228,000 (two hundred and twenty-eight thousand) RUR  | Vasadze L.Sh.  |
| Board of Directors<br>Minutes No.2-07 of<br>17.02.2007                      | Purchasing of shares of “American Hospital Group Ltd.”  | OJSC “ROSNO”<br>OJSC “ROSNO-MS” | 14,350,537 (fourteen million three hundred and fifty thousand five hundred and thirty-seven) RUR | Vasadze L.Sh.  |
| Board of Directors<br>Minutes No.3-07 of<br>24.03.2007                      | Purchasing of shares of additional share issue of OJSC “Detskiy mir-Tsentr”                     | OJSC “Detskiy mir-Tsentr”       | 2,365,000,000.00 (two billion three hundred and sixty-five million) RUR                          | Evtushenkov V.P.<br>Drozdov S.A.   |
| Board of Directors<br>Minutes No.3-07 of<br>24.03.2007                      | Purchasing of shares of additional share issue of OJSC “Concern RTI Sistemy”                    | OJSC “Concern RTI Sistemy”      | 3,368,000,000 (three billion three hundred and sixty-eight million) RUR                          | Novitsky E.G<br>Mikhailov N.V.<br>Boev S.F.<br>Tcheremin S.E.  |
| Board of Directors<br>Minutes No.4-07 of<br>28.04.2007                      | Purchasing of shares of additional share issue of OJSC “Sistema Mass-media”                     | OJSC “Sistema Mass-media”       | 5,945,000,000.00 (five billion nine hundred and forty-five million) RUR                          | Kopiev V.V.<br>Leiviman A.L.<br>Dunaev M.V.  |
| Board of Directors<br>Minutes No.4-07 of<br>28.04.2007                      | Contract on conducting and keeping of the Register  | OJSC “REESTR”                   | 637,200.00 (six hundred and thirty-seven thousand two hundred) RUR                               | Drozdov S.A.   |
| Board of Directors<br>Minutes No.5-07 of<br>26.05.2007                      | Subordinate loaning   | OJSC “MBRR” (OAO)               | 1 billion RUR  | Evtushenkov V.P.<br>Buyanov A.N.<br>Tcheremin S.E.<br>Evtushenkov F.V.   |
| Board of Directors  | Pawning of shares   | OJSC Bank BTB                   | Hypothecation  | Evtushenkov V.P.   |

|   |  |  |  |  |
|---|--|--|--|--|
| Minutes No.7-07 of 28.07.2007                     | of OJSC "Sistema – Hals"   |  | value of 5,686,831,229.05 RUR which is an equivalent of 224,020,643.01 USD | Zubov D.L.<br>Drozdov S.A.<br>Goncharuk A.Yu.<br>Evtushenkov F.V.<br>Buyanov A.N.  |
| Board of Directors Minutes No.8-07 of 22.09.2007  | Guarantee of OJSC JSFC "SISTEMA" for CJSC "Delta Telecom"  | Sberbank RF (OJSC)                       | With the limit of 18,405,000 UDS   | Drozdov S.A.<br>Evtushenkov V.P.<br>Abugov A.V.  |
| Board of Directors Minutes No.8-07 of 22.09.2007  | Guarantee of OJSC JSFC "SISTEMA" for CJSC "Delta Telecom"  | Sberbank RF (OJSC)                       | With the limit of 14,059,375 UDS   | Drozdov S.A.<br>Evtushenkov V.P.<br>Abugov A.V.  |
| Board of Directors Minutes No.8-07 of 22.09.2007  | Guarantee of OJSC JSFC "SISTEMA" for CJSC "Delta Telecom"  | Sberbank RF (OJSC)                       | With the limit of 10,507,819 UDS   | Drozdov S.A.<br>Evtushenkov V.P.<br>Abugov A.V.  |
| Board of Directors Minutes No.8-07 of 22.09.2007  | Guarantee of OJSC JSFC "SISTEMA" for OJSC "Moskovskaya Sotovaya Svyaz"                                     | Sberbank RF (OJSC)                       | With the limit of the Guarantor in the amount of 8,377,375 UDS             | Drozdov S.A.<br>Evtushenkov V.P.<br>Abugov A.V.  |
| Board of Directors Minutes No.8-07 of 22.09.2007  | Guarantee of OJSC JSFC "SISTEMA" for OJSC "Moskovskaya Sotovaya Svyaz"                                     | Sberbank RF (OJSC)                       | With the limit of 34,567,941 UDS   | Drozdov S.A.<br>Evtushenkov V.P.<br>Abugov A.V.  |
| Board of Directors Minutes No.8-07 of 22.09.2007  | Selling of registered preference shares of OJSC "Elion"  | OJSC "Sitronics"                         | 75.50 RUR  | Goncharuk A.Yu.<br>Muratov D.G.<br>Utkin E.V.  |
| Board of Directors Minutes No.8-07 of 22.09.2007  | Purchasing of nominal shares of CJSC "Gruppa kompaniy "Medsi"  | CJSC "Gruppa kompaniy "Medsi"            | 1,787,301,000.00 RUR   | Drozdov S.A. and member of executive committee<br>Gurdus V.O.  |
| Board of Directors Minutes No.11-07 of 24.11.2007 | Granting liability by OJSC JSFC "SISTEMA" on liabilities of OJSC "Sitronics"                               | Dresdner Bank AG Niederlassung Luxemburg | 137,000,000.00 USD   | Goncharuk A.Yu.<br>Abugov A.V.<br>Muratov D.G.   |
| Board of Directors Minutes No.12-07 of 15.12.2007 | Conclusion of an individual insurance policy of liability of Directors, Officials and Corporation for 2008 | OJSC "ROSNO"                             | 592,509.00 USD   | Gurdus V.O.  |
| Board of Directors Minutes No.12-07 of 15.12.2007 | Conclusion of a collective insurance policy of liability of Directors, Officials and Corporation for 2008  | OJSC "ROSNO"                             | 192,408.50 USD   | Goncharuk A.Yu.<br>Drozdov S.A.<br>Zubov D.L.<br>Abugov A.V.<br>Aslanyan S.G.<br>Buyanov A.N.<br>Gurdus V.O.<br>Evtushenkov F.V.<br>Muratov D.G. |

## **9. MEMBERS OF THE BOARD OF DIRECTORS, INFORMATION ABOUT CHANGES IN THE BOARD OF DIRECTORS MADE DURING THE FINANCIAL YEAR, INFORMATION ABOUT MEMBERS OF THE BOARD OF DIRECTORS INCLUDING THEIR BRIEF BIOGRAPHICAL DATA AND INFORMATION ABOUT THEIR SHARES DURING THE FINANCIAL YEAR**

### **Board of Directors**

At the beginning of the year 2007 the Company had the Board of Directors, which had been elected at the General Meeting of Shareholders on the 30<sup>th</sup> of June 2006, consisting of the following individuals:

#### **Board of Directors elected in June 2006**

1. Goncharuk, Alexander Yuryevich
2. Gorbatovsky, Alexander Ivanovich
3. Drozdov, Sergei Alekseevich
4. Evtushenkov, Vladimir Petrovich
5. Sommer, Ron
6. Zubov, Dmitry Lvovich
7. Kopiev, Vyacheslav Vsevolodovich
8. Leiviman, Alexander Lvovich
9. Mikhailov, Nikolai Vasilyevich
10. Novitsky, Evgeny Grigoryevich
11. Newhouse, Stephan

The Board of Directors consisted of 11 members. From amongst the 11 members of the Board of Directors there were:

Executive Directors – 2: (Goncharuk A.Yu., Drozdov S.A.)

Non-Executive Directors – 6: (Evtushenkov V.P., Zubov D.L., Kopiev V.V., Mikhailov N.V., Leiviman A.L., and Novitsky E.G.)

Independent Directors – 3: (Gorbatovsky A.I., Sommer R., Newhouse S.)

### **Changes in the Board of Directors**

During the period from the 1<sup>st</sup> of January until the 31<sup>st</sup> of December 2007, after the General Meeting of Shareholders, which took place on the 30<sup>th</sup> of June 2007, and the election of the new Board of Directors, Mikhailov N.V. left the Board of Directors. Thus, the number of the Board of Directors made 10 people. The Board of Directors functioning at the end of the year of 2007 was elected at the General Meeting of Shareholders on the 30<sup>th</sup> of June 2006.

### Board of Directors elected in June 2007

1. Goncharuk, Alexander Yuryevich
2. Gorbatsky, Alexander Ivanovich
3. Drozdov, Sergei Alekseevich
4. Evtushenkov, Vladimir Petrovich
5. Sommer, Ron
6. Zubov, Dmitry Lvovich
7. Kopiev, Vyacheslav Vsevolodovich
8. Leiviman, Alexander Lvovich
9. Novitsky, Evgeny Grigoryevich
10. Newhouse, Stephan

From amongst the 10 members of the Board of Directors there were:

Executive Directors – 2: (Goncharuk A.Yu., Drozdov S.A.)

Non-executive Directors – 5: (Evtushenkov V.P., Zubov D.L., Kopiev V.V., Leiviman A.L., Novitsky E.G.)

Independent Directors – 3: (Gorbatsky A.I., Sommer Ron, Newhouse Stephan)

Brief biographical data of the members of the Board of Directors and information about their shares in the authorized capital stock of the OJSC JSFC "SISTEMA"

| Name, Position                         | Brief biographical data  | Share in the Authorized Capital Stock <sup>1</sup> |
|--|--|--|
| <b>Evtushenkov, Vladimir Petrovich</b> | Vladimir Evtushenkov was born in 1948 in the Smolensk region.  | 62.13%   |
| Chairman of the Board of Directors     | <p>He graduated from the D. Mendeleev Moscow Chemical Engineering Institute in 1973 and in 1980 from the School of Economics of the Moscow State University.</p> <p>From 1975 until 1982, Mr. Evtushenkov worked as Shop Superintendent, Deputy Director and Chief Engineer for the Karacharovsky Plastics Works. From 1982 until 1987, he was Chief Engineer and First Deputy General Director of the Scientific and Production Association "Polymerbyt". In 1987 he was appointed the Head of the Technical Administration of the Moscow City Executive Committee and in 1988 became the Head of the Central Administration on Science and Engineering of the Moscow City Executive Committee. In 1990 he took up the post of Chairman of the Moscow</p> |  |



|   |  |       |
|---|--|-------|
|   | <p>City Committee on Science and Engineering.</p> <p>In 1993, together with a group of like-minded people, he founded JSFC "SISTEMA". Today he is the major shareholder and the Chairman of the Board of Directors of JSFC "SISTEMA".</p> <p>Vladimir Evtushenkov has been a member of the Bureau of the Board of Directors of the Russian Union of Industrialists and Entrepreneurs since 2000 and since 2001 he has been the Head of the Union's Committee on Industrial Policy. He has been a member of the Board of Directors of the Russian Chamber of Commerce and Industry since 2002. Mr. Evtushenkov is also the Chairman of the Russian-Arab Business Council (RABC) founded by the Russian Chamber of Commerce and Industry in 2003.</p> <p>He is a member of the Government Commission on Science and Innovation Policy and a member of the Council on Science and High Technologies with the President of the Russian Federation and the Council on Competitiveness and Business Undertakings with the Government of the Russian Federation and the National Council on Corporate Management. Mr. Evtushenkov is a Doctor of Economics.</p> <p>In March 2004 he was elected Chairman of the Council of Trustees of the Development Fund for the State Russian Museum (SRM) "Friends of the Russian Museum".</p> |       |
| <b>Zubov, Dmitry Lvovich</b><br><br>Deputy Chairman of the Board of Directors | <p>Dmitry Zubov was born in 1954 in the Gorkovsy region.</p> <p>In 1977 Mr. Zubov graduated from the S. Ordzhonikidze Moscow Aircraft Institute.</p> <p>From 1978 until 1979, Mr. Zubov worked as a foreman for the Lukhovitsky Engineering Plant. From 1979-1983 he was the secretary of the Committee of the Leninist Young Communist League of the Soviet Union. From 1983 until 1986 he headed the All-Union School for training team leaders of Komsomol Youth brigades. From 1986 until 1988 Mr. Zubov worked in the Department on Working Youth at the Central Committee of the Leninist Young Communist League of the Soviet Union and in 1988-1989 he headed the All-Union Center on Youth Community. From 1989 until 1991 Mr. Zubov worked as Deputy General Director of</p>   | 0.88% |

|   |   |       |
|---|---|-------|
|   | <p>the All-Union Center on Cinema and Television for Children and Youth. From 1992 until 1996 he was the General Director of CJSC "Alon", then occupied executive positions in Moseximbank, OJSC "IBN-Sistema" and CJSC "Promhiminvest".</p> <p>Mr. Zubov has been working for JSFC "SISTEMA" since 1999 and has been Deputy Chairman of the Board of Directors since 2000. He is also the Chairman of the Board of Directors of "Sistema Hals" and of "Project Construction Union "Sistema-Hals".</p> <p>Mr. Zubov is a Doctor of Economics.</p>   |       |
| <p><b>Kopiev, Vyacheslav Vsevolodovich</b></p> <p>Deputy Chairman of the Board of Directors</p> | <p>Vyacheslav Kopiev was born in 1954 in Moscow.</p> <p>In 1977 he graduated from the Cybernetics Department of the Moscow Institute of Engineering and Physics (MIPhI). In 1993 he graduated from the Law Department of the Russian Academy of Management. Mr. Kopiev graduated with honors from the Economy Department of the International Marketing and Management Academy in 1994.</p> <p>As a senior engineer of MIPhI, in 1977 Mr. Kopiev was appointed to work in the Krasnogvardeisky District Committee of the Leninist Young Communist League of the Soviet Union. From 1980 until 1989 he was Deputy Chairman of the Moscow City Council of Young Scientists and Specialists as well as of the Moscow City Council on Development of Scientific and Technical Abilities of Youth with the Moscow City Council. In 1989 Mr. Kopiev was elected First Secretary of the Moscow City Committee of the Leninist Young Communist League of the Soviet Union and in 1990 he became Second Secretary of the Central Committee of the Leninist Young Communist League of the Soviet Union. From 1989 onward Mr. Kopiev occupied executive positions in the Administrative Board of the Union of Scientific and Engineering Societies where, between 1992 and 1997, he was Director of International Relations and Innovation Activity. From 1990 until 1997 he was the Chairman of the Board of Directors of JSC "Sputnik". In 1995, Mr. Kopiev was appointed to be Deputy Chairman of the Executive Committee of the Russian-British Chamber of Commerce and Industry.</p> <p>In 1997 Mr. Kopiev was appointed Vice-President</p> | 0.05% |

|   |   |        |
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|   | <p>of JSFC “SISTEMA”, from 2000 until 2003 he was Senior Vice-President and the Head of the Complex for Forming External Business Environment. Mr. Kopiev has been Deputy Chairman of the Board of Directors of JSFC “SISTEMA” since 2003. He is also the Chairman of the Board of Directors of OJSC “VAO “Intourist”.</p> <p>Mr. Kopiev is a Candidate of Technical Science (1982) and a Candidate of Law Science (1994). He has over 70 scientific works to his credit.</p>   |        |
| <p><b>Goncharuk, Alexander Yuryevich</b></p> <p>Member of the Board of Directors, President of JSFC “SISTEMA”</p> | <p>Alexander Goncharuk was born in 1956 in Sevastopol.</p> <p>In 1978 he graduated with honors from the Sevastopol Higher Naval Engineering School and in 1987 he graduated with honors from Grechko Naval Academy. From 1987 until 1991 Mr. Goncharuk served as a senior officer at the Main Headquarters of the Navy.</p> <p>In 1993 he became the Head of the JSIC “Leader”. From 1995 until 1998 he was Vice-President of JSFC “SISTEMA”. From 1998 until 2003 he had the post of President of JSC “Sistema Telecom”. In July 2003 Mr. Goncharuk was appointed General Director of “Concern “Scientific Center “Sitronics”. Since 1996 he has been a member of the Board of Directors of JSFC “SISTEMA”. In 2006 Mr. Goncharuk was appointed President of JSFC “SISTEMA”. He is also the Chairman of the Board of Directors of JSFC “Sistema Mass-media”, a member of Board of Directors of JSFC “SISTEMA”, OJSC “Sistema Hals”, OJSC “Sitronics” and Ecu Gest Holding S.A.</p> | 2.0 %  |
| <p><b>Gorbatovsky, Alexander Ivanovich</b></p> <p>Member of the Board of Directors</p>                            | <p>Alexander Gorbatovsky was born in 1954 in Moscow. In 1978 he graduated from Moscow Power Engineering Institute and in 1998 he graduated from Moscow S.Ordzhonikidze Institute of Management.</p> <p>From 1971 until 1980 Mr. Gorbatovsky occupied worker’s and engineering positions in various Moscow enterprises. From 1980 until 1988 he worked as Second Secretary of the District Committee of the Leninist Young Communist League of the Soviet Union, Secretary of the Party Committee of the Scientific and Production Association “Polymerbyt”, Instructor of the Department on Heavy Industry and Energy of the Moscow City Committee of the Soviet Union Communist Party. From 1988 he was the Director</p>   | 1.78 % |

|  |   |         |
|--|---|---------|
|  | of the Engineering Works No.3 of the Scientific and Production Association "Promventilyatsia" (later OJSC "Moscow Engineering Works No.3"), as well as the Chairman of the Board of Directors. From 1993 until 1997 he was the Head of JSC "Kedr-M" and from 1997 until 2002 – OJSC "Sistema-Neft".   |         |
| <b>Drozdov, Sergei Alekseevich</b>                   | Sergei Drozdov was born in 1970 in Archangelsk.   | 0.2%    |
| Member of the Board of Directors,                    | In 1993 he graduated from the S. Ordzhonikidze State Academy of Management. Mr. Drozdov is a Candidate of Economic Science.   |         |
| Senior Vice-President – the Head of Property Complex | From 1994 until 1995 Mr. Drozdov was the Head of the Administration of Financial Innovations and Marketing with the City of Moscow's Property Fund. Mr. Drozdov has been working for JSFC "SISTEMA" since 1995. He managed the Department of Development and Investments from 1995 to 1998 and between 1998 and 2002 served as Vice-President, Acting President and First Vice-President of JSC "Sistema-Invest". He became Acting First Vice-President and Head of the Department of Corporate Property in May 2002. On the 21 <sup>st</sup> of September 2002 he was appointed Senior Vice-President of JSFC "SISTEMA" and the Head of the Property Complex.  |         |
| <b>Sommer, Ron</b>                                   | Ron Sommer was born on the 29 <sup>th</sup> of July 1949. In 1971 he took his doctorate degree in mathematics at the University of Vienna. Mr. Sommer began his professional career in 1974 with the "Nixdorf Group", worked in New York and Paderborn (Germany) and from 1977 until 1979 was the Head of the Paris office of "Nixdorf Group". In 1980 he joined Sony Corporation. In 1986 he became the Head of the German subsidiary of the Sony Corporation (Sony Deutschland). In 1990 Dr. Sommer became the President of Sony Corporation of America (Sony USA) and in 1993 he occupied the same position at the European subsidiary (Sony Europe). In 1995 Dr. Sommer was appointed President of the Management Board of Deutsche Telekom AG. In summer 2002 Dr. Sommer resigned from the post of President of the Management Board of Deutsche Telekom AG. | 0.0008% |
| Member of the Board of Directors                     | In June 2005 Dr. Sommer was elected a member of the Board of Directors of JSFC "SISTEMA".   |         |
| <b>Leiviman, Alexander Lvovich</b>                   | Alexander Leiviman was born in January 1949 in the town of Chernovtsy.  | 2.66 %  |
| Member of the Board of Directors                     | In 1972 he graduated from the D. Mendeleyev   |         |

|   |   |       |
|---|---|-------|
|   | <p>Moscow Chemical Engineering Institute.</p> <p>From 1972 until 1973 Mr. Leiviman worked as Deputy Shop Foreman at “Mosbythim” and from 1975 until 1977 he was senior staff scientist at the Institute NIPIOTSTROM (in the town of Novorossiysk). From 1978 to 1992 Mr. Leiviman occupied a number of leading positions at the Chemical Plant (in the town of Chernovtsy). In 1992 he became Deputy General Director of the Innovation Fund of the Moscow Mayor’s Office.</p> <p>Mr. Leiviman has been working for JSFC “SISTEMA” since 1993, in 1996-1997 he was the Head of JSC “Sistema-Invest” and in 1997-1999 – OJSC “VAO” Intourist”. From 1999 until 2002 Mr. Leiviman was the First Vice-President of JSFC “SISTEMA”, the Head of Finance and Investment Complex. From 2003 until the beginning of 2006 Mr. Leiviman was General Director of OJSC “Sistema Mass-Media”.</p>   |       |
| <p><b>Novitsky, Evgeny Grigoryevich</b></p> <p>Member of the Board of Directors</p> | <p>Evgeny Novitsky was born in 1957 in the town of Asino in the Tomsk region.</p> <p>In 1985 he graduated from the N. Bauman Moscow School of Engineering with the specialty “Economics and Management in Mechanical Engineering”. From 1989 until 1990 he studied management at the Moscow State Institute of International Relations and at Manchester Business School (The University of Manchester, Great Britain).</p> <p>From 1985 until 1987 Mr. Novitsky worked as an engineer-mathematician at the N. Bauman Moscow School of Engineering where, in 1987-1990, he was a postgraduate. Mr. Novitsky took part in the scientific and engineering projects of the N. Bauman Moscow School of Engineering in the defense industry. From 1991 until 1995 he headed development and production of domestic computers at the “Kvant” Plant (in the town of Zelenograd).</p> <p>Mr. Novitsky was the President of JSFC “SISTEMA” from 1995 until 2006 and the Chairman of the Board of Directors of JSFC “SISTEMA” from January 2005 until February 2006. Mr. Novitsky is a Candidate of Technical Science. He is also the author of a monograph and a number of publications.</p> | 1.0 % |

|                                  |  |         |
|----------------------------------|--|---------|
|                                  | Mr. Novitsky is a Member of the Board of Trustees of the N. Bauman Moscow State Technical University.  |         |
| <b>Newhouse, Stephan</b>         | Stephan Newhouse was born in 1947.   | 0.0008% |
| Member of the Board of Directors | <p>He studied at Yale University where in 1969 he took his Bachelor of Arts degree with honors. After serving as an officer in the United States Navy from 1969 until 1972 he went on to study at the Harvard Business School where he took his Master's Degree in Business Administration with Distinction in 1975.</p> <p>From 1975 to 1979 Mr. Newhouse worked in the investment banking division of the First Boston Corporation. He is a Director of Harbor Point Limited, which is a Bermuda based re-insurance company, and of Shanghai AJ Trust Company, which is a Chinese group providing financial services.</p> <p>In 1979 Stephan Newhouse joined Morgan Stanley where he became Managing Director in 1988, Vice-President in 1997, President of Morgan Stanley International in 2000 and President of Morgan Stanley in December 2003 in which capacity he served until April of 2005.</p> <p>For three years prior to being appointed President of Morgan Stanley, he was also Second President and Chief Operating Officer of Morgan Stanley's Institutional Securities and Investment Banking Group (Morgan Stanley on institutional equities and investment banking services), which includes the global institutional equities, institutional fixed income, and investment banking operations of Morgan Stanley. In 1998 he was appointed to the Management Committee of Morgan Stanley, the parent company.</p> <p>In June 2006 Mr. Newhouse was elected a member of Board of Directors of JSFC "SISTEMA".</p> |         |

Information on the transactions accomplished by the members of the Board of Directors of JSFC "SISTEMA" over their shares of the Company during the period from the 1<sup>st</sup> of January until the 31<sup>st</sup> of December 2007:

| Member of the Board of Directors | Date of transaction | Matter of transaction  | Object of transaction                  |
|----------------------------------|---------------------|--|--|
| Evtushenkov V.P.                 | 31.07.2007          | Enrolment of securities onto the personal account of the owner   | 76 common registered shares            |
|                                  | 13.11.2007          | Enrolment of securities onto the personal account of the owner while converting shares   | 5,995,331,000 common registered shares |
|                                  | 13.11.2007          | Discarding of securities off the personal account of the owner while converting shares (splitting)                             | 5,995,331,000 common registered shares |
| Zubov D.L.                       | 05.06.2007          | Discarding of securities off the personal account of the owner   | 32,000 common registered shares        |
|                                  | 28.06.2007          | Discarding of securities off the personal account of the owner, enrolment of securities onto the account of the nominal holder | 9,650 common registered shares         |
|                                  | 31.07.2007          | Enrolment of securities onto the personal account of the owner   | 76 common registered shares            |
|                                  | 13.11.2007          | Enrolment of securities onto the personal account of the owner while converting shares (splitting)                             | 84,581,000 common registered shares    |
|                                  | 13.11.2007          | Discarding of securities off the personal account of the owner while converting shares (splitting)                             | 84,581 common registered shares        |
| Kopiev V.V.                      | 31.07.2007          | Enrolment of securities onto the personal account of the owner   | 76 common registered shares            |
|                                  | 13. 11.2007         | Enrolment of securities onto the personal account of the owner while converting shares (splitting)                             | 4,901,000 common registered shares     |
|                                  | 13.11.2007          | Discarding of securities off the personal account of the owner while converting shares   | 4,901 common registered shares         |

|                  |            |   |                                      |
|------------------|------------|---|--------------------------------------|
|                  |            | (splitting)   |                                      |
| Goncharuk A.Yu.  | 31.07.2007 | Enrolment of securities onto the personal account of the owner  | 76 common registered shares          |
|                  | 13.11.2007 | Enrolment of securities onto the personal account of the owner while converting shares (splitting)                                      | 193,076,000 common registered shares |
|                  | 13.11.2007 | Discarding of securities off the personal account of the owner while converting shares (splitting)                                      | 193,076 common registered shares     |
| Gorbatovsky A.I. | 31.07.2007 | Enrolment of securities onto the personal account of the owner  | 76 common registered shares          |
|                  | 13.11.2007 | Enrolment of securities onto the personal account of the owner while converting shares (splitting)                                      | 172,157,000 common registered shares |
|                  | 13.11.2007 | Discarding of securities off the personal account of the owner while converting shares (splitting)                                      | 172,157 common registered shares     |
| Leiviman A.L.    | 21.06.2007 | Discarding of securities off the personal account of the owner; enrolment of securities onto the personal account of the nominal holder | 7,407 common registered shares       |
|                  | 31.07.2007 | Enrolment of securities onto the personal account of the owner  | 76 common registered shares          |
|                  | 13.11.2007 | Enrolment of securities onto the personal account of the owner while converting shares (splitting)                                      | 256,318,000 common registered shares |
|                  | 13.11.2007 | Discarding of securities off the personal account of the owner while converting (splitting)   | 256,318 common registered shares     |
| Novitsky E.G.    | 13.03.2007 | Discarding of securities off the personal account of the owner; enrolment of securities onto the account of the nominal                 | 96,500 common registered shares      |



|              |            |  |                                     |
|--------------|------------|--|-------------------------------------|
| Drozdov S.A. | 25.05.2007 | holder<br>Discarding of securities off the personal account of the owner; enrolment of securities onto the account of the nominal holder | 7,801 common registered shares      |
|              | 31.07.2007 | Enrolment of securities onto the personal account of the owner   | 76 common registered shares         |
|              | 08.11.2007 | Discarding of securities off the personal account of the owner; enrolment of securities onto the account of the nominal holder           | 39,274 common registered shares     |
|              | 13.11.2007 | Enrolment of securities onto the personal account of the owner while converting shares (splitting)                                       | 96,500,000 common registered shares |
|              | 13.11.2007 | Discarding of securities off the personal account of the owner while converting shares (splitting)                                       | 96,500 common registered shares     |
|              | 31.07.2007 | Enrolment of securities onto the personal account of the owner   | 76 common registered shares         |
|              | 13.11.2007 | Enrolment of securities onto the personal account of the owner while converting shares (splitting)                                       | 19,376,000 common registered shares |
|              | 13.11.2007 | Discarding of securities off the personal account of the owner while converting shares (splitting)                                       | 19,376 common registered shares     |
|              | 31.07.2007 | Enrolment of securities onto the personal account of the owner   | 80 common registered shares         |
|              | 13.11.2007 | Enrolment of securities onto the personal account of the owner while converting shares (splitting)                                       | 80,000 common registered shares     |
| Sommer R.    | 13.11.2007 | Discarding of securities off the personal account of the owner while converting shares (splitting)                                       | 80 common registered shares         |

|                  |            |  |                                 |
|------------------|------------|--|---------------------------------|
| Newhouse Stephan | 17.12.2007 | Discarding of securities off the personal account of the owner; enrolment of securities onto the account of the nominal holder | 80,000 common registered shares |
|                  | 31.07.2007 | Enrolment of securities onto the personal account of the owner   | 80 common registered shares     |
|                  | 13.11.2007 | Enrolment of securities onto the personal account of the owner while converting (splitting)                                    | 80,000 common registered shares |
|                  | 13.11.2007 | Discarding of securities off the personal account of the owner while converting shares (splitting)                             | 80 common registered shares     |
|                  | 17.12.2007 | Discarding of securities off the personal account of the owner; enrolment of securities onto the account of the nominal holder | 80,000 common registered shares |

## 10. INFORMATION ABOUT THE PERSON HOLDING POSITION OF SOLE EXECUTIVE BODY OF THE COMPANY AND MEMBERS OF COLLEGIAL EXECUTIVE BODY OF THE COMPANY

Pursuant to Articles of Association, Sole Executive Body (President) and Collegial Executive Body (Management Board) are constituted in the Company. Starting from February 28, 2006 Alexander Yurievich Goncharuk fulfills functions of Sole Executive Body – President of OJSC Financial Corporation “System”.

### **Information on the number of shares of OJSC Financial Corporation “System” owned by President of the Company:**

Alexander Yurievich Goncharuk as of 31.12.2006 owns 193,000 shares of OJSC Financial Corporation “System”; as of 31.12.2007 owns 193,076,000 shares of OJSC Financial Corporation “System”.

### **Management Board of OJSC Financial Corporation “System”**

In accordance with Regulations on the Management Board, President of the Company is Chairman of the Management Board. Members of the Management Board are elected by the Board of Directors as advised by President of the Company.

Membership of OJSC Financial Corporation “System” approved on 30.06.2006 with amendments of 22.09.2006, 26.05.2007, 30.06.2007, 28.07.2007, 22.09.2007, 27.10.2007, 24.11.2007 is as follows:

|                               |   |
|-------------------------------|---|
| Alexander Yurievich Goncharuk | Chairman of the Management Board, President of OJSC Financial Corporation “System”  |
| Anton Vladimirovich Abugov    | Member of the Management Board, First Vice President, Manager of Complex of Strategy and Development of OJSC Financial Corporation “System”                                 |
| Vitaly Gennadievich Saveliyev | Member of the Management Board, First Vice President, Manager of Complex of Development of Telecommunication Assets (Telecom System) of OJSC Financial Corporation “System” |
| Alexei Nikolaevich Buyanov    | Member of the Management Board, Senior Vice President, Manager of Complex of Finance and Investments of OJSC Financial Corporation “System”                                 |
| Sergei Alexeevich Drozdov     | Member of the Management Board, Senior Vice President, Manager of Property Complex of OJSC Financial Corporation “System”   |
| Ruslan Feodorovich Almakaev   | Member of the Management Board, Vice President, Manager of Complex of Economic and Information Safety of OJSC Financial Corporation “System”                                |
| Anna Goldin                   | Member of the Management Board, Vice President for Legal Issues, Manager of Legal Complex of OJSC Financial Corporation “System”  |
| Denis Gelievich Muratov       | Member of the Management Board, Vice President, Manager of Complex of Science and Innovations of OJSC Financial Corporation “System”  |
| Sergei Evgenievich Cheremin   | Member of the Management Board, Vice President, Manager of Complex of External Relations of OJSC Financial Corporation “System”   |
| Vasily Vasilievich Platoshin  | Member of the Management Board, Chief Accountant – Director of Department for Accounting and Reporting of OJSC Financial  |

|                                       |  |
|---------------------------------------|--|
|                                       | Corporation "System"   |
| Alexander Borisovich Arutyunov        | Member of the Management Board of OJSC Financial Corporation "System", President of VAO Intourist                          |
| Sergei Gareginovich Aslanyan          | Member of the Management Board of OJSC Financial Corporation "System", President of OJSC "Citronix"                        |
| Alexander Vladimirovich Bakhutashvili | Member of the Management Board of OJSC Financial Corporation "System", General Director of CJSC "Binnopharm"               |
| Sergei Fedotovovich Boyev             | Member of the Management Board of OJSC Financial Corporation "System", General Director of OJSC Concern RTI System         |
| Vladimir Oskarovich Gurdus            | Member of the Management Board of OJSC Financial Corporation "System", General Director of CJSC Group of Companies "Medsy" |
| Felix Vladimirovich Evtushenkov       | Member of the Management Board of OJSC Financial Corporation "System", President of OJSC "System Gals"                     |
| Maxim Vadimovich Entyakov             | Member of the Management Board of OJSC Financial Corporation "System", General Director of OJSC "Detsky Mir-Center"        |
| Eldar Alievich Razroev                | Member of the Management Board of OJSC Financial Corporation "System", General Director of OJSC "System Mass-Media"        |

### **Background profile of President of OJSC Financial Corporation "System" and members of the Management Board**

#### **Alexander Yurievich Goncharuk**

President, Chairman of the Management Board of OJSC Financial Corporation "System"

Was born in 1956 in Sevastopol

In 1978 graduated from Higher Naval Engineering School of Sevastopol, specialization – military engineer-electrician;

In 1987 graduated from Naval Academy named after A.A. Grechko, specialization – officer – organizer of operation of ship power systems

1978-1985 – Officer, senior officer of the 3-rd flotilla of nuclear submarines

1985-1987 – Student of Naval Academy named after A.A. Grechko

1987-1991 – Chief Office of General Staff of the Navy

1992-1993 – MBC Galaktika, Commercial Director

1993-1995 – ASO Lider, General Director

1995-1998 – OJSC Financial Corporation "System", Vice President

1998-2003– CJSC System Telecom, General Director

2003-02.2006 – OJSC KNC, General Director

02.2006 – presently – OJSC Financial Corporation "System", President

Chairman of the Board of Directors of OJSC System Mass-Media; member of the Board of Directors of OJSC Financial Corporation "System"; OJSC System-Gals, OJSC Citronix, Ecu Gest Holding S.A.

### **Members of the Management Board:**

#### **Anton Vladimirovich Abugov**

First Vice President, Manager of Complex of Strategy and Development of OJSC Financial

Was born in 1976 in Mityshci of the Moscow Region

In 1998 graduated from Academy of National Economy at the Government of the Russian Federation, specialization – Management, Manager;

|  |  |
|--|--|
| <p>Corporation "System"</p>  | <p>2003 – postgraduate study at the Moscow State University of Wood</p> <p>1995-06.1996 – AOZT United Financial Group, Deputy Managing Director of Department for Operations with Securities</p> <p>06.1996-02.1999 – Transferred to position of trader</p> <p>02.1999-01.2002 – CJSC United Financial Group, Head of Department of Corporate Finance</p> <p>04.2000-05.2003 – Postgraduate student of the Moscow State University of Wood</p> <p>09.2003-08.2006 – OJSC AKB ROSBANK, Managing Director – Manager of Corporate Finance Division</p> <p>08.2006 – presently – OJSC Financial Corporation "System", First Vice President – Manager of Complex for Strategy and Development</p> <p>Chairman of the Board of Directors: CJSC Sky Link, OJSC Detsky Mir-Center, OJSC COMSTAR-OTS, member of the Board of Directors: OJSC Citronix, OJSC Syvazinvest, OJSC System-Invest</p> |
| <p><b>Vitaly Gennadievich Saveliev</b></p> <p>First Vice President, Manager of Complex of Development of Telecommunication Assets (System Telecom) OJSC Financial Corporation "System"</p> | <p>Was born in 1954 in Tashkent</p> <p>In 1977 graduated from Leningrad Lenin's Awards Polytechnical Institute named after M.I. Kalinin; specialization – engineer-mechanic</p> <p>1995-1996 – Menatep Bank, Manager of Representative Office in Saint Petersburg</p> <p>1996-2001 – JSCB MENATEP of Saint Petersburg, Chairman of the Management Board of the bank</p> <p>2001-2002 – OJSC GASPROM, deputy Chairman of the Management Board</p> <p>2002-2004 – OJSC United Company GROS, Vice President for Financial Issues</p> <p>2004-10.2007 – Ministry of Economic Development and Trade of the Russian Federation, deputy Minister</p> <p>11.1007 – presently – OJSC Financial Corporation "System", First Vice President, Manager of Complex of Development of Telecommunication Assets (Telecom System)</p>   |
| <p><b>Alexei Nikolaevich Buyanov</b></p> <p>Senior Vice President, Manager of Complex of Finance and Investments of OJSC Financial Corporation "System"</p>                                | <p>Was born in 1969 in Moscow</p> <p>In 1992 graduated from Moscow Physics and Technology Institute (MFTI), specialization – applied mathematics and physics, engineer – physicist</p> <p>From 1992 till 1994 – trainee – researcher of Institute of Mechanical Problems (IPM) of Russian Academy of Science</p> <p>1994-11.1995 – OJSC Financial Corporation System, Chief Specialist, Leading Specialist, Executive Director</p> <p>11.1995-02.1998 – CJSC System-Invest, Manager of Department, Vice President, first Vice President</p> <p>03.1998-06.2002 – OJSC Mobile TeleSystems, Vice President</p> <p>07.2002 – 09.2002 – OJSC Financial Corporation "System", Vice President – Manager of Department of Financial Restructuring</p> <p>09.2002-01.04.2005 – OJSC Financial Corporation "System", First Vice President – Manager of Financial and Investment Complex</p>     |

|   |  |
|---|--|
|   | <p>01.04.2005 – presently, OJSC Financial Corporation “System”, Senior Vice President – Manager of Complex of Finance and Investments Chairman of the Board of Directors of OJSC MTS; member of the Board of Directors: OJSCB MBRD, OJSC System Gals, CJSC System Project, Chairman of the Board of NPF “System”, East-West United Bank S.A. (Luxembourg), Ecu Gest Holding S.A., Sistema Finance S.A. Director, Sistema Holding Ltd. director, FINENCIAL FLEURUS HOLDING SA. director</p>   |
| <p><b>Sergei Alexeevich Drozdov</b></p> <p>Senior Vice President, Manager of Property Complex of OJSC Financial Corporation “System”</p>                      | <p>Was born in 1970 in Archangelsk</p> <p>In 1993 graduated from State Academy of Management (GAU) named after S. Ordzhonikidze, specialization – Economics and Management in Machine Building Industry, candidate of economic science</p> <p>1993-10.1994 – Yugorsky Joint Stock Bank, deputy Head of Division for Securities and Trust Operations<br/> 11.1994-09.1995 – Property Fund of Moscow, Manager of Division for Financial Innovations and Marketing<br/> 10.1995-03.1998 – OJSC Financial Corporation “System”, Executive Director, deputy Manager of Department for Development and Investments<br/> 03.1998-08.1998 – CJSC System-Invest, Vice-President<br/> 08.1998-04.2002 – CJSC System-Invest, acting President, first Vice President<br/> 04.2002-05.2002 – OJSC Financial Corporation “System”, Manager of Corporate Property Department<br/> 05.2002-09.2002 – OJSC Financial Corporation “System”, Acting first Vice President<br/> 09.2002-03.2005 – OJSC Financial Corporation “System”, first Vice President – Manager of Property Complex</p> <p>04.2005-presently – OJSC Financial Corporation “System”, Senior Vice President – Manager of Property Complex</p> <p>Chairman of the Board of Directors: CJSC System Telecom, OJSC Reestr, CJSC Group of companies “Medsi”, CJSC System-International IG; member of the Board of Directors: OJSC Financial Corporation “System”, OJSC MTS, CJSC Sky Link, OJSC Systema-Gals, OJSC Detsky Mir-Center, OJSC VAO Intourist, CJSC COMPANY MEDEXPRESS, OJSC System-Invest, CJSC System-Inventure, CJSC System Project, Ecu Gest Holding S.A.</p> |
| <p><b>Ruslan Feodorovich Almakaev</b></p> <p>Vice President, Manager of Complex of Economic and Information Safety of OJSC Financial Corporation “System”</p> | <p>Was born in 1963 in Kharkov</p> <p>In 1994 graduated from State Pedagogical University named after G.S. Skovoroda of Kharkov, specialization – teacher of mathematics, information technology and computer facilities;</p> <p>In 2003 graduated from State University of Krasnodar, specialization – system designer of macroeconomic processes</p> <p>1993-1995 – AOZT Trade and Industrial Company Eurasia, deputy General Director<br/> 1995-2002 – Regional public fund for protection of the serving Air Forces and employees of aviation complex “Russian aviation fund”,</p>   |

|   |   |
|---|---|
|   | <p>deputy General Director<br/> 2002-2003 – OJSC Financial Corporation “System”, Manager of Department of Non-corporate Restructuring<br/> 2003-2004 – OJSC System Project, General Director<br/> 2004-03.2005 – OJSC Financial Corporation “System”, Vice President for regional and venture projects</p> <p>04.2005- presently – OJSC Financial Corporation “System”, Vice President, Manager of Complex of Economic and Information Safety</p> <p>Chairman of the Board of Directors of OJSC AO NTR Region; member of the Board of Directors: OJSC System Mass-Media, OJSC System-Invest, CJSC System Project</p>  |
| <p><b>Anna Goldin</b></p> <p>Vice President for Legal Issues, Manager of Legal Complex of OJSC Financial Corporation “System”</p>                 | <p>Was born in 1963 in Leningrad</p> <p>Graduated from University of California in Berkeley, Boalt Hall, diploma qualification – Doctor of Law</p> <p>1988 – Baker &amp; McKenzie: Lawyer/trainee<br/> 1989 – Gibson, Dunn &amp; Crutcher: Lawyer/trainee<br/> 1989 – Morrison &amp; Foerster: Lawyer/trainee<br/> 1990-1998 - Latham &amp; Watkins: Lawyer<br/> 1999-2007 - Latham &amp; Watkins: Partner; Managing Partner</p> <p>2007 – presently – OJSC Financial Corporation “System”, Vice President for Legal Issues – Manager of Legal Complex</p> <p>Member of the Board of Directors: Thema Production S.A.</p>   |
| <p><b>Denis Gelievich Muratov</b></p> <p>Vice President, Manager of Complex of Science and Innovations of OJSC Financial Corporation “System”</p> | <p>Was born in 1970 Sverdlovsk</p> <p>In 1990 graduated from Institute of Architecture of Sverdlovsk;</p> <p>In 1992 graduated from University of Technologies of Chalmers (Goteborg, Sweden)</p> <p>1992-2004 worked in Sweden, General Director of Anton Invest AB, General Director of Nordic Industrial Development AB, General Director of Scantat AB, General Director of Media Resources International Scandinavia AB.<br/> In 2004 Muratov was appointed General Director of innovation and industrial technological park “Idea” in Kazan, adviser of the first Vice Prime Minister of the Republic of Tatarstan for economic issues.</p> <p>02.2006 - presently - OJSC Financial Corporation “System”, Vice President – Manager of Complex of Science and Innovations</p> <p>Chairman of the Board of Directors: OJSC Intellect Telecom, OJSC CITRONIX, CJSC Binnopharm, OJSC System-Venture; member of the Board of Directors: OJSC System Mass-Media, OJSC Concern RTI-Systems, OJSC Dubna-System, OJSC NIS, CORAL/SISTEMA</p> <p>STRATEGIC FUND</p> |

**Sergei Evgenievich Cheremin**

Vice President, Manager of Complex of Public Relations of OJSC Financial Corporation "System"

Was born in 1963 in Kislovodsk

In 1989 graduated from MGIMO (Moscow State Institute of International Relations), specialization – international journalism; and postgraduate study of Faculty of International Economic Relations of Moscow State University, specialization – international economy.

1989-11.1991 – editorial staff of "Pravda" newspaper, special correspondent of international department

11.1991-05.1992 – Commercial bank "Print Bank", first deputy Chairman of the Board

06.1992-12.1998 – Moscow export-import bank, Chairman of the Management Board

12.1998-04.2000 – Vice President of Trust Bank of Urals

04.2000-07.2001 – CB North-East Alliance, Adviser to President

07.2001-09.2003 – CB North-East Alliance, President

09.2003-04.2005 – JSCB MBRD (OJSC), Adviser, first deputy Chairman of the Board, Chairman of the Board

04.2005 – presently – OJSC Financial Corporation "System", Vice President – Manager of international relations complex

Chairman of the Board of Directors: JSCB MBRD (OJSC), OJSC Dalcombank; member of the Board of Directors: OJSC VAO Intourist, OJSC NIS, member of Fund's Council of NPF "System"

**Vasily Vasilievich Platoshin**

Chief Accountant – Director of Department for Accounting and Reporting of OJSC Financial Corporation "System"

Was born in 1965 in the Bryansk Region

In 1993 graduated from Moscow Institute of Automobiles and Roads, specialization – engineer – mechanic;

In 1996 – graduated from Russian Academy of Entrepreneurship, specialization – Accounting and Audit, accountant – auditor;

1993-05.1996 – chief accountant of AOZT COMMI

06.1996-04.1999 – accountant of the 1<sup>st</sup> category, deputy Chief Accountant of State Subsidiary "Medincenter" of Main Division for Service of Diplomatic Corps at the Ministry of Foreign Affairs of the Russian Federation

04.1999-09.1999 – Chief Accountant of LLC Granexpertservice

10.1999-11.2000 – leading specialist of Division for work with stakes of CJSC System-Invest

11.2000-09.2001 - Chief Accountant of the Moscow Fund of President's Programs

10.2001-09.2002 – Chief Accountant of OJSC NIIME and Micron Plant

09.2002 - presently – Chief Accountant, Director of Department for Accounting and Reporting of OJSC Financial Corporation "System"

Chairman of Auditing Commission of OJSC CITRONIX; member of Auditing Commission of OJSC COMSTAR-OTS, OJSC MTS

**Alexander Borisovich Arutyunov**

President of VAO Intourist

Was born in 1971 in Tbilisi

In 1993 graduated from Moscow State University named after M.V. Lomonosov;



|  |  |
|--|--|
|  | <p>In 1997 – professional retraining in the Moscow State University of Economics, Statistics and Information, “Banking and Finance”</p> <p>1992 - broker of AOZT International Company “Agrointerprom-Sevan”</p> <p>1994-1996 - Head of Marketing and Innovation Projects Department in the Fund of Property of Moscow</p> <p>1996-1997 – head of Investment Department of Stock Market Division of OJSC Financial Corporation “System”</p> <p>1997-1998 - deputy Chairman of the Management Board of JSCB MBRD (OJSC)</p> <p>1998-2000 – deputy Chairman of the Management Board of OJSCB Promradtechbank</p> <p>2000-2004 – Chairman of the Management Board of JSCB MBRD (OJSC)</p> <p>2004-2005 – Manager of Investment Projects Department of OJSC Financial Corporation “System”</p> <p>2004-2005 – Adviser to Chairman of the Board of Directors of OJSC Financial Corporation “System”</p> <p>2005 – presently - President of VAO Intourist</p> <p>Chairman of the Board of Directors: OJSC Intourist Hotel Group, OJSC Intourist Transport Services, OJSC Intourist Shop of Travel, CJSC Intourist-Sinara, OJSC Hotel Complex Kosmos, OJSC Hotel and Office Complex Pekin; member of the Board of Directors: OJSC VAO Intourist, OJSC National Tourist Company Intourist, JSC CJSC Olympic System</p> |
| <p><b>Sergei Gareginovich Aslanyan</b></p> <p>President of OJSC CITRONIX</p>                   | <p>Was born in 1973 in Erevan</p> <p>In 1997 graduated from Moscow State University, specialization – applied mathematics</p> <p>2001 – 12.2003 – OJSC Oil Company of Tyumen (OJSC TNK), deputy Director of Department for implementation of management systems, Director of Department for implementation of management systems, Acting Manager of Information and Communication Block</p> <p>12.2003 – 2006 – OJSC Mobile TeleSystems, Vice President for information technologies</p> <p>2006-10.2007 - OJSC Mobile TeleSystems, Vice President for technical equipment and information technologies, member of the Management Board</p> <p>02.10.2007 – presently – OJSC CITRONIX, President, Chairman of the Management Board</p> <p>Member of the Board of Directors: OJSC Intellect Telecom, OJSC CITRONIX, CORAL/SISTEMA STRATEGIC FUND, SITRONICS TELECOM SOLUTION, CZECH REPUBLIC A.S.</p>   |
| <p><b>Alexander Vladimirovich Bakhutashvili</b></p> <p>General Director of CJSC Binnopharm</p> | <p>Was born in 1961 in Tbilisi</p> <p>In 1983 graduated from second Moscow State Medical Institute named after N.I. Pirogov, specialization – “physician-doctor”;</p> <p>1983-03.1991 – Institute of Experimental Morphology of the Academy of Science of Georgia, senior laboratory assistant, junior research assistant, senior research associate, chief research officer, supervisor</p>   |

|   |   |
|---|---|
|   | <p>of biomedicine department<br/> 03.1991-12.2003 – Institute of Medical Biotechnology of the Academy of Science of Georgia, chief research officer<br/> 03.2004-03.2006 – LLC Arbacom, consultant</p> <p>03.2006 – presently – CJSC Binnopharm, General Director</p> <p>Chairman of the Board of Directors: CJSC Medical Technologies MTH, JSCT Medical and Technology Holding MTH, JSCT Orgsynthesis-1, CJSC PHARMAPEK; member of the Board of Directors of Binnopharm</p>  |
| <p><b>Sergei Fedotovitch Boyev</b></p> <p>General Director of OJSC Concern RTI System</p>           | <p>Was born in 1953 in Moscow</p> <p>In 1978 graduated from All-Union Institute of Law, part time student, specialization – lawyer;<br/> In 1984 – Moscow Institute of Management named after S. Ordzhonikidze, specialization – economics and management in production industry, organizer of company management;<br/> In 1988 – higher courses of Gosplan of the USSR<br/> Doctor of economic science, professor; author of many scientific works; honored economist of the Russian Federation; Acting member of the Academy of Military Science and International Academy of Communications, honored radio operator</p> <p>1971-1979 – RTI ZNPO “Vympel” Minradioprom of the USSR, assistant to mechanic, mechanic, technician, engineer, chief legal adviser</p> <p>11.1979-09.1999 – OJSC Radio-technical Institute named after Academician A.L. Mintz, released deputy Chairman of Trade Union Committee, deputy Chief Accountant, Chief Accountant, deputy Director, deputy General Director for economic issues, acting General Director, General Director<br/> 09.1999-07.2000 – CJSC Scientific and Industrial Company “High technologies and strategic systems”, General Director<br/> 07.2000-17.02.2008 – OJSC Concern Ratiotechnical and Information Systems, General Director</p> <p><i>18.02.2008 – presently – OJSC Financial Corporation “System”, Vice President for development of target programs and non-public assets</i></p> <p>Chairman of the Board of Directors: OJSC NPK NIIDAR, OJSC RTI named after Mintz, OJSC Saransky TV Plant, OJSC AKB-Planeta, OJSC Yaroslavsky radiofactory, OJSC DMZ-Kamov; member of the Board of Directors: OJSC Concern RTI Systems, OJSC NPP Pyramida, OJSC Mednogorsky Electrical and Technical Plant “Uralelectro”, OJSC NIS, NOU ZPS</p> |
| <p><b>Vladimir Oskarovich Gurdus</b></p> <p>General Director of CJSC Group of Companies “Medsi”</p> | <p>Was born in 1964 in Moscow<br/> In 1987 graduated from the 1<sup>st</sup> Moscow Medical Institute named after I.M. Sechenov, specialization – medical business, qualification – physician;<br/> In 2006 graduated from NOU Russian New University, specialization – credit and finance, qualification – economist;<br/> In 1993 was awarded scientific degree of candidate of medical science;<br/> In 2002 was awarded scientific degree of doctor of medical science;</p>   |

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|  | <p>03.1987-09.1987– GKB No 1 named after N.I. Pirogov, doctor of students' department of polyclinic SSO MIS&amp;S</p> <p>1990-01.1992 – MAI named after S. Ordzhonikidze NPK "Pulse", doctor-dermatologist</p> <p>02.1992-05.2007 – OJSC ROSNO, director of company, deputy Chairman of the Management Board, deputy General Director, first deputy of General Director</p> <p>06.2007-02.03.2008 – CJSC Group of Companies "Medsi", General Director</p> <p>03.03.2008 – presently – CJSC Group of Companies "Medsi", President</p> <p>Chairman of the Board of Directors: CJSC Company MEDEXPRESS, CJSC "Medsi", OJSC "Medsi II", OJSC Medsi Holding, CJSC KSM; member of the Board of Directors: CJSC Group of Companies "Medsi", OJSC ROSNO, LLL American Hospital Group</p>                 |
| <p><b>Felix Vladimirovich Evtushenkov</b></p> <p>President of OJSC System Gals</p>         | <p>Was born in 1978 in Moscow</p> <p>In 2000 graduated from Institute of International Law and Economy named after A.S. Griboedov, specialization – law</p> <p>1999 -2000 – CJSC System-Invest, assistant to President, Executive Director of Department of Industry of OJSC Financial Corporation "System"</p> <p>2000 – 2003 – CJSC System-Gals, deputy General Director, Manager of Department for Strategy and Marketing</p> <p>11. 2003 – presently - OJSC System-Gals, General Director, President</p> <p>Member of the Management Board of OJSC System-Gals; Chairman of the Board of Directors: OJSC Mosdachrest, OJSC Detsky Mir; member of the Board of Directors: OJSC System-Gals, CJSC PSO System-GALS, CJSC System-Gals North-West, CJSC Telecom-Development, OJSC System-Gals</p> |
| <p><b>Maxim Vadimovich Entyakov</b></p> <p>General Director of OJSC Detsky Mir -Center</p> | <p>Was born in 1972 in Moscow</p> <p>In 1995 graduated from Moscow Institute of Engineers of Railway Transport, specialization – accounting, control and analysis of business operations;</p> <p>1999-2003 – OJSC Detsky Mir-Center, General Director</p> <p>2003-2006 – OJSC Detsky Mir-Center, first deputy General Director</p> <p>2006 – presently – OJSC Detsky Mir-Center, General Director</p> <p>Member of the Board of Directors: OJSC Detsky Mir-Center, OJSC Detsky Mir-Orel.</p>   |
| <p><b>Aldar Alievich Razroev</b></p> <p>General Director of OJSC System Mass-Media</p>     | <p>Was born in 1960 in Moscow</p> <p>In 1987 graduated from Moscow State Technical University named after Bauman, specialization – radio electronic devices;</p> <p>In 1991 finalized post graduate education at Physical Institute of the Academy of Science of the USSR;</p> <p>In 1996 graduated from Moscow Technical University of Communications and Information, TACIS program</p>  |

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|  | <p>1995-1996 – OJSC Vimpelcom, Manager of Marketing Service</p> <p>1996-1999 – «Vostok Mobile B.V.», Commercial Director</p> <p>1999-2000 – Saint Petersburg, Telecom, deputy General Director of the company</p> <p>2000-2001 – Alfa-Eco Telecom, deputy General Director</p> <p>2001-2002 – OJSC Vimpelcom-P, deputy Director for Commercial Operations</p> <p>2002-2004 – CJSC Sonnik Duo, Megafon network operator in the Moscow Region, Commercial Director</p> <p>2004-2007 – Evroset, President</p> <p>07.2007-presently – OJSC System Mass-Media, General Director</p> <p>Chairman of the Board of Directors: CJSC STREAM-CONTENT, CJSC STREAM-TV, LLC Digital TV Broadcasting; member of the Board of Directors: System Mass-Media</p> |
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**Information on the number of shares of Joint Stock Financial Corporation “System” owned by member of the Management Board, A.N. Buyanov:**

Alexei Nikolaevich Buyanov as of 31.07.2006 owned 19 300 shares of OJSC Financial Corporation “System”; as of 31.12.2007 owned 19 300 000 shares of OJSC Financial Corporation “System”.

**Information on the number of shares of Open Joint Stock Financial Corporation “System” owned by member of the Management Board of the Company, Anna Goldin:**

Anna Goldin as of 31.12.2007 owned 8 386 000 shares of OJSC Financial Corporation “System”.

**Information on the number of shares of OJSC Financial Corporation “System” owned by member of the Management Board, S.A. Drozdov:**

Sergei Alexeevich Drozdov as of 31.07.2006 owned 19 300 shares of OJSC Financial Corporation “System”; as of 31.12.2007 owned 19 376 000 shares of OJSC Financial Corporation “System”.

**Information on the number of shares of OJSC Financial Corporation “System” owned by member of the Management Board of the Company, S.E. Cheremin:**

Sergei Evgenievich Cheremin as of 31.12.2007 owns 700 000 shares of OJSC Financial Corporation “System”.

## **11. CRITERIA FOR DETERMINATION AND AMOUNT OF REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS AND TOP EXECUTIVES OF THE COMPANY**

Amount of remuneration of managers of OJSC Financial Corporation "System" depends on results of operations of Corporation as a whole, results of work of structural units controlled by the manager, and performance by the manager of his individual plan targets.

System of material incentives of managers of OJSC Financial Corporation "System" consists of the following elements:

- Monthly salary established in accordance with applicable remuneration plan;
- Annual additional remuneration paid under condition of continuation of labor relations between the employee and OJSC Financial Corporation "System" as of December 31, for which the said additional remuneration shall be paid;
- Bonus for fulfillment of individual plan;
- Bonus for special progress in work, including implementation of large scale projects, which were particularly important for OJSC Financial Corporation "System" during the reporting year;

In 2006 General Meeting of Shareholders approved regulations on bonuses and compensations paid to members of the Board of Directors of the company. These regulations stipulate for payment to members of the Board of Directors of fixed amounts for participation in meetings of the Board of Directors and committees of the Board of Directors, and for fulfillment of functions of chairman and deputies of the Board of Directors and committees of the Board of Directors. Following the results of the year, in case of availability of profit, members of the Board of Directors shall receive additional remuneration following the results of work in the form of fixed amount, half of which shall be paid in the form of shares. Also, following the results of the year, members of the Board of Directors shall receive additional remuneration depending on increase of capitalization of the company for the year of work of the Board of Directors.

Total amount of remuneration paid to President, members of the Board of Directors and members of executive bodies of management of OJSC Financial Corporation "System" in 2007 equaled 552 455 267,50 rubles. Total amount of remuneration paid to members of the Board of Directors for the period from the moment of election on June 30, 2007 and until the moment of conduction of annual General Meeting of Shareholders in 2008 as of April 22, 2008 approximately equals 113 236 755,29 rubles. This amount shall be adjusted depending on quotes of global depositary receipts of the company at London Stock Exchange and participation of

members of the Board of Directors in meetings of the Board of Directors and committees of the Board of Directors in May – June 2008, in accordance with Regulations on bonuses and compensations paid to members of the Board of Directors of OJSC Financial Corporation “System” approved by decision of General Meeting of Shareholders of OJSC Financial Corporation “System”, minutes No 1-06 of June 30, 2006.

## 12. Information on observing of requirements of corporate behavior code

|  | Rule of Corporate Code of Conduct | Observed / Not Observed | Notes |
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### General meeting

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| 1 | General meeting shall be convened upon not less than 30 days prior notice, save as greater term is prescribed by the provisions of the Law.  | Observed | This Rule has been incorporated into the Articles of Association of the Company   |
| 2 | General meeting notice shall be served in a form allowing members to get ready properly to their participation in it.  | Observed | General meeting notice shall be served to the members by post and shall be published at the Company's Web site.   |
| 3 | Members should be able to study the list of the general meeting participants, starting from the general meeting notice day and till the general meeting in presentia closing day, and in case of general meeting in absentia - up to the closing date for the receipt of bulletins for voting.   | Observed | Members have the right to study the list of participants by addressing the Corporate Secretary of the Company. Such opportunity is prescribed by the General Meeting Regulations.   |
| 4 | Members should be able to study the information (materials), which is to be provided as a background of the general meeting through e-mail.  | Observed | The Company delivers such information upon members' requests sent by mail or by e-mail.   |
| 5 | A member should have an opportunity to introduce any subject into the general meeting agenda or to demand convocation of the general meeting submitting no extract from the Register of Members if his rights for shares are recorded in the Register of Members system and in the event his rights for shares are recorded in the depo account – sufficiency to submit extract from the depo account for realization of the aforesaid rights. | Observed | Requirements to confirm their rights by any documents other than the extract from the depo account do not apply to the members. It is prescribed by the General Meeting Regulations of OJSC JSFC "Systema" (approved by the general meeting of OJSC JSFC "Systema", Minutes No. 2-05 dd. 30.06.2005 with amendments and additions as of 30.06.2006 (Minutes GM No. 1-06). |
| 6 | Internal documents of the joint-stock company should compile the procedure of registration of general meeting members.   | Observed | Is subject to the General Meeting Regulations.  |

### Board of Directors Activity

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| 1 | Articles of Association of the joint-stock company should compile the powers of the Board of Directors to approve annually the business plan of the joint-stock company. | Observed | Subject to the Articles of Association of the Company the powers of the Board of Directors comprise: «determination of the core business activities of the Company, strategy development of the |
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|   |   |          | Company, approval of the annual budgets (financial plans) of the Company, observing guidelines of activities and the strategy development of the subsidiaries”.  |
| 2 | Board of Directors should approve risk management proceeding in the joint-stock company.  | Observed | Risk Management Regulations has been approved by the Board of Directors on 15.05.2004.   |
| 3 | Board of Directors should have powers to establish requirements in regards to the expertise and size of compensation package of the general director, managers of the basic structural departments of the joint-stock company.  | Observed | <p>Powers of the Board of Directors comprise:</p> <ul style="list-style-type: none"> <li>▪ appointment of the President of the Company; determination of the total number of members of the Management Board, election of its members; approval of the terms of agreement with the President and members of the Management Board; anticipatory termination of powers of the President of the Company and the members of the Management Board.</li> <li>• Approval of the assessment procedure and compensation system, and performance of the control over the activity of the senior management of the Company who reports directly to the President of the Company.</li> </ul> |
| 4 | Articles of Association of the joint-stock company should comprise the right of the Board of Directors to approve terms and conditions of contracts with the general directors and members of the Management Board  | Observed | Subject to the Articles of Association of the Company terms and conditions of contracts with the general directors and members of the Management Board are approved by the Board of Directors.   |
| 5 | There should be not less than 3 independent directors meeting the requirements of the Corporate code of Conduct in the Board of Directors.  | Observed | At the end of the year 2007 among the members the Board of Directors there are three acting members of the Board of Directors who meet the criterion of the Corporate Code of Conduct applied to the independent directors.  |
| 6 | No one member of the Board of Directors of the joint-stock company should have been admitted guilty in performance of crimes in sphere of economic activities or crimes against state authorities, interests of government services and interests of local authorities or should have been involved in administrative punishments for the administrative offences in sphere of business activity or in the sphere of finance, taxes and charges, securities market. | Observed | The Company has studies this issue and holds no information about any similar offences their members of the Board of Directors were involved in.   |



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| 7  | No one member of the Board of Directors of the joint-stock company should be a member, general director (managing director), member of the management board or the employer of the legal entity which is a competitor to the joint-stock company                                      | Observed     |  |
| 8  | Internal documents of the joint-stock company should comprise the requirements prescribing that the meetings of the Board of Directors should be convened and held not less than once in six weeks.   | Observed     | Board of Directors Regulations determines that its meetings should be convened and held not less than once in a month.   |
| 9  | Meetings of the Board of Directors of the joint-stock company should be convened and held within the year for which annual report of the joint-stock company is performed not less than once in six months.   | Observed     | During year 2007 Board of Directors held 12 meetings.  |
| 10 | Internal documents of the joint-stock company should comprise the procedure of the Board of Directors meetings  | Observed     | Procedure of the Board of Directors meetings is established by the "Board of Directors of OJSC JSFC "Systema" rules".  |
| 11 | Internal documents of the joint-stock company should comprise the right of the members of the Board of Directors to obtain information, required for realization of their functions, from executive authorities and heads of the basic structural departments of joint-stock company. | Observed     | It is prescribed by the Board of Directors Regulations. Information is provided by way of participation in the meetings of the Board of Directors of Vice-Presidents and other Officers of the Company as well as by the way of weekly information bulletin distributed among the members of the Board of Directors. |
| 12 | Board of Directors should set up the Strategy Development Committee.  | Observed     | Strategy Development Committee of the Board of Directors has been set up in the Company.   |
| 13 | Board of Directors should set up the Audit Committee (audit committee), which should recommend the Board of Directors the auditor of the joint-stock company and should cooperate with the auditor and revision committee of the joint-stock company.                                 | Observed     | Audit Committee of the Board of Directors has been set up in the Company.  |
| 14 | Board of Directors should set up the Committee (human resources and compensation committee), which should define the criteria of selection of candidates in the members of the Board of Directors and develop the policy of joint-stock company in compensations.                     | Observed     | Compensation and Appointment Committee has been set up in the Company. Responsibilities of the Committee has been determined in the Compensation and Appointment Committee Regulations. The Head of the Committee is the Chairman of the Board of Directors.   |
| 15 | HR and Compensation Committee should be managed by the independent director.  | Not Observed |  |
| 16 | Internal documents of the joint-stock company approved by the Board of Directors should provide the order of  | Observed     | Board of Directors Committees Regulations has been approved in the Company. These Regulations define the   |

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|    | formation and work of the Committees of the Board of Directors.   |              | responsibilities of the Committees, the procedure of their set up and their activity.   |
| 17 | Articles of Association of the joint-stock company should comprise the order of definition of quorum of the Board of Directors, which provides obligatory participation of independent directors in the meetings of the Board of Directors.   | Not Observed | The quorum of the Board of Directors is determined according to the number of the members of the Board of Directors participating in the meeting notwithstanding their status of either independent, non-executive or executive director.   |
| 18 | Internal documents of the Issuer should prescribe the duties of the members of the Board of Directors, members of the joint executive body of the management, the person performing duties of a sole executive body, including the managing company and its officers; disclose the information about the ownership structure on the securities of the Issuer, and also on sale and (or) purchase of securities of the Issuer. | Observed     | Presently the indicated obligation is observed by the Corporate Code of Conducts (see Clause 2.2, paragraph 3, sub-paragraph 7 of the Code), by the Board of Directors Regulations (approved by the general meeting of OJSC JSFC "Systema", Minutes No. 2-04 as of 01.09.2004), (paragraph 5.2, sub-paragraph 8), by the Management Board Regulations of OJSC JSFC "Systema" (approved by the resolution of the general meeting of OJSC JSFC "Systema", Minutes No. 1-06 as of June 30, 2006), (paragraph 3.7). |

## Executive Board

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| 1 | Joint Executive Board (Management Board) of the joint-stock company should be set up.   | Observed | Joint Executive Board (Management Board) of the joint-stock company has been set up in the Company (prescribed by the Articles of Association).   |
| 2 | Internal documents of the joint-stock company should define the procedure of coordination of the activities beyond the business plan of the joint-stock company.  | Observed | Procedures of coordination of the activities beyond the budget are defined in the budget policy of the company, rules of performing mergers and acquisitions deals. When required budget is updated by the resolutions of the Board of Directors. |
| 3 | In the structure of the Executive Bodies there should be no person who is the member, general director (managing director), a member of the management board of the legal entity which is a competitor to joint-stock company   | Observed |   |
| 4 | No one member of the Executive Bodies of the joint-stock company should have been admitted guilty in performance of crimes in sphere of economic activities or crimes against state authorities, interests of government services and interests of local authorities or should have been involved in administrative punishments for the administrative offences in sphere of business activity or in the sphere of finance, taxes and charges, securities market. | Observed |   |

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| 5  | Articles of Association or internal documents of the joint-stock company should prohibit the managing company (manager) to carry out similar responsibilities in a competing company, and also to be in any other property relations with the joint-stock company, other than rendering services of the managing company (manager).   | Observed     | Predicted by the Articles of Association of the Company.  |
| 6  | Internal documents of the joint-stock company should oblige the executive bodies to abstain from actions which will lead to or are potentially capable to lead to occurrence of conflict between their interests and interests of the joint-stock company, and in case of occurrence of such conflict – to inform Board of Directors of the conflict.   | Observed     | The same requirements are prescribed by the Board of Directors Regulations, Management Board Regulations, President Regulations and by the contract with President and members of the Management Board of the Company.                            |
| 7  | Articles of Association or internal documents of the joint-stock company should state the criteria of selection of the managing company (manager).  | Not Observed | Not required due to the absence of the managing company and absence of any plans to attract such company to perform duties of the sole executive body of the Company.   |
| 8  | Representation by the executive bodies of the joint-stock company of monthly reports about their activity to the Board of Directors.  | Observed     | Financial results of the work Board of Director investigates on a quarterly basis. Management of the company makes weekly reports about the most vital events and submit it to the members of the Board of Directors.                             |
| 9  | Internal documents of the Issuer should prescribe the duties of the members of the board of directors, members of the joint executive body of the management, the person performing duties of a sole executive body, including the managing company and its officers; disclose the information about the ownership structure on the securities of the Issuer, and also on sale and (or) purchase of securities of the Issuer. | Observed     | Presently the indicated obligation is observed by the Corporate Code of Conducts and by the Board of Directors Regulations. For the executive bodies such obligation is prescribed by the President Regulations and Management Board Regulations. |
| 10 | Establishment in the contracts concluded by the joint-stock company with the general director (managing company, manager) of the responsibility for infringement of provisions of the use of the confidential and business information.   | Observed     | The requirement to keep the information confidential is included into the Contract with President and members of the Management Board of the Company.   |

## Corporate Secretary

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| 1. | Joint-stock company should have the special officer (the secretary of the company) which responsibility should be to maintain the observance by the bodies and officers of the joint-stock company of the procedural requirements guaranteeing realization of the rights and legitimate interests of the members of the company. | Observed              | The Company appointed the Corporate Secretary.  |
| 2  | Articles of Association or internal documents of the joint-stock company should state the order of appointment (election) of the secretary of the company, responsibilities of the company.  | Observed              | Board of Directors approved the Corporate Secretary Regulations, which comprise the responsibilities of the corporate secretary and the order of its appointment. |
| 3  | Articles of Association or internal documents of the joint-stock company should have the requirements to the candidate of the secretary of the company.  | Observed<br>In a part | These requirements are stated in the Corporate Secretary Regulations.   |

#### Material Corporate Actions

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| 1 | Articles of Association or internal documents of the joint-stock company should have a requirement of approval of the large transaction before its transaction.  | Observed in a part | Despite of absence of this rule in the Articles of Association in practice this requirement is observed. |
| 2 | Obligatory attraction of the independent appraiser for an estimation of market value of the property, being a subject of the large transaction   | Observed           |  |
| 3 | Articles of Association of the joint-stock company should prohibit any actions directed to the protection of interests of the executive bodies (members of these bodies) and members of the board of directors of the joint-stock company when purchase of large share holdings of the joint-stock company (acquisition) is occurred. And prohibit actions making the position of the members worse in comparison with the existing one (in particular, prohibition to adopt the resolution by the Board of Directors on new emission of shares, emission of securities convertible in shares, or securities giving the right of purchase of shares of the company prior to the completion of the suppositional term of shares purchase even if the right to approve such resolution is given to it by the Articles of Association). | Not Observed       | In view of the Availability of the member controlling the situation these actions are not probable.      |

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| 4 | Articles of Association of the joint-stock company should not oblige the purchaser to suggest the members to sell owned by him ordinary shares of the company (securities convertible in ordinary actions) at acquisition. | Observed     |  |
| 5 | Articles of Association or internal documents of the joint-stock company should bear the requirement on obligatory attraction of the independent appraiser to determine the parity of shares conversion at reorganization. | Not Observed |  |

## Disclosure of information

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| 1 | Internal document approved by the Board of Directors shall be available which determine the rules and policy of the company to information disclosure (Information Policy Rules).   | Observed          | Information Policy Rules has been approved.  |
| 2 | Internal documents of the joint-stock company shall contain the list of information, documents and materials, which shall be submitted to the members at the general meeting.   | Observed          | The list of the additionally submitted information is contained in the Corporate Code of Conduct, Information Policy Rules and internal regulations of the Company.  |
| 3 | Disclosure of the financial information about the business of the Company.  | Observed          | Annual financial statements are disclosed in accordance with the Russian Accounting Standards. Quarterly financial statements are disclosed in accordance with US GAAP.  |
| 4 | Use of the additional forms and methods of information disclosure.  | Observed          | Department to work with the investors has been set up in the Company. Periodically we held meetings with investors and held road-shows. We set up corporate web site with information about business activity of the Company.  |
| 5 | The Issuer should disclose the information about the compensation package received by the members of the Board of Directors, members of the joint executive bodies and the body performing duties of the sole executive body, including the managing company and manager.                               | Observed          | This information is disclosed in the annual report, quarterly reports of the Issuer and Prospects of Emission of securities of the Company. Compensations and Bonuses Rules to be paid to the members of the Board of Directors of the Company has been approved in the Company. |
| 6 | The Company shall provide Web site in Internet and disclose on a regular basis the information about the joint-stock company at this web site.  | Observed          | Internet address: <a href="http://www.sistema.ru">www.sistema.ru</a>   |
| 7 | Internal documents of the Company shall contain the requirement to disclose the information about the transaction of the joint-stock company performed with persons, who are according to the Articles of Association the senior officers of the joint-stock company, and about the transactions of the | Observed частично | Observed в части исполнения требований законодательства о сделках с заинтересованностью  |

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|                         | joint-stock company with the companies in which 20% or more of the share capital of the company are owned by the senior officers of the joint-stock company or where such officers can exert their influence.   |          |   |
| 8                       | Internal documents of the company shall contain the requirement to disclose the information about all transactions which can affect the market value of the joint-stock company.  | Observed | Observed in the content of the requirements within the Regulation of the Federal Service for Financial Markets of the RF on information disclosure.                                 |
| 9.                      | Internal document approved by the Board of Directors of the company shall be available regulating the use of the material information about the business of the joint-stock company, shares and other securities of the company and transactions with them, which is not public and disclosure of which can have a material adverse effect on the market value of the shares and other securities of the joint-stock company.                                       | Observed | The corresponding section bears the Information Policy Rules.   |
| <b>Business Control</b> |   |          |   |
| 1                       | Approved by the Board of Directors procedures of performing internal control over the business of the joint-stock company shall be available.   | Observed | In the company the Rules about the department of internal control and audit has been approved.  |
| 2.                      | Special department of the joint-stock company providing observance of procedures of the internal control (control-auditing service) shall be available.   | Observed | Department of internal control and audit has been set up in the company.  |
| 3                       | Internal documents of the joint-stock company shall bear the requirement on definition by the Board of Directors of the structure and number of officers of control-auditing service of joint-stock company.  | Observed | According to the Articles of Association of the company and Department of internal control and audit Rules the Head of the Department shall be appointed by the Board of Directors. |
| 4                       | Absence in the structure of control-auditing department of the persons who has been admitted guilty in performance of crimes in sphere of economic activities or crimes against state authorities, interests of government services and interests of local authorities or should have been involved in administrative punishments for the administrative offences in sphere of business activity or in the sphere of finance, taxes and charges, securities market. | Observed | The Company has studies this issue and holds no information about any similar offences the persons employed with the control-audit service were involved in                         |
| 5                       | Absence in structure of the control-auditing department of the persons who are the members of the executive bodies of joint-stock company, and also the persons, being members, the general director (managing director), members of management or employers of the legal entity which is a   | Observed |   |

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|    | competitor to joint-stock company.  |                       |   |
| 6  | Internal documents of joint-stock company shall indicate the period valid for representation into the control-auditing department of documents and materials for an estimation of the performed business activities, and indicate also the responsibility of officers and employees of the joint-stock company for their non-representation of documents in due time.                                   | Observed<br>In a part | Period for submission of the documents in internal documents is not stated. The Department of internal control and audit is aware of all business transactions.                 |
| 7  | Availability in internal documents of joint-stock company of a obligation of control - auditing department to inform audit committee about the revealed infringements, and in case of its absence - to board of directors of joint-stock company/   | Observed              | In accordance with the Audit Committee Regulations, Department on internal control and audit Rules, the department reports to the Audit Committee upon the results of revision. |
| 8  | Наличие требования о предварительной оценке контрольно-ревизионной службой целесообразности совершения операций, не предусмотренных финансово-хозяйственным планом акционерного общества<br>Availability of the requirement about a tentative estimation by the control-auditing department of expediency of performance of the activities which have not been foreseen by the business of the company/ | Observed in a part    | This function is performed by the financial department of the Company.  |
| 9  | Availability of the internal document approved by the Board of Directors defining the order of carrying out of inspections of financial and economic activity of joint-stock company by a revision committee.   | Observed              | The Rules of performance of inspections by the Department of internal control and audit has been approved in the Company.   |
| 10 | Осуществление комитетом по аудиту оценки аудиторского заключения до представления его акционерам на общем собрании акционеров<br>Estimation by the audit committee of the auditor report before its presentation to the members at the general meeting.   | Observed              | In accordance with the Audit Committee Rules on the 27 <sup>th</sup> of April, 2007 the Audit Committee investigated the auditor report of the Company.                         |

## Dividends

|   |   |          |  |
|---|---|----------|--|
| 1 | Availability of the internal document approved by the Board of Directors by which the Board of Directors is guided at acceptance of recommendations about the size of dividends (Regulations on dividend policies). | Observed | The Rules on Dividend Policies has been approved in the Company. |
|---|---|----------|--|

|   |  |          |  |
|---|--|----------|--|
| 2 | Publication of data about dividend policy of joint-stock company and all updates in the periodical issue stipulated by the Articles of Association of joint-stock company for publication of notices on carrying out of general meetings, and also publication of the specified data on a web-site of joint-stock company in Internet. | Observed | The Regulations is published in the Web site of the Company in Internet. |
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**President**

**Goncharuk A.Yu.**

**Chief Accountant**

**Platoshin V.V.**