

SOCIAL REPORT 2006

# New Shoots of Growth

- new quality of life

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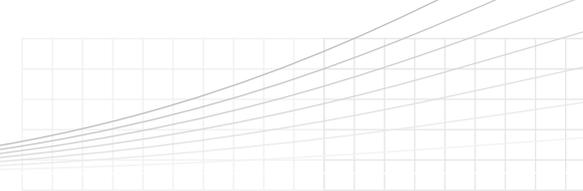
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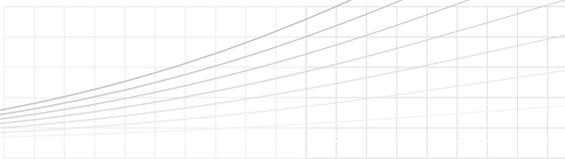
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Letter from the Chairman of the Board of Directors



Vladimir  
Evtushenkov  
Chairman of the Board of  
Directors Sistema



# New Shoots of Growth

## - new quality of life

If I try to put the activities of our holding, which operates in various markets and various branches, in one short sentence, I would most likely say: "We strive to create a new quality of life". Practically every one of our business-subdivisions is a "shoot of growth", which ensures the appearance of a new branch, new product or service, and new standards of business conduct.

When 10 years ago we set for MTS, at that time unknown company, a task to increase its subscriber base to 10,000 users, it was difficult to imagine that soon the number of clients would reach tens of millions. And the mobile telephony sector in Russia will become not simply an integral and necessary part of the people's lives, but also a significant contributor to the growth of the economy of our country.

When five years ago we set our mind on breathing new life into the scientifically intensive enterprises of Zelenograd, which in former times were the pride of the Soviet Union, the sceptics around us were much more numerous than the optimists. But the Russian "Silicon Valley" has been revived; and it not only supplies a unique range of products to different countries throughout Europe, but also restored full scientific development and researches.

When three years ago we were set a question on reconstruction of the famous "Detsky Mir" in Lubyanka, we decided that a single, although legendary supermarket was not enough, and a modern national network of shops for children that meet the most demanding requirements, must be created under the Russian brand. Today "Detsky Mir", which in 2007 celebrates its 50th anniversary, receives customers in 33 cities and 68 trade centers.

And this year our developer subdivision Sistema-Hals prepares to launch, first of all, the film studio in St. Petersburg, which meets the highest international standards. And in autumn of 2007 the first filming will begin in the studios, equipped with the latest technical equipment. This project will

lead the Russian film industry to a whole new level. Besides, a unique television product will be created for broadcast by the dozens of TV channels of the unified operator STREAM TV (which today provides pay-TV services to more than 1.5 million subscribers in different regions of Russia).

That is why the social responsibility of our business is an absolutely concrete and tangible notion for Sistema corporation. We know that the social activity of the company is as important for the interests of the society as our economic interests are for the business.

Society is interested in the constant development of its citizens - especially the enhancement of their educational and cultural level. We are interested in that, because, first, we strictly need high-quality personnel, and second, we need skilled consumers, able to perceive the standard of our high technological products and services.

Society is interested in the growth of competitiveness of the Russian economy, and its switchover from the scenario of basic development to a developed and innovative one. In order to find our niche in the world economy, our country will need an intensive search of unique product offers and services. And the innovative path of development is vitally important for our corporation.

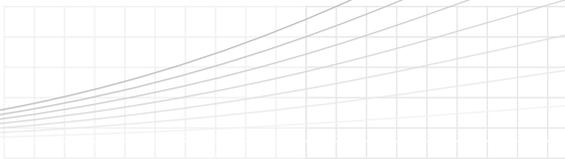
Society is interested in the rise of the level of well-being of the population. And our business, mainly concentrated in the area of high-tech services, will not develop if the profits of our clients do not grow.

And it means the new shoots of growth of our business will undoubtedly create not only new branches and new working places, but also a new and better quality of life for people.

Letter from the President



Alexander  
Goncharuk  
President of Sistema



# New Shoots of Growth

## - new quality of life

Experts have calculated that every year Russian businesses spend over US\$1.5bn on social programs. And these are the expenses only for "external" programs, which do not include funds either for training and motivation of personnel or maintenance of the health of the employees, or for improvement of the quality of products and services.

As regards scale, these expenses are comparable with the budgets of Russian national projects.

What arguments should the business take into consideration when choosing the direction of social investments? By what criteria should we be guided in order to receive the most effective return on the invested social capital?

For Sistema, the selection of clear priorities is especially important, because businesses and operation companies, forming a part of the corporation, are very different - both regarding the scale and maturity of the markets where they work, and regarding the branch specifics. And the audiences, interested in their social activity, are also very different.

Thus, the company "Mobile TeleSystems" (MTS) serves almost 80 mln of clients, the majority of whom are individual subscribers. RTI Systems is implementing the most complex state programs, from the newest anti-missile radar systems to development and introduction of the program GLONASS. And the concern "Sitronics" produces equipment and software for large corporate customers.

That's why for us the presence of common principles and priorities in the area of sustainable development (or social investments), that meet the interests of various interested audiences, is a task of primary importance. It is also significant for us to pool the efforts of our business subdivisions, because there cannot be efficiency without it.

Pondering over this problem, we came to a simple and logical conclusion: in order to achieve high efficiency of social programs, it is necessary to manage these programs just as we manage our business processes:

- To create a common long-term social strategy.
- To determine the main directions of social development.
- To make financial efforts on the basis of well-reasoned and transparent budget.
- To consider and implement large-scale general corporate projects.
- And, finally, to submit to interested audiences the consolidated social reports.

Before preparing our first social report, we carried out a small survey to clarify: what exactly our interested audiences - colleagues, partners, clients, representatives of government structures and nongovernmental organizations, journalists, analysts - expect of our social activities. We tried to take into consideration these desires.

Our social report tells:

- about the common understanding of the role of the corporation in the industrial policy of the state;
- about the common rules in the sphere of personnel policy and personnel motivation;
- about the common approaches towards scientific development and innovations;
- about the standards of corporate management;
- about the Charitable Foundation Sistema (CF Sistema).

We hope that this document will allow a better understanding of the goals of Sistema and how it manages the social activities of the holding.

# From business efficiency to social responsibility: Milestones.

The history of Sistema is almost 14 years old. For a man, 14 years of age may only be the time for entering the youth period, but for a business, which made its first steps as far back as in post-soviet Russia, this age is already one of maturity. Looking back today, we see that we have something to be proud of. The simple principle "Only the new makes history" helped the corporation to strengthen its positions year by year, attaining results of which one could only dream earlier. Continuously working towards the creation of a new business, Sistema continues to advance with confidence in the vanguard of Russian business. In fact, making something new a reality is always a kind of renewal, and progression and renewal is the guarantee of long life and everlasting youth.

We are sure that the following milestones of our development may be marked out in the history of the company.

1993

- Sistema Joint Stock Financial Corporation (JSFC) was founded.

1994

- Sistema employees' professional development program was introduced
- Sistema employees' corporate medical insurance program was introduced

1996

- Sistema became a shareholder of newly-founded mobile company Mobile TeleSystems and began developing this business in association with the giant of European telecommunication industry - Deutsche Telekom.

## 1997

- Sistema was the first Russian private company to establish a board of independent directors. Since this time, at least three independent directors have been present on the company's Board of Directors.
- In response to an appeal from Moscow Municipal Government and Moscow City council regarding assistance to Zelenograd, the corporation offered a revival plan for the microelectronic industry in the city and the establishment of enterprises meeting modern standards.
- Sistema made the first significant investments in restoration of the radio-electronic industry in Zelenograd. The corporation purchased the assets of enterprises of Zelenograd Mikron, Elaks and Elion.
- Sistema switched to accounting by US GAAP standards. Russian and foreign investors and partners were given an opportunity to independently analyze the effectiveness of business and investments.
- Sistema started support of three orphanages in the Moscow region.

## 1998

- Sistema Telecom holding was founded out of the existing Sistema telecommunication department.
- The corporation's representatives participated in the development of a Business Ethics Code of the Russian Federation Chamber of Commerce and Industry (RFCCI).
- Introduced of a scholarship program for students and post-graduate students of leading Russian institutes of higher education. The program included internships in Sistema companies and its foreign partners.

## 2000

- With support of Sistema, the company Mobile TeleSystems (MTS) entered the international market, offering its shares on the New York Stock Exchange.
- The non-governmental Sistema Pension Fund was established.
- The first international rugby tournament was conducted among junior employees for Sistema prize.

## 2002

- Endorsing the principles of openness and corporate transparency, Sistema became one of the first Russian companies to sign the United Nations Global Compact (UNGC) and began to introduce worldwide principles of sustainable development and corporate social responsibility.
- Sistema became a member of the World Economic Forum (WEF) and was the first Russian company to join the special program on WEF corporate management development.
- The corporation was issued a credit rating by Standard&Poor's of "B-", with "sustainable" outlook.
- A cooperation agreement was signed between Sistema and the Mariinsky Theatre. The agreement stipulated provision of financial assistance to the theatre for the creation of new performances, assistance in touring the Russian regions and abroad, as well as construction of a new stage for the theatre.
- Rating agency Fitch issued Sistema a long-term credit rating of "B", outlook "sustainable".
- Sistema was the first large Russian company to voluntarily publish information of its own accord, regarding its eligible beneficiary owners.

## 2003

- For the first time, an international advisory council was established in Russia in partnership with Sistema Board of Directors. Independent expert investigations and consultations significantly increased the extent and effectiveness of business solutions.
- Sistema became the first Russian financial-industrial group to be included in the World Business Council for Sustainable Development (WBCSD).
- Sistema Telecom holding, which manages Sistema telecommunication assets, started preparation and implementation of services mainly directed to the consumer.
- Representatives of Sistema contributed to the development of a corporate business ethics charter for the Russian Union of Industrialists and Entrepreneurs. The corporation was one of the first to support the aforementioned Charter.
- An Investor Relations Department was established at Sistema, the main goal of which was provision of required information to investors, creditors, analysts, financial media and other interested parties, regarding the corporation's financial and operational performance.
- By the 10th anniversary of the corporation, a charity "Day of Open Museums" was organized, in the course of which 150,000 people visited more than 100 museums in Moscow, St. Petersburg and other towns.
- The agency Moody's Investors Service issued Sistema a rating of "B-1", outlook "sustainable".
- The Moscow City Administration approved the reconstruction program of the Moscow City Telephone Network (MGTS). Investments in reconstruction amounted to US\$1.6bn.

## 2004

- Sistema's Board of Directors Chairman, Vladimir Evtushenkov, became Head of RUIE (Russian Union of Industrialists and Entrepreneurs) on industrial policy and natural monopolies regulation.
- Educational centers were established in Sistema, as well as in operational companies - MGTS, MTS, ROSNO, major subdivisions of Sitronics. Each year in corporate centers about 8,500 employees have training courses on professional development.
- Sistema Charity Fund was registered and launched its operations.
- Sistema established Sistema-Sarov Technopark, creating hundreds of workplaces for young and promising Russian scientists - the future scientific and technological elite of the country.
- An agreement was reached on long-term cooperation between Sistema Group and the Russian Museum, announcing the creation of exhibitions, publishing, cultural, educational and restoration projects worth over US\$10 million.
- In view of the improvement of liquidity and successful development of the corporation's telecommunication business, rating agency Standard&Poor's upgraded Sistema's long-term credit rating from "B-" to "B", placing the long-term credit rating of Sistema on Credit Watch list for positive outlook.
- Student Technological Innovation Centre "MSTU-Sistema" launched at Bauman Moscow State Technical University (MSTU).
- The transition of all production capacities to quality management systems meeting ISO 9001 standards is completed.
- Sistema was one of the first Russian companies to establish its own Code of Ethics and Code of Corporate Conduct, thus verifying its status of one of the most open and socially responsible corporations in the country.
- Sistema, in partnership with the Managers Association, took part in the preparation and publishing process of the first national report on social investments in Russia, in which the detailed analysis of business' role in social development was included.

## 2005

- The President of the Telecommunication Standardization Bureau of the International Telecommunication Union (ITU), Houlin Zhao, granted MTT a full member certificate of the Telecommunication Standardization Sector of the ITU. The performance quality of MTT is assessed as excellent and accepted as fully meeting the demands of international industrial standards.
- The Russian Museum, in partnership with Sistema Charity Fund, began work on the "Virtual Tour of the Russian Museum" project. Thanks to the project, thousands of inhabitants of Russian regions were able to make virtual tours of Russian museum halls.
- Sistema Charity Fund initiated the help of leading Russian theatres to support its program, among which were the Mariinsky Theatre, the Sovremennik Theatre, the P. Fomenko Theatre, the S. Zhenovacha Theatre, the Theatre of the Black Sea Fleet in Sevastopol, and other famous Russian theatres.
- Russian series of hockey Euro-tournament was named ROSNO Cup.
- The project "Uniform Access Point" established a new stage in the strategy of development of Sistema Telecom companies group.
- The primary stock offering of Sistema Holding on the London Stock Exchange became one of the greatest successes of Russian business on the world scene. The offering size was US\$1.56bn, the company market capitalization of US\$8.2bn.
- The rating agency Standard&Poor's downgraded Sistema's credit rating from "B" to "BB-", outlook "sustainable".
- The United Center of Recruitment was established at Sistema, which allowed the company to find specialists of high quality, while minimizing their expenses on recruitment.
- The main national rating agency in Russia, Expert-RA, provided Sistema with a national rating of corporate management "B++". By the end of the year, the rating was reviewed and increased to "A".
- Rating agency Fitch increased the long-term credit rating of Sistema to "B+", changing the outlook to "positive".

- Sitronics trademark became the name of the concern manufacturing industrial and home electronics, the core companies of which were JSC Mikron and Kvant NGO of Zelenograd. The science and microelectronic industry of Zelenograd began to emerge after many years of crisis, due to the increase in the quantity of new developments. In comparison with 2003, the concern's gain increased 10 times from US\$96mln in 2003 to US\$955mln by 2005.

## 2006

- Sistema was among the first of 14 Russian companies to enter the rankings of the world's leading companies, the "GLOBAL 2000" list published by Forbes.
- After its stock offering on the London Stock Exchange, the company Comstar-United TeleSystems gained over US\$1bn, and its capitalization was assessed at over US\$3bn by international investors. By volume, it became the second-largest deal in the history of Russian initial public offerings (IPOs) abroad. The results of 2005 indicated that Comstar-United TeleSystems had posted a three-fold increase in profits, and became the highest-growth company in the Russian telecommunications sector.
- A science and innovation complex was established at Sistema. The complex was designed to stimulate R&D inside the corporation's divisions and create a high-value venture investment vehicle.
- Sistema's Board of Directors representative, V. P. Evtushenkov, was appointed chairman of Council on Science and High Technologies of the RFCCI.
- Sistema participated in the conference on "Charity in Russia: Whether Charity Can Become the 5th National Project in Russia" organized by leading business daily Vedomosti. The corporation's representatives prepared a report "On Charity Activities Organization Technologies".
- Sitronics provided production support, intellectual development and service support to the producers of the play "America: Part Two", performed on the stage of the Sovremennik Theatre. 27-inch "Sitronics" plasma boards allowed the director to ensure bright visual effects, enriching the artistic styling of the performance.

- Woody Allen's film "Match Point", nominee for the international "Oscar" film award, was released in Russia. The movie was produced by one of the affiliate companies of Sistema - Thema Production company.
- Smart Cards Company, created in association with Sitronics Microelectronis solutions and German concern Giesecke&Devrient GmbH, set up a production-line for SIM-cards in Zelenograd.
- A ceremony marking the laying of the foundation stone of the new film-studio Thema Production took place in St. Petersburg. Film-company Thema Production, in association with Sistema-Hals North-West, undertook the construction of the new film-studio.
- On the basis of Mikron factory head office of Sitronics microelectronic business, a meeting of the Counsel Russian Federation unit on Science, Technologies and Education was held in Zelenograd, with participation of Russian President Vladimir Putin. In the course of official visits, the President examined the production capacities of the corporation.
- The companies of Sistema Telecom rebranded their general consumer brand, thus expressing their friendliness towards consumers, as well as presenting their client-oriented strategy more precisely.
- The Russian Federation Security Council published its project "Strategies for Information Society Development in Russia". The project is closely related to the concept of new industrial policy developed with participation of Sistema.
- The first 22 students took lessons in the corporate university of Sistema, the "High School of Management and Innovations", established on the model of Lomonosov Moscow State University. The main goal of the new educational institution is to prepare competitive managers for the high-technology sector of the economy.
- Sistema became the first Russian company to organize a public discussion regarding social responsibility and sustainable development problems. The rating agency Expert-RA confirmed the rating of corporate management of Sistema as "A".
- Sistema and its affiliate companies took leading positions in the annual rating of the biggest Russian companies Expert 400, as well as in specialized ratings of Expert-RA agency, according to the results of 2005. The company ROSNO, together with Foreign Trade Bank, completed the establishment of the new insurance company FTB-ROSNO, implementing unique complex bank-insurance programs.
- The Moscow Bank for Reconstruction and Development, the Stock Commercial Bank and the State Bank of Bulgaria Encouragement Bank signed a memorandum of cooperation.
- The company Sistema-Hals floated its stock on the London Stock Exchange. The order book was oversubscribed more than five times. Five days after the offering, the company's stock increased in value by 12%. This IPO presented international investors with not only one of the most successful affiliate companies of Sistema, but also the whole Russian market of real estate.
- Detsky Mir-Center opened 10 new stores in 9 towns of Russia; Detsky Mir started a national network, rollout including 67 supermarkets for children in 27 regions of the Russian Federation.
- The scientific and technical center Intellect Telecom completed implementation of a project to create an automated navigation-dispatching system for the management of Moscow emergency stations circuit brigades and to equip 850 circuit brigades and "03" service cars.
- With the support of MGTS, the "Big City's Communication" photo-exhibition was launched in the State Central Museum of Contemporary History of Russia - offering a photographic history of Moscow over two centuries.
- Sistema announced the establishment of a single operator of multimedia services, called STREAM TV.
- The European Bank for Reconstruction and Development became a shareholder of Sitronics.
- The company Sky Link was granted the first prize "EFFIE 2006" in the "New Services" category, for introducing high technology products into the market by remote Internet network access and Sky Turbo information management.
- Sistema was general sponsor of the exhibition "Gifts to Leaders", organized by the State Historical and Cultural Museum-Preserve "The Moscow Kremlin".
- Sistema bought out the blocking stake (25% plus one share) of the biggest Russian telecommunication holding, Svyazinvest, from Access industries which belonged to American businessman, Leonard Blavatnik. The transaction amounted to US\$1.3bn and was completed by the affiliate company Comstar - United TeleSystems.

2007

- Insurance company ROSNO was awarded "Company of the Year 2006" in the "Insurance" category.
- International rating agency Standard&Poors increased the long-term rating bonds issue of priority secured and unsecured debt floated by Sistema Capital S.A., Sistema Finance Investments and Sistema Finance S.A., from "B" to "B+".
- At the 9th Annual Competition of Annual Reports and Corporate Sites organized by Securities Market magazine and Moscow Interbank Currency Exchange, Sistema's Annual Report of 2005 was recognized as the best in the "Information Disclosure for Market Analysts" category.
- A concert to celebrate the 80th birthday of prominent Russian ballet dancer and choreographer Yuri Grigorovich was performed at the British Royal Opera House in Covent Garden, London, with support of Sistema.
- By demand of the Emergency Ministry of Russia, one of the affiliate companies of Sistema Telecom - Intellect Telecom undertook the realization of "All-Russian complex system of informing and advising the society in places of people mass stay", winning this right in an All-Russian tender.
- International rating agency Standard&Poor's included Sistema in the list of the ten most transparent companies of Russia, upgrading the outlook of corporation's credit rating to "positive".
- R&I Systems became the winner of All-Russian competition "Russian Enterprise of High Social Effectiveness" in the general category "System of Preparation and Training of Personnel Qualification".
- Sistema Telecom and the Investors' Rights Protection Association concluded an agreement of cooperation related to the realization of joint projects in the interests of minor shareholders of "Svyazinvest" affiliate companies.
- According to the results of Sitronics stock offering on the London Stock Exchange, the company's capitalization amounted to US\$2.35bn. Investors assessed highly the company's achievements in the development of microelectronic components, definition of telecommunication solutions and production of consumer home technologies.
- In the framework of the project "Virtual Tour of the Russian Museum", a new information and educational center was opened at the Kostroma State Historical, Architectural and Art Museum. The system of virtual branches of the Russian museum was launched in 27 of the largest towns of Russia and the Commonwealth of Independent States and became a new, independently-developing phenomenon in the country's cultural life, as well as a striking example of the successful introduction of high technologies in museum activities.
- Sitronics and the China National Machinery Import & Export Corp signed a contract for the supply of Mikron microelectronic components from Zelenograd factory to China, worth US\$75mln over 5 years.
- Sistema president, Alexander Goncharuk, presented awards to young scientists for significant achievements in the fields of science, technology, architecture, construction and manufacturing, as part of the first Sistema Innovation Grants and Awards Competition.
- With the support of Sistema, the 10th anniversary of the scientific Olympiad "One Step to the Future-Moscow" was conducted at Moscow State Technical University N. E. Bauman. The best works of Olympiad participants in the field of information technologies, electronics and robot-technology were recognised by Sitronics Grand Prix for "Intellectual Technology for the Benefit of the Nation's Intellect".
- In the Armoury Chamber of the Kremlin, Moscow, the 7th International Festival of Classical Music "Musical Kremlin", was organized with the support of Sistema, initiator of which was the great Russian pianist, Nikolai Petrov. Connoisseurs of classical music could enjoy the best samples of Russian and foreign music, as well as becoming acquainted with the creative works of young performers and composers.

# Preface to the report: What information is expected from us? Why do we conduct public dialogue?

Sistema has been confidently practicing the principles of openness and transparency of its business for all interested groups for many years. However, as the company has become more diversified and complex, and has grown the number of employees, it became more difficult for us to satisfy the information inquiries of all interested parties. In order to increase the level of its transparency, and provide a report about its social activity, in July-August 2006, Sistema held a survey among 50 experts by means of a semi-formalized interview, the results of which expanded and made more precise our understanding of the social responsibility of our company.

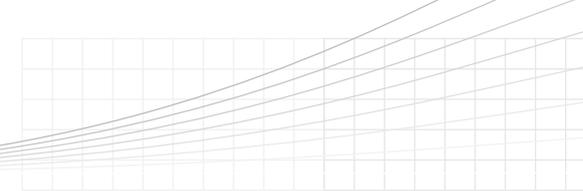
Each of the respondents represented one of the public groups, interested in the activities of the corporation. Among the respondents were:

- public shareholders of Sistema, resident in Russia;
- representatives of the authorities of the government of the Russian Federation and municipal bodies of the government of the city of Moscow;
- employees of Russian mass media;
- representatives of non-commercial and public unions;
- representatives of collectives of enterprises of the holding at the level of middle management.

In the course of the interview, the respondents were asked to answer four questions:

- What is the public role of large financial-industrial holdings?
- What does "sustainable development" in modern Russian conditions mean?
- How is Sistema assessed in the categories of sustainable development?
- What information as a confirmation for an active social position of the corporation do the interested parties expect?

The analysis of the results of expert inquiry allowed us to draw a number of important conclusions.



First of all, the majority of respondents stressed the high importance of corporate responsibility of Russian business. At the same time, approximately half of the experts did not agree that the business activity of a large corporation in itself might have a social dimension and be of public importance. But many of them, learning during the interview the details about the activities of Sistema, changed their primary impression, confessing that the corporation really implements its main activities, taking into account the requirements of corporate responsibility.

Many experts did not know about the social programs of Sistema. However, during almost the whole interview, they expressed active interest in receiving information about the social programs of the corporation in the form of social report. From the corporate social report, the experts, first of all, wanted to know:

- about the social programs of the corporation;
- about the budgets, allotted for social activities;
- about real results of social projects.

The majority of those questioned also thought that the social report must reflect information on the social activities not only of Sistema, but also about the largest companies, which form a part of the corporation, first of all those, whose shares are quoted on the stock exchange.

A number of experts mentioned that when planning and implementing social programs, Sistema may face a conflict of interests of the interested parties. For example, shareholders are not interested in spending money to implement social programs, whereas local associations, on the contrary, are very interested in them. That is why the majority of experts consider it highly significant to attract as many representatives of different interested groups as possible in the preparation of a social report, in order to have an opportunity to exchange opinions, and reduce any conflicts of interests to a minimum. The experts are sure that such a dialogue may contribute to the growth of quality and efficiency of social investments.

During the interview the participants expressed a number of desires regarding the format of the social report. Several experts, in view of their activities, professionally connected with the problem of corporate responsibility of the business, considered it necessary for the company to use the approved standards of social reporting, which simplify the possibility to compare the data from various companies. First of all, the matter concerned the standard reporting GRI (Global Reporting Initiative): the

experts, who had not earlier faced non-financial reporting, think that using the standards is justified only to the extent to which it meets the goals, tasks and specifics of the activities of the corporation itself. The overwhelming majority of the experts agreed with the fact that the verification of non-financial reporting by independent companies, although not compulsory, nevertheless raises the level of confidence in the report.

Practically all the experts agreed that the social report of the corporation must be spread as broadly as possible. Besides, the respondents expressed a desire about more active public awareness on the social role of the corporation as a whole, including the publication of the social report.

We have satisfied the desire of the experts to include as many interested people as possible in the preparation of the social report of the corporation, who represent various social groups. In August 2006, Sistema organized a roundtable, which was attended by representatives of key interested groups, involved in the areas of interest of the corporation. We introduced our concept of social report to the participants of the roundtable and discussed the format they would like to see. Besides, during the meeting the participants touched upon a number of issues concerning the social activity and corporate responsibility of the company. The following questions created the most active discussion:

- How do the models of public relations (and, therefore, social activity) of the corporation and its business-subdivisions differ?
- Can the business of a large corporation be socially-oriented?
- Can social activities and social reporting be profitable for the company, not only occupying investments made in it, but also bringing indirect profit?

Discussing the first question, the participants of the roundtable came to the conclusion that the specifics of corporate relations as a whole and corporate relations with society, differ rather considerably. Sistema with its interests is connected with rather a large number of public groups that the participants of the event proposed to unite by the concept "interested parties". However, each of the affiliated companies of the corporation has own purpose-oriented groups. To work with parent company or not is a matter of scale. For instance, several factories of the corporation operate in Zelenograd near Moscow, and it means that conditions of life in that territory must become a subject of consideration of not only for the managers of these plants, but also of the holding as a whole. And if an enterprise of the holding operates in a separate region, then relations with local associ-

ations and authorities of the region, will, most likely, concern the sphere of responsibility of just that enterprise. Companies have particular specifics in the mutual relations with the groups having a special purpose: similar groups are considerably less than these companies have, but the relations with them require close attention.

In the opinion of the participants of the roundtable, the mentioned specifics should be reflected in the social reporting of the corporation as well. It would not be effective to combine the social reporting of the corporation as a whole, and its business-subdivisions in one document; instead it was proposed to present the main ideology in the social report of Sistema, and for the affiliated companies to create a matrix scheme with comparable indices for independent preparation of social reports of each of them.

The question of whether the main business of a large corporation can be social-oriented aroused active discussion. The majority of the participants came to the conclusion, that the large volume of business and large number of people interested in the results of its activities, to some extent, makes the company one of the public institutions. Since Sistema provides services and sells a product to a huge number of clients, it is socially significant. But the participants of the discussion stressed that the social role is an impartial description, whereas corporate responsibility is the product of a conscious relation of the company to its social role.

Discussing the concept of corporate responsibility, many participants of the roundtable stated that it should not be assessed only from the point of view of presence or absence of social charitable programs at the company. Social responsibility becomes apparent in the approaches to conduct of business, determining the level of its conscientiousness. Any conscientious company fulfills social functions - creates working places, pays taxes, cares for the welfare of its employees. However, not everybody agreed with this position. Several participants of the discussions drew attention to the fact that such an interpretation does not allow fair assessment of the extent and nature of social responsibility. To blame an enterprise for violation of the rule of conscientious conduct of business means, de facto, to infringe the presumption of its innocence, in fact in a number of cases it is equivalent to infringement of the law. Besides, a similar approach puts the enterprises of different branches and regions in deliberately unequal conditions: somewhere the situation of the market may be favorable to the creation of job sites, somewhere else, on the contrary, reductions are inevitable. Doing the maximum possible for society in difficult conditions, the enterprise

inevitably looks worse than the other, which does the minimum in favorable conditions, necessary according to the law. Such an approach directly links corporate responsibility with the commercial success, which is not correct and unfair.

After the discussion, the participants of the roundtable came to a conclusion that the socially responsible business should be considered one whose activities are "implemented in the interests of the society more so than in the interests of profit". In practice it means that the enterprise does more than cater solely to the interests of its shareholders, but at the same time carries out long-term investments in its infrastructure, thus increasing the industrial, intellectual and cultural potential of society as a whole.

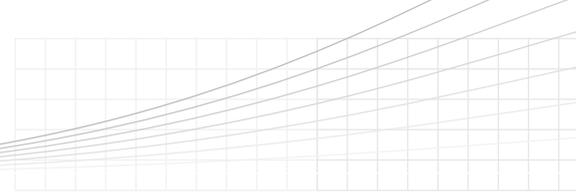
Discussing whether social activity and social reporting can be profitable for the company, all the participants agreed: social activity is part of the system of non-financial risk management. It means that the orderliness of the system and literate reporting will increase the investment attractiveness of the company, to minimize non-financial risks. Balanced social reporting not only explains how the social programs of the corporations are selected and realized, but also demonstrates to shareholders and investors that the company calculates and controls all the risks, including non-financial ones.

At the end, the participants of the roundtable revealed what kind of social activity may bring direct profit to the company. These are social programs aimed at training and professional development of the personnel, both external (programs of Sistema in the area of education and science) and internal (training and motivation of personnel). The participants of the discussion confirmed that the development of science, education and modern high-technological culture is connected with the mission and business of Sistema, and directly (through new scientific discoveries, training and development of personnel) or indirectly (through training and education of the consumer) influence the commercial results of the company.

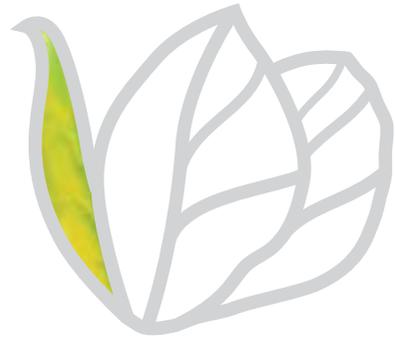
The roundtable became an invaluable resource of information for us for further planning of social activity, including - for preparation of a social report of Sistema, where we tried to take into consideration all the expressed recommendations, which you can read below.

Preface to the report:  
What information is expected from us?  
Why do we conduct public dialogue?

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Part I

Strategy of social investments

Participants of the meeting of the Presidential Council on Science, Technologies and Education are getting acquainted with products of Mikron, one of Sitronics enterprises.

Part I



Innovative business technologies and social responsibility: what do they have in common?

Showing an example of effective conduct of business in the Russian and international markets, the company demonstrates to leading international corporations a striking example of dynamic formation and growth of Russian business and becomes an example for hundreds of native companies - and thus comes out as a locomotive of entry of the whole Russian business into the international arena.

## WE ARE TAKING PART IN INNOVATIVE DEVELOPMENT OF THE COUNTRY

We are sure that in the near future the international competitive capacity of the Russian industry will depend on whether revolutionary new products and technologies demanded by the world market will appear in the Russian economic "portfolio". And this means that our country may take a worthy place in the world economy only by entirely developing high-technological and intellectual branches of industry. The implementation of national policy, aimed at their support and development, today becomes a priority task not only for the state, but also for large businesses.

According to the state policy, the problem of the increase of the competitive capacity of innovative branches of industry is recognized at the highest level. In June 2006, in a statement, the Security Council of Russia established that the dependence of the Russian IT-infrastructure from foreign supplies and technologies significantly exceeds the critical level, and that is why it was proposed to take a number of measures for the purpose of presentation of own elemental base. The draft "Strategy of Information Society in Russia", published by the Russian Federation Security Council, where these proposals were reflected, is closely connected with the ideas, stipulated in the concept of the national industrial policy, elaborated by the Russian Union of Industrialists and Entrepreneurs (RUIE), with the active participation of Sistema.

At the same time, the idea of new national policy in the sphere of development of the industry was heard during the XIV congress of RUIE as far back as 2004. Then a committee for industrial policy and regulation of natural monopolies was created in the RUIE. Chairman of the Board of Directors of Sistema, Vladimir Evtushenkov, headed the Committee, and became one of the initiators of the discussion of this issue by the business society of the country. Under the leadership of Vladimir Evtushenkov the Committee elaborated the main directions of the new national industrial policy, the basic principle of which, became the private-government partnership in the sphere of high technologies. The partnership of the government and private business in the sphere of development of high-end and high-tech-

nological works bears a number of economic and political profits not only for the business, but also for the country as a whole.

Public-private partnership is widespread in the world economic practice. The governments of foreign countries actively support the national technological companies not only from economic considerations, but also in the view to support state security. Thus, the USA and the countries of the European Union, who plan a full switchover to passports with biometric data in the near future, are implementing it exceptionally on the basis of their own technological developments. Russia will also have to realize such a project - the absence of its own technological base for it may seriously undermine the security of the country.

From the point of view of the economy, the partnership of the government and business in the sphere of development of high-technological branches of industry may be effective only in the presence of intensive participation of large diversified corporations. Today, they are able to accumulate sufficient means necessary for investing in innovation branches, to undertake technological and financial risks by launching new projects and effectively introduce them on industrial scales. At the same time, developing large-scale high-technological projects, large corporations step by step involve small and medium-sized business in them, supporting prospective developments, providing the small enterprises with orders and contracts. Thus, large companies in Russia emerge not only as locomotives of development of high-technological branches of the industry, but also support the innovation potential of the country at the level of "ripening" of ideas.

Sistema has demonstrated the implementation of a whole number of innovation projects in the sphere of high technologies. Among them are some of the most important ones - the creation of two technoparks in Sarov (Nizhegorod region) and Dubna (Moscow region). Today, large projects are being implemented in the field of information science, special electronics and the instrument-making industry on the basis of technoparks, created by SFC System. The fact that this beginning was supported by such giants of the world IT-market as Intel, Alcatel and Siemens, is a subject of special pride for us.

There is no doubt that being the largest high-technological company of Russia, developing hundreds of innovation projects, Sistema today is one of the key participants of the new industrial policy of Russia, the aim of which is to ensure Russian goods and technologies a worthy place in the world market. It is a high honor for our company and higher responsibility to take part in solving problems, significant for the future of the country.

## WE ARE DEVELOPING NATIONAL CAPITAL MARKETS

Sistema has successfully attracted investments via initial public offerings (IPO) and is currently actively leading out the affiliated companies to the international capital markets. It is a labour-intensive process, which entails high costs and is connected with a huge number of new responsibilities. At the same time, the advantage of public placement is not only in that the IPO enables us to attract large amounts of capital, but also in that the management of the company gets an opportunity to keep track of capitalization of the company in real-time, and this gives a fine indicator of the state of the business and reflects the estimation of the current strategy of the company by global financial associations.

So, the initial public offering of the holding company Sistema on the London Stock Exchange took place in February 2005 and became the largest in the history of Russian non raw-material companies. Floating 19% of shares worth a total of US\$1.6bn, the company reached capitalization amounting to US\$8.2bn as a result. Our affiliated telecommunications company Comstar-UTS reached almost as great a success as a result of the IPO on the London Stock Exchange in February 2006, the company raised over US\$1bn, and international investors estimated its capitalization more than US\$3bn.



CEO of Sistema-Hals JSC Felix Evtushenkov and the director of London Stock Exchange Martin Graham

Another affiliated company of the holding - the mobile operator MTS, was among the largest Russian IPO's on an international stock exchange. Its entry to the New York Stock Exchange took place in 2000 and already by today measures, it is not a record (15.4% of the stocks for US\$305mln), but since then the company has constantly increased its capitalization, and today it is recognized as one of the most expensive among all those Russian companies who have listed on western exchanges. In the estimation of both leading analysts of the financial market and largest investors, not only the traditional leadership of MTS in the Russian mobile market, but also the dividend policy of the company played its role in the dynamic growth of the capitalization of MTS. Thus, on the results of 2005, MTS directed US\$541mln to the payment of dividends, which made up 50% of its net profit during the year. As compared with 2004, the total volume of dividend payments of the company grew by 32%, which once more stressed in the eyes of the world financial community the dynamics of development of the leading mobile company of the country. At last, in 2007 MTS evolved, reaching a record level of capitalization during its history of existence - US\$20bn.

At the same time, the process of entry of affiliated companies of the holding into international capital markets gathers speed. In 2006 the shares of the Russian developer - Sistema-Hals - were offered on the London Stock Exchange for the first time, with the portfolio of projects with the total area of 3.2 million square meters. As a result of public offering, the company raised US\$432mln, and its capitalization reached over US\$2bn. The IPO of the international company Sitronics followed in 2007. This company specializes in the production of micro-electronics, industrial and consumer electronics, communication equipment and IT-systems. The company sold 17.5% of its shares for US\$402mln, and the investors valued the whole company at US\$2.29bn.

All the companies of Sistema put the investments attracted with the help of the IPO, into the development of Russian business. Thus, Comstar - United TeleSystems directed all the proceeds to the purchase of the blocking stake in the largest Russian telecommunications holding Svyazinvest. The holding is formed of the consolidation of the shares of joint-stock companies providing communication services, created in the process of the privatization of state enterprises of electrical communication. Its structure consists of 7 large inter-regional companies, as well as the largest operator of the long-distance and international communication Rostelecom. Svyazinvest services about 36 million numbers of fixed telephony; in 2006 its revenue totaled RUB213bn rubles and the cost of the assets of the holding - over US\$8bn. Sistema came to Svyazinvest to assist in developing its companies, to increase their value, as well as to provide the population of the country with the services of modern telecommunications.

Taking part of the locomotive for native business structures interested in the development of the business with the help of holding an IPO, Sistema at the same time maximally promotes the efforts of the Russian state in the development of the national stock exchange. Conformation of this is the decision of the company to hold another IPO of the stocks of its affiliated companies simultaneously in Russia and abroad - to the extent that the capacity of native exchange market can allow acceptable capitalization upon listing. In our opinion we can state with confidence that Sistema uses the main instrument of implementation of the development strategy - consecutive independent entry of the companies into exchange markets - not only considering the interests of the development of the holding. Our holding also promotes with the help of the instrument of IPO implementation of the interests of the whole Russian business - both national and international capital markets.

#### WE ARE WORKING TO INCREASE THE INVESTMENT ATTRACTIVENESS OF THE RUSSIAN BUSINESS

Along with the showings of the capitalization, which serve as short-term indicators of sustainability of the company, the credit ratings allow us to assess the sustainability of the company's prospects in the mid-long term. The credit rating envisages thorough independent analysis of the resources of the company, cash flows, liquidity indices, quality of corporate management and many other properties. That is why for a large company, which attracts funds in the world exchange markets, the participation in authoritative credit ratings is a necessity and most important qualification criterion for participation in the international integration system. Sistema was one of the first Russian companies to receive credit ratings from the most authoritative international rating agencies - Standard&Poor's, Fitch Rating and Moody's Investors Service.

The history of growth of confidence of rating agencies in our company is as follows:

As far back as October 2002, the corporation was issued the rating Standard&Poor's (S&P) "B-" (outlook "stable"). In March 2004 S&P informed us about the increase of the long-term credit rating of Sistema from "B-" to "B+", as a result of improvement of the liquidity and successful development of the telecommunications business of the holding. In December 2004 the same agency put the long-term credit rating of Sistema in the list of CreditWatch for the review of the rating for positive outlook. In March 2005 S&P increased the credit rating of the holding from "B" to "BB-"(outlook "stable"). And most recently in February 2007 the agency S&P changed the outlook from "stable" to "positive".

In November 2002 the rating agency Fitch issued Sistema the long-term credit rating "B". Within several years the credit rating of the holding, according to the version of the agency, in foreign and national currency was regularly confirmed with a "stable" outlook, and in 2005 Fitch Ratings increased it to "B+", changing the outlook from stable to positive.

In November 2003 the agency Moody's Investors Service granted Sistema the main rating at the level "B1", with a stable outlook. The size of the assets of the company, strong positions in the market and favorable prospects of growth of the main enterprises of the holding, not large volume of debts to incomes from operational activities, considerable marketshare occupied by the company, benefits from strategic partnerships with leading international companies and the high level of financial and corporate transparency are reflected in the rating of Moody's.

We think that the participation of Sistema in authoritative international credit ratings and the capability of the company to achieve a dynamic growth of rating indices, not only serve as an indicator of successful development of the relations of the company, but also show the whole world community the potentiality of the Russian business to reach a high level of confidence by international investment and banking institutes. At last, Sistema sets an example for Russian business-structures, who plan to actively develop in the international markets, which is exemplary from all sides.



## WE ARE SUPPORTING RUSSIAN BUSINESS EXPANSION ON INTERNATIONAL MARKETS

Sistema is a Russian company, and that is why the domestic market is a priority for us. But the needs of corporate development dictate us the necessity to enter foreign markets. This requirement is considered in the strategic plans of the company. Entry into foreign markets enables us to integrate the capital, product, management and human resources in the world market system, thus allowing the corporation to make a qualitative advance in development. Today, many subdivisions of Sistema intensively enter foreign markets, occupying more prosperous niches there. We do not only export goods and services - we integrate into national markets, developing our own productions or creating ventures with domestic partners.

The company Sistema Telecom, which governs the assets of the corporation in the telecommunications branch, conducts active expansion into international markets. The company and its affiliated structures are represented in the Ukraine, Kazakhstan, Uzbekistan and Turkmenistan. Included in the strategic plans of the company is to enter the markets of the Balkan Peninsula, Near East, North Africa and South-East Asia. In September 2006 MTS announced the creation of two 100%-affiliated structures in the Bermuda Islands and the Netherlands.



A visit of the delegation of Sistema to Saudi Arabia

Sitronics shows its worth in the international markets intensively. Sitronics is an operator of the umbrella brand, under which high-tech products are produced. Today, over 50 commodity groups are issued under the brand Sitronics. Their production is located not only in Russia, but also in the Ukraine, Czech Republic, Slovakia and Greece. Sitronics supplies products to Western and Eastern Europe, North America, the Middle East and South-West Asia - in total to 23 different countries of the world. In the plans of the company is included development of the markets of those countries, whose economies are growing rapidly, and where the purchasing power of the population constantly grows: India, China, Egypt, Indonesia and Pakistan.

Without doubt, the cooperation with foreign partners allows us to accumulate the experience of development of high-technological works, to introduce in practice the most progressive technologies. We want to mention with pride that the representatives of Sistema had held meetings with specialists of Japanese corporations NEC and Sony, discussing the opportunities of cooperation in the sphere of information technologies. As a result Sistema and NEC signed a memorandum of intentions, envisaging cooperation in such spheres as the elaboration and operation of personal identification systems, solutions on the basis of RFID (Radio Frequency Identification), system of convergence of mobile and fixed telephony.

Summing up the intermediate goals of development of our holding in the international arena, we presume to state that the successful entry of the companies of the Sistema group into foreign markets not only gives the corporation a new impulse to growth, but also confirms the competitive capacity of Russian business, demonstrating its high potential.

## WE ARE ATTRACTING FOREIGN CAPITAL TO THE RUSSIAN MARKET

Attraction of foreign investments to the Russian economy is one of the main conditions of its active development, restructuring and keeping dynamic economic growth. Sistema considers the activity on attraction of foreign capital to the Russian market as a significant component of the socially responsible policy of the corporation.

For several years, the insurance company ROSNO has been cooperating with international insurance concern Allianz AG. 13 years of activities of ROSNO on the Russian insurance market, 114 year-old history of the company Allianz, 7 million clients of ROSNO in Russia and 60 million clients of Allianz all over the world guarantee the high professionalism and financial stability of joint projects of the leaders of the insurance market. Thus, joint project Allianz Rosno Life, specializing in various types of life insurance,

started in September 2004. ROSNO and Allianz also develop other projects in Russia, which enable them to attract financial resources to the Russian market. Among them - the company Rosno Allianz Asset Management.

One more project, enabling us to attract significant foreign investments, is the joint venture of the companies Siemens and Sitronics, the "Center for Social Developments". The Center is engaged in scientific research and developments in the sphere of security systems, production of high-tech products for the markets of Russia and CIS countries, adaptation of software for domestic enterprises as well as the integration system. The share of Sitronics in the authorized capital of the venture is 50.1%, the share of Siemens AG 49.9%.

New opportunities for the company include cooperation with large financial corporations in the future: first of all we speak of the possibilities of attracting foreign capital to the Russian market. For example, in 2005 the concern organized negotiations with the investment foundations Dai-Ichi Mutual Life Company, Monura Asset Management Co, Nissay Asset Management, on the topic of investments into the Russian economy - with the largest players on the investment market, the assets of which total more than US\$500bn.

In total, the volume of funds attracted by Sistema to Russia, totalled over US\$5bn. Furthermore, we intend to continue attracting foreign investors to the Russian market intensively.



Independent of Director of Sistema Ron Sommer at the exhibition "Svyaz-Expo Comm - 2006"

Stock floatation of "Comstar - United TeleSystems" at London Stock Exchange.

Part I



How does the efficient management of the corporation influence the development of social relations?

Constantly improving the quality of corporate management, aspiring to conforming to the most modern standards, we create a vivid model of transparent and responsible management, and thus we set a high bar of public ideas about corporate management in Russia.

## WE ARE BUILDING THE MANAGEMENT SYSTEM ACCORDING TO INTERNATIONAL STANDARDS

A large corporation is a complicated mechanism. Effective management of the large corporation requires the highest level of professionalism, a transparent structure of making decisions and responsibility for their implementation. Modern procedures of corporate management enable not only to effectively solve the problems of business development, but also ensure long-term growth of the company due to the transparency of its business, the trust by minority shareholders as a consequence of following their interests, due to division of power and collective decisions. For public companies, such a model of management de facto is an international standard.

Sistema permanently improves the procedures of corporate management, bringing them in conformity with the most modern standards. The success of our operations is confirmed not only by the effective activities of the companies, making a part of Sistema. The most authoritative ratings of corporate management also confirm it. So, at the beginning of 2005 the largest Russian rating agency Expert - RA issued to Sistema the rating of corporate management "B++". By the end of the year, the rating was revised to the level "A -" a high rating of corporate management. In our opinion it is the important estimation of our adherence to the strategy of continuous improvement of the corporate management of the company.

The rating "A" testifies to the high level of corporate management, confirming that the company observes all the requirements of Russian legislation in the sphere of corporate management and follows basic recommendations of the Russian Code of Corporate Behavior. The experts of the rating agency Expert-RA stressed the high level of practice of corporate management from the point of view of disclosure of financial and non-financial reporting, staff, and activities of management bodies and control, consideration of interests of all the interested parties and corporate responsibility. In April 2006, the rating agency Expert - RA once more improved the rating for corporate management for Sistema., up to "A". Expert - RA also gave ratings of corporate management to the affiliated companies of Sistema: Mobile TeleSystems, Moscow City Telephone Networks, Comstar-UTS.

In 2004 the authoritative rating agency Standard & Poor's recognized MTS as the best Russian company in regards of the level of corporate management and disclosure of business information, putting it in on par with the leading European corporations. The rating of the corporate management RCM 7+, conferred by the agency Standard & Poor's to MTS, is the highest estimation given to Russian companies.

## WE ARE GUARDING THE RIGHTS OF THE SHAREHOLDERS

The general assembly of the shareholders of the corporation is the supreme management body of Sistema. Its activities are regulated by the Provisions on the assembly of the shareholders, which defines the order of convocation of general assembly and registration of the participants, staff of working bodies of the assembly and the regulations of its holding. The provision on the assembly of the shareholders ensures the transparency of the procedure of making decisions and provides the shareholders with favorable conditions for participation in the assembly.

Mutual relations of the corporation with the shareholders are built on the principles of maximum defence of their rights - financial, juridical, as well as rights for participation in the company management. Above all, we care for the efficiency of financial investments of the company. Sistema regularly pays out dividends to shareholders and aspires that the companies, forming a part of the corporation, also regularly make dividend payments for the sake of the shareholders. The company consecutively implements measures aimed at capitalization growth, the increase of quotations of its securities, as well as helping raise the level of transparency of the stock exchange of Russia.

A no less important problem is protection of property rights of the shareholders. There is a number of gaps in Russian legislation, which regulates the interests of the investors. That is why, in particular, the register of the shareholders of Sistema and registers of the companies, which are a part of the holding, are conducted by specialized registrars, even if the companies count several owners.

We aim to create maximum favorable conditions for the participation of the shareholders in the company management. Information on the issues of the agenda of the general assembly is provided to the shareholders in advance, in their native language. Along with the notification about the forthcoming meeting, the shareholders receive ballot papers, which give them an opportunity to vote for the issues of the agenda in absentia. For more effective interaction Sistema cooperates with associations of the

investors, in particular, at the beginning of 2007 Sistema Telecom signed an agreement with the Association for defence of investors' rights for implementation of joint projects in the interregional companies of Svazinvest, as well as the operator of remote communication company Rostelecom in the interests of minority shareholders, in particular, for joint nomination of candidates to company management and control.

Among the forms of contact of the corporation with the shareholders, one should mention also holding of an "Investor's Day" and the road-show, which are regularly held in various countries. During the events, not only the shareholders, but also all interested parties, may receive detailed information about the company, the most important business events and prospects of business development of Sistema.

## WE ADHERE TO THE INFORMATION TRANSPARENCY

Sistema aims to ensure operational and equal access by all the interested audiences to business information. As regards the quality of disclosure of business information, the corporation ranks among the most transparent native companies. Since 1997 the holding reports in US GAAP accounting standard. In 2002, three years before IPO, Sistema was the first of the domestic companies to voluntarily disclose information about its beneficiaries.



The representatives of Russian and overseas media on the press-conference of the company Sistema Telecom

The main principle of information transparency for us is the disclosure of information which is freely accessible, in real time, in equal conditions. For that, a modern high-tech system of disclosure of business information has been created in the company. The main instrument of the high-tech system is the corporate web site. Actual information on the issues regarding the development of the corporation: information about the significant facts, deals, the structure of assets, strategy, government bodies, as well as the financial indices, current quotations of shares and bonds of the corporation and affiliated companies will be put on the site. The web sites [www.sistema.ru](http://www.sistema.ru) and [www.sistema.com](http://www.sistema.com) ensure access to more than 2,000 separate documents and several gigabytes of information, which volume is growing constantly. Besides, through the web sites of the corporation, it is possible to receive an access to web resources of the affiliated companies.

We introduce on an everyday basis interactive forms of information disclosure, which give an opportunity for a dialogue with interested parties. Among them are press conferences for Russian and foreign journalists, TV conferences for investors and analysts, as well as presentations for investors in the largest international financial centers. Annually Sistema holds no less than fifty similar events.

To ensure the transparency of information falls within the sphere of responsibility of a number of subdivisions of the company. So, issues of management remuneration and long-term investment strategy are included in the competence of a profile committee, adjunct to the Board of Directors of the company, which makes them open for public discussion by all the shareholders. The position of Corporate Secretary has been introduced in the company for the coordination of disclosure of information. The secretary works with the Board of Directors of Sistema and with the Boards of Directors of the affiliated companies. In addition, a Financial Investment committee functions in the holding, which follows all the investment solutions and financial projects. The activity of that subdivision allows the managers, directors and shareholders of the company to better understand ongoing processes, to actively influence them and impartially assess its activity.

We attach much importance to the development of effective communications with investors. A Department of Investor relations was established in the company in 2003. The main task of the Department is to provide investors, creditors, analysts, financial mass media and other interested parties with necessary information about the financial and investment activities of the corporation. The annual report for the shareholders of Sistema is prepared in strict conformity with the requirements of the legislation of Russia and other countries, on the stock exchanges of which the securities of the holding and its affiliated companies circulate.

## WE ARE DEVELOPING THE SYSTEM OF THE BOARD OF DIRECTORS

### Fields of responsibility

The Board of Directors of Sistema implements strategic management of the company on the basis of decisions made by the assembly of the shareholders. The activity of the Board of Directors is built on several main principles: collective nature of making decisions, striving for measured results, control over fulfillment of the set tasks and compulsory analysis of the achieved results. The use of progressive forms and methods of organization of the activities of the Board of Directors ensures that preparation, making decisions and fulfillment of the strategic decisions are made with maximum efficiency, to ensure the reliability of the corporate management in the company.

The meetings of the Board of Directors of Sistema are held every month. They cover the following tasks:

- Development of strategy of the corporation;
- Setting the management tasks and control over their execution;
- Asset management issues;
- Personnel issues;
- Formation of an effective system of sustainable development

The development strategy, being worked out by the Board of directors, contains the list of concrete decisions, as well as their quantitative and qualitative indices. The list of priority directions of the business and coefficients, which defines the desirable level of its diversification, serves as criteria in the field of portfolio strategy. Coefficients of financial sustainability, defined for management, are selected as the criteria in the sphere of financial strategy. The qualitative criteria applied when making decisions on investing, are used in the field of investment strategy. Thorough examination of the market trends, analysis of the role and place of Sistema among domestic and foreign financial-industrial groups, precede the development of strategic decisions.

On the basis of the approved strategy, the Board of Directors draws up a summary financial-economic plan and the budget of the corporation. This document, in its turn, is broken up into financial-economic plans and budgets of separate business directions, which are approved by the Board of Directors of the companies of the holding. In future, the Board of Directors systematically will control the fulfillment of the approved strategic plans via consolidated reporting of the companies, analyzing fulfill-

ment of the plans and reasons for deviations from the planned showings. For maximum efficiency of planning, the Board of Directors of Sistema has elaborated and approved a whole number of documents, on the basis of which strategic decisions are made. Among the most significant documents - regulations of formation of long-term and annual budget, financial plan and financial reporting, provision of the system of motivation of employees and management of the corporation, provision of risk management, corporate regulation of the rules and methods of conducting check-ups. The corporate secretary bears the responsibility for mandatory observance of the rules and proceedings, adopted by the company, and approved by the legislation.

The terms of reference of the Board of Directors also provides for issues of approval of any stock transaction. The real estate deals, the value of which exceed 10% of the value of the assets of the company, must also be approved by the Board of Directors. Besides, the Board of Directors approves the program of measures towards the increase of the capitalization level of the company, and follows the conduct of large deals and deals with concernment.

In the field of personnel policy, the Board of Directors approves appointments to higher posts, included in the nomenclature of the Board of Directors; members of Boards of Directors of affiliated companies, their first managers and members of the auditing commission.



President of MTS Leonid Melamed and CEO of Sistema Telecom Sergey Shchetov at the meeting with the journalists.

### Committees

Preliminary discussion of the most important issues, which are submitted to consideration of the Board of Directors of Sistema, is implemented by its committees. Five committees are currently operating in the board:

The Committee for Strategy analyzes the strategic issues of development of the corporation. The Committee considers issues of financial strategy and activities of financial subdivisions, strategy and projects of business-directions, as well as issues of activities of the subdivisions of the staff of Sistema.

The Committee for Audit supervises preparation of financial reporting, execution of indices of the financial-economic plan and audit of financial reporting of Sistema and affiliated enterprises. In addition, the committee controls the work of all the external auditors, who are invited to prepare the audit conclusion.

The Committee for Personnel prepares for the Board of Directors recommendations on appointment to executive positions, selects candidature for the staff of the Board of Directors of affiliated and dependent companies, as well as works out policy of the corporation in the sphere of motivation of the personnel, including recommendations on the rate of remuneration for the executive staff.

The Committee for Sustainable Development and Corporate Management elaborates proposals on perfection of the corporate management in Sistema and affiliated companies, prepares recommendations for the Board of Directors regarding the issues of sustainable development, corporate responsibility and disclosure of information.

The Committee for Investor Relation reviews the policy of relations with the investment community, prepares recommendations for the Board of Directors regarding issues of mutual relations with investors.

### Independent directors

An independent director is an authoritative highly-skilled specialist, who is not connected with the current activity of the company, as well as its affiliated persons, in view of which his opinions regarding key issues of the business, are independent and unprejudiced. Independent directors give impartial appraisal of the strategy of development of the company and take an active part in resolution of the conflicts of interests.

Sistema was one of the first Russian companies to estimate the efficiency of the institute of independent directors. It was put into practice by the company in 1997. At present four independent directors are sitting on the Board of Directors of Sistema. Their activities contribute to adopting valid resolutions by the Board, meeting the interests of all the shareholders, including minority ones, and of the partners of the company. Independent directors also work in the Boards of Directors of affiliated companies of Sistema.

The following authoritative people are among the number of independent directors on the Board of Directors of Sistema and its affiliated companies:

The International Advisory Council (IAC) was established by the Board of Directors in 2003. Conducting of independent expert examinations and consultations of independent directors and specialists of IAC regarding strategic issues of the development of the company considerably increased

#### Sistema

Gorbatovsky Alexander Ivanovich  
Mikhailov Nikolay Vasilevich  
Ron Sommer  
Steven Newhouse

#### MTS

Sir Peter Middleton  
Helmut Roischenbach

#### Sitronics

Kokkalis Sokratis  
Mikhailov Nikolay Vasilevich  
Ulrich Schumacher

#### Sistema-Hals

Douglas Daft  
Telichenko Valery Ivanovich

#### MBRD

Inozemtsev Vyacheslav Ivanovich  
Akimova Alina Nikolaevna

#### MGTS (Moscow city telephone network)

Varakin Leonid Egorovich  
Radionov Ivan Ivanovich

#### Intourist

Tyagachev Leonid Vasilevich

the validity and efficiency of decisions made.

## WE ADHERE TO THE CODE OF CORPORATE CONDUCT

In 2004 Sistema was one of the first companies in Russia to approve its own Code of Corporate Behavior. This document was designed to confirm the aspiration of the corporation to take into consideration the interests of all the interested parties, to observe the high standards of corporate responsibility. The Code of Corporate Behavior became one of the effective instruments of the system of company management, and contributed to the creation of an atmosphere of openness, confidence and cooperation between the shareholders, managers, directors, investors, hired employees and other interested parties.

The Code includes obligations, voluntarily assumed by Sistema, in addition to the requirements of the acting legislation in the sphere of corporate relations. The corporation declares and confirms the intention to strictly observe the norms and requirements of the Russian legislation, including corporate rights and legislation on the securities market, as well as all the basic principles of the Russian Code of Corporate Behavior, international standards and recommendations.

The control over observance of the norms and requirements of the Code of Corporate Behavior refers to the sphere of responsibility of the Corporate secretary of Sistema.



President of Sistema Alexander Goncharuk is handling honour and memorial prizes to the best employees of the corporation.

## WE BELIEVE IN THE CODE OF CORPORATE ETHICS

We are sure that corporate responsibility is impossible without the observance of high moral and ethical standards. For this reason, in April 2005, the Board of Directors of Sistema approved the Code of Ethics of the corporation, which regulates the ethical norms of corporate relations. The objective of this document is to confirm the tendency of Sistema to observe the most modern worldwide principles of corporate responsibility.

Sistema confirmed its adherence to this principle in 2002, signing the Global Compact of the United Nation, (UNGC). In 2003 the company was the first of the Russian finance-industrial groups to accede to the World Business Council for Sustainable Development (WBCSD), in the activities of which representatives of the company take active part. Adoption of the Code of Ethics became the regular step of the company towards raising the standards of corporate responsibility.

## PRINCIPAL CORPORATE HANDBOOK

The principal corporate handbook is the statute book of rules, codes, instructions, norms, orders and provisions, which regulate the internal and external activities of the corporation practically in the spheres.

The edition, consisting of four volumes, contains information not only about the management system, structure of assets and capital, development strategy and information policy, but also defines the order of granting social privileges to employees, education and opportunities for qualifications, additional motivation and even participation in the program for young scientists to receive grants.

The corporate book is oriented at management units of all levels - from top management to specialists, each of which is obliged to follow the established norms and rules.

The united code of rules allows structuring various processes in the corporation, establishing a clear order of interaction of different subdivisions and structures, thus attaining a considerable increase in the efficiency of the activities.

The corporation constantly perfects the structure and methods of management in accordance with the latest challenges facing the business; however, at the same time, the basic values and documents inseparable from the history of success of the corporation do not change.

The research institute of molelectronics of Sitronics group in Zelenograd (Moscow Region).

Part I



How do Sistema activities help to increase the technical opportunities available to the people?

Improving its services and goods, elaborating and introducing new technologies, the companies, who form a part of Sistema, contribute to the enrichment and facilitation of communication between people, the simplification of everyday and employment life of the human being, the general spread of new technologies of access to information of any types, as well as development of the technological idea - and means also the formation of a "digital era" on the whole.

## WE ARE THINKING OF THE QUALITY OF TOMORROW

We strive so that any service or product being provided to our consumers, becomes a reasonable step in the near future. In order to realize this aspiration, our services and goods must contribute to the growth of the quality of life of our consumers. And for that, first of all, it is necessary to follow the highest standards of quality today existing in the market. Moreover, it is necessary to strive to meet those standards that will operate tomorrow, a year later, after one or two decades. Thus, our aspiration for permanent growth of the quality of products and services, their reliability and functionality becomes not only a guarantee of success, but also one more piece of evidence of our adherence to the idea of accountability to the society.

In our daily industrial practice, we implement immediately two key tasks: to develop production of new goods and services and at the same time use stricter standards of industry for measuring quality. The last task is the most difficult, but at the same time much more responsible. In fact, only if our industry meets the newest standards of quality control today, will our new goods and services will be competitive in future.

One of the principal tasks of Sistema in the sphere of technological standardization is the consecutive bringing of the whole list of our product and services in conformity with the requirements of the international standard of ISO 9001. The technological processes and methods of control in all the enterprises of the holding are being improved continuously; modernization of the production basis is always carried out, equipment of the latest generation is put into service. We use the most modern systems of ensuring management of product quality.

The efficiency of the measures taken by Sistema for observance of the highest quality standards is confirmed by the absolute majority of the types of product, issued by us, which already meet the standard ISO 9001. Thus, especially much work we had to do at the enterprises of the concern "Radiotechnical and Information Systems", which in its time joined the former Soviet radio factories RTI 'A. L. Mints, DMZ-Kamov, Yaroslav Radio

Factory, UralElektro, Saran Television Plant and many others. The introduction of certified systems of quality control allowed these enterprises not only to survive in the conditions of a modern market economy, but also to set production at modern levels.

In those branches of industry, where at the same time Russian and international standards of quality are in force, we observe much stricter standards. In particular, it concerns the enterprises working in the sphere of high technologies and high-precision works. It is typical than in those cases, when the Russian standards prove to be stricter than the international ones, we are guided only by national standards. Such is the quality standard GOST RV 12.002-2003. So, this standard functions in the high-tech plants of Sistema that fulfill governmental contracts in the interests of the Ministry of Defence of Russia and RosAviaCosmos,

One more principle of Sistema is the aspiration to reach standards of the class Performance Excellence. In this case, our own product becomes a branch standard not only at Russian, but also at the international level. The company MTT succeeded in achieving such recognition: in 2005 it became a fully-fledged member of the sector of standardization of electrical communications of the International Union of Electrical Communications.

## WE ARE DEVELOPING THE COOPERATION WITH THE CONSUMERS

Development of high-tech products and services gives man more and more opportunities for demonstration of his own individuality and revelation of his capabilities. Rendering of high quality services in the present market is not enough - they are required at the same time to meet the personal needs of the customer. Present-day business has become more and more personally-oriented, developing two-way communication with a client on the stage of new products and services development. In this way the companies belonging to Sistema build their relations with consumers.

We follow two main principles: we permanently keep in touch with a consumer and suggest to him or her individual package of services, which is most oriented to his or her personal needs.

The company's ability to satisfy the individual demands of a consumer takes on special significance in the services sector. An individual proposal, as we understand it, is a service, which can satisfy not general but specific demands of a client. In order to provide such level of services rendering, it is necessary to provide effective feedback to each client. Modern tech-

nologies allow using the mechanisms, with the help of which a consumer can select and use a set of services just for him or herself, using wide opportunities provided by the company.

For example, the Moscow Bank for Reconstruction and Development and Intourist use similar mechanisms in the sphere of providing bank services and services of tours organization and hotels selection, creating interactive systems of demand formation. With their help, a client can receive not only all the necessary information about available services, but independently create a package of services fully meeting his needs.

However, telecommunication business gives the largest opportunities of interactive cooperation with a client. The telecommunication companies belonging to Sistema were among the first in the market to render interactive services to consumers and today they are leaders in this sphere. By this principle, the "Uniform Access Point" project was built, which enables a client on a personal website to independently organize a system of telecommunication services for him or herself - from mobile communication to cable television.

There are also more scaled examples. In 2006 Comstar-United TeleSystems first realized the concept of Triple Play. This concept allows the provision of the whole spectrum of telecommunication services to corporate and individual clients by common fiber-optic line. Triple Play is access by common link from an apartment, house or office to all types of communication services: high quality telephone communication, high-speed Internet access and digital television of high picture quality, providing also interactive services in the sphere of video on demand.

In the framework of the same concept, Internet operator Stream-connect, together with Sistema Multimedia has provided to users a new interactive service "Internet+TV". It is not only television, the signal of which is delivered to a subscriber by ADSL telephone line and gives an opportunity to watch all Russian on-air channels and more than 80 foreign ones; abilities of a single operator in the sphere of TV and Internet are much wider. The user is given an opportunity to independently manage the entire range of services, changing packages of television channels, connecting to additional services and using them by means of a remote-control station or computer keyboard.

We are sure that such models allow us to remain among the leaders of the market, both in terms of quality and the range of products on offer. Today it is already possible to send SMS-messages from a city coin-telephone (MGTS), to use wireless Internet (Comstar-UTS) in the underground and

order a mesomorphic TV set of any size necessary for the specific consumer (Quazar-Micro factory of Sitronics concern). All these are the first signs of a future market for individual services, which is growing today in Russia together with Sistema.

## WE ARE DEVELOPING THE INTEGRATION: NEW WAY TO THE FUTURE

The variety of companies belonging to the corporation create unique opportunities for development at an absolutely new level, allowing through integration of adjacent spheres of business to approach a solution of difficult socially significant problems of inter-branch cooperation. As a rule, integration of different branches of business helps to solve local problems of pushing up sales and increasing profit. The joining of services on the basis of their adjacency allows us to reduce production costs, and the coincidence of consumer groups enlarges capabilities for the attraction of clients owing to cross-sales. Inter-branch integration also opens up possibilities for solution of global problems of economic development and acceleration of scientific and technological progress, not only in the frameworks of corporation but on a national scale.

Evolution of telecommunication services, being rendered by the companies of the corporation, became the obvious example of a gradual integration process. Only some years ago wire communication, mobile communication and Internet access were built on different technological platforms and suggested separately by different operators. At present the group of Sistema Telecom companies has managed to achieve a high level of intra-branch and inter-branch integration and now offers a full package of services, which includes not only all types of communication collected on a common technological base and adapted for the needs of specific user, but also associated financial, entertaining and business services.

The history of the integration process goes back more than a year. In 2003 Sistema Telecom, managing telecommunication assets of Sistema, undertook a number of steps for the creation of a single operator from subsidiary companies of fixed communication and Internet provision - Comstar, MTU-Inform, MTU-Intel, Telmos and Golden Line. In 2005, joint structure Comstar - United TeleSystems managed to gain 40% of communication services market (without taking into account MTS and MGTS companies). By the results of the year 2005, Comstar-UTS demonstrated almost triple growth of profits and in April 2006 was called "the most fast-growing communication company in Russia" by C-News-RBC analytical agency.

The "Uniform Access Point" project was launched in 2005, marking the new stage of integration of companies-communication operators and consolidation of their networks and services. Besides Comstar-UTS, MTS, MGTS and SkyLink joined this project as well. Clients of each of these companies were given an opportunity to simultaneously use their resources in a "Uniform Access Point": that is, to order, pay and manage the set of services via common Internet-portal. Special payment cards were issued, which became the means of payment for the services of all the companies and participants in the project. Thus, clients were given an opportunity to obtain at once a full package of telecommunication services.

The joining of Sistema Mass Media holding, which manages media assets of the corporation, including cable networks operators in 37 cities with a subscriber base of more than 1.5 million people, and Sitronics concern, uniting high-tech enterprises of Sistema, is foreseen by the "Uniform Access Point" development. Their participation will become a new stage of inter-branch integration, which will enable the provision not only of telecommunication services to consumers, but will also provide necessary information to them, as well as to develop the technological base of the project.

We consider that the aforementioned examples obviously demonstrate that inter-branch integration enables the holding not only to stably develop all the segments of its business, but also provide absolutely new technological opportunities for development of both the corporation and society as a whole.



"Uniform Access Point" - an integrated service of Sistema Telecom Company.





Part II

Technologies of social investments

Press-conference of Sistema top management with leading world media.

Part II



Which principles  
does Sistema follow to  
support the social dialog?

Sistema is a highly diversified business. The number of parties involved in the sphere of interests of the corporation is very large. We do our best to listen to and take into consideration the opinions of all the social groups, whose interests are connected with the corporation's interests.

### WE ARE AIMING TO TAKE INTO ACCOUNT THE INTERESTS OF ALL PARTIES

Sistema is a growing, constantly developing business. We develop new markets, build business in new regions, and it means that year by year more and more people are involved in the sphere of the company's interests. Besides, business-divisions of the corporation build their own relations with public groups involved in the sphere of their business interests. Shareholders and investment companies, owners, clients, employees, business partners, state authorities at federal and local levels, business communities of Russia and foreign countries, mass media and non-profit organizations - the company's activity has an influence on the activity of all these and many other groups of people, and at the same time the success of our work depends on each of them.

If we talk about the main groups of people connected with the business of Sistema with lasting mutual interests, then, first of all, it is worth mentioning shareholders, employees and business partners. However, we strive for keeping permanent dialog not only with them, but also with other groups of interested people - with everyone, who more or less takes part in our activity and is interested in its results. Speaking about them, we unify them by general definition - interested parties. While building up a dialog with all the interested parties, we are based on the currently generally accepted global principles of public dialog between business, authorities and society.

The principles of public dialog, which are observed by Sistema, are as follows:

#### Openness

Observing the principle of business information transparency, we open it to all interested parties. Information on the company's activity is published in open sources simultaneously in Russian and foreign languages. The corporation's website gives all the interested parties access to the whole volume of information concerning the company. We realize that various public groups are in need of additional information of different kinds; therefore we provide it on demand in the

shortest possible time, providing it with necessary explanations and comments. While providing information to mass media, we answer the inquiries in full and to the point, taking into consideration the requirements of efficiency presented by present-day mass media.

#### Reliability

The corporation and its subdivisions present information about their business activity in real-time mode, observing requirements of the interested parties to its efficiency and timeliness. Information about business activity of the company is presented in as detailed way as possible, to minimize the possibility of its incorrect interpretation. Besides, data presented in open access always correspond to high professional standards.

#### Constructive dialog

We do not only provide all the necessary information to the public; it is also important for us to take into consideration the wishes of all the interested parties while preparing this information. We regularly communicate with each party connected with us by mutual interests, in order to find out their opinion concerning availability, sufficiency and efficiency of information presented by us, to listen to their comments and proposals on the improvement of our activity and interaction with the public. Incoming proposals are an important instrument of improvement of our business and social practice. We also try to inform the interested parties about our standpoint, making maximal efforts to reach mutual understanding and keeping our common interests.

The first students of the corporate University of Sistema "High school of management and innovation"

Part II



How does Sistema plan social activities?

We are sure that only precisely regulated business-processes bring the highest possible effect both in the business sector and the sphere of social development. In order to make the social activity of the company most effective, we plan to create special procedures of social programs realization.

### WE ARE CREATING CLEAR MECHANISM OF MANAGING THE SOCIAL DEVELOPMENT

Many social programs of Sistema have already proved their effectiveness. Nevertheless, we are sure that in this sphere the company still has space for improvement. Until recently, social programs of the corporation have been planned spontaneously, mostly by the initiative of the company's management and according to his vision of problem. However, the experience of recent years proved to us that like all the spheres of business development, in the social sphere as well, one can achieve the highest possible effect using clearly adjusted procedures of management and control over results.

While creating procedures of social program management, we achieve effectiveness, first of all, owing to precise planning of every step of program realization and monitoring. In addition, we consider that the introduction of more transparent and clear schemes of work will allow our programs to be based on the expert opinion of specialists in the sphere of social development and to take into consideration the opinions of all the interested parties.



Chairman of Board of Directors of Sistema Vladimir Evtushenkov and the Director of the Russian museum Vladimir Gusev at the opening of the exhibition "Peasant World in Russian Art".

In order to fulfill the set tasks, in 2007 the company plans to establish at a corporate level the Board of Stable Development. The Board will undertake development and introduction of corresponding procedures, as well as the following diagnostics, planning, realization and monitoring of results and preparation of reports on corporate social programs. Among the tasks of the Board of Stable Development will be the following:

#### Planning stage

- Search and planning of the work directions to optimum effect
- Search of additional resources and partners
- Development of policy and direct planning of social programs
- Development of assessment system of social program efficiency

#### Realization stage

- Fulfillment of social programs in compliance with the plans
- Search and use of additional opportunities for ensuring the highest possible effect on all the stages
- Collection of feedback and corresponding correction of actions

#### Monitoring stage

- Collection of information by the results of social program fulfillment
- Estimation of program efficiency
- Organization of a dialog with the interested parties, discussion about program efficiency, making of changes and planning of further actions

#### Reporting stage

- Preparation and publication of annual social report
- Coordination of the corporation's subsidiary companies' consolidation in a united system of social reporting
- Holding of annual reporting meeting on the problems of social activity with presentation of social report
- Coverage of the company's activity in the context of corporate social responsibility

#### Diagnostics stage

- Collection and analysis of feedback by the results of annual reporting
- Audit of social programs

- Definition of problem points in the sphere of social development; search of ways for solution of the revealed problems
- Definition of strategical directions of social activity for the next year
- Dialog with the interested social groups, discussion about efficiency of the programs carried out, making of changes and planning of further actions
- Control over balance between the interests of all the interested groups

High-ranking officials of the corporation and the specialists of Sistema Charitable Foundation, representatives of big grant recipients working with Sistema on long-term basis (heads of territories, institutions of higher education, etc.) as well as independent experts will take part in the Board's activity.



Signing of the agreement on the long-term cooperation between Sistema and Lomonosov Moscow State University.

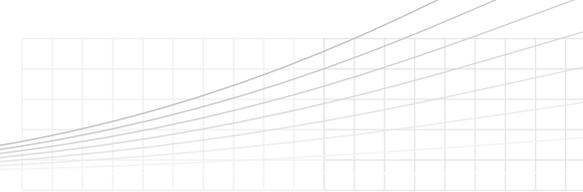
## WE ARE BUILDING THE CRITERIA OF THE EFFICIENCY OF THE SOCIAL DEVELOPMENT

An integral part of social programs management structure built up by Sistema will be a system of efficiency assessment criteria. What criteria do we plan to use while assessing social activity of the corporation?

Social programs management is not an activity directly making a profit; therefore we cannot use direct financial indicators. However, in some cases, effective social activity leads to reduction of costs - for example, in the sphere of relations with state authorities or human resources management. Consequently, the indicator of costs reduction will be one of the key factors for us while assessing the corporation's social activity management. In particular, we plan that in case of correct organization of social activity management inside the company, the costs for the creation and functioning of common mechanism of recruitment and training of staff can be reduced by 10-15 % per year. At the same time, indirect financial return from programs, having applied use for the main directions of business, such as grants to institutions of higher education, scholarship programs, creation of corporate university, must increase.

The positive changes in relations of the holding with a number of the interested social groups - clients, partners, state authorities - can serve as high quality criteria of the company's social activity efficiency. Increase of clients' loyalty level, introduction of new essential products and services, increase of public recognition level, growth of mass media attention, simplification of decisions making connected with the relations with authorities, entry to the new level of partnership with state authorities - all this will be the evidence of these changes.

From a procedure's standpoint, one more criterion of efficiency will be an introduction of effective business-processes, regulating the company's social activity. Deployment of corresponding procedures will enable us, in particular, to involve the management and personnel of subdivisions in social programs work, to increase allocation for the program by 12-15% per year, as well as to create a common structure of planning and reporting in the sphere of social programs for all the enterprises of the group.



## WE ARE TAKING PART IN THE SOCIAL PROGRAMS AT DIFFERENT LEVELS

### 1. Planning

#### **CF Sistema**

Partners in social programs (non-profit organizations, etc.)  
Representatives of the holding's subdivisions

### 2. Realization

#### **CF Sistema**

Recipients of social programs  
Partners in social programs (non-profit organizations, etc.)  
Representatives of the holding's subdivisions

### 3. Monitoring

#### **Interested parties**

#### **CF Sistema**

Recipients of social programs  
Partners in social programs (NPO and etc.)  
Representatives of the holding's subdivisions

### 4. Reporting

#### **CF Sistema**

Representatives of the holding's subdivisions  
PR-services of Sistema and subsidiary companies of the holding  
Interested groups of fellow citizens  
Mass media  
General public

### 5. Diagnostics

#### **Interested parties**

Experts  
Representatives of the public  
Representatives of the holding's subdivisions

A corporate celebration was organised in honor of 13th Anniversary of Sistema. Over 500 representatives of the companies of the corporation took part in it.

Part II



How does Sistema build corporate culture?

We work in high-tech markets; therefore intellectual leadership is one of the key factors of success for us. For this reason we attract and mean to attract only the best personnel. We take care of their training, career development and listen attentively to their opinion.

## WE ARE INVESTING IN HUMAN CAPITAL

The aim of personnel policy of Sistema is the creation of an effective, successful team of managers, able to realize the company's business strategy in the conditions of the present-day market. Creating such a team, we are sure that investments in human potential will bring maximal returns to the company, and ensure long-term competitive advantages and leadership in high-tech spheres of economy.

At present, Sistema unites more than 90,000 employees; each of them is a perfect professional in his business. During the years of formation and development of the corporation, we have created effective system of recruitment and training of personnel, learnt to manage efficiently the company's human resources and brought up managers able to meet the strictest requirements of present-day market. However, dynamic development of the corporation, expansion to international markets and gaining the status of a public company bring up more and more new requirements to human resources policy. In order to meet these requirements, we constantly improve the activity of a human resources service, introducing up-to-date standards of work with personnel.

The human resources service of Sistema works by two directions, selecting the best specialists to work at the company and at the same time giving an opportunity of career development inside the corporation to the promising employees of the company. Thus, when new vacancies open in Sistema, the advantage is given to the specialists taught on the basis of the corporate educational programs. We are sure that staking on own personnel ensures maximal return by minimal risk. However, the company constantly grows and our own staff are not always enough. Therefore, in 2005 a coordinating center of staff recruitment started to work in the company, which joined human resources services of the holding's companies. At present, the companies, which are looking for specialists of the same type, coordinate their efforts on search. It allows reduced costs and makes professional staff recruitment system more effective.

One can state a fact, that lasting recent years the corporation regulated the system of training and attraction of young specialists. We closely cooperate with the main chairs of institutions of higher education, recruiting prom-

ising specialists during their college-days. Scholarship programs, organized by the company, programs of preparation of specialists for a specified purpose, support of innovation-technological centers, regular holding of "open doors days" contribute to the attraction of talented young people. Later on, when former students become the employees of the corporation, adaptation programs and other programs for work with young specialists come into force.

## WE ARE BUILDING CONTEMPORARY MOTIVATION SCHEMES

One of the key tasks of the human resources service of Sistema is to give the company's employees an opportunity to reveal their capabilities, providing at the same time adequate remuneration for successes. For this purpose, there is a system of staff motivation in the corporation and subsidiary companies, which directly connects the achievements of an employee with his career development and bonus payments.

Provision of personnel motivation and provision on motivation of staff employees function in the company and business-divisions. In compliance with them, every manager and employee of the company draws up an individual plan of work for a year. The results of the plan fulfillment are estimated at the end of the year in the course of assessment interviews. By their results, heads of subdivisions make a decision about the amount of bonuses, enrolment in the reserve for promotion, transfer to another section of work or direction to training. In a number of subsidiary companies of Sistema, the system of personnel assessment is based on the model of Key Performance Indicators (KPI), which is used in the leading international corporations. Sistema plans to use KPI application experience in other subdivisions of the corporation as well.

We attentively study the global practice in the sphere of motivation systems development. Thus, at present one of the most effective methods of staff motivation is an opportunity of preferential mortgage and consumer credit, which is given to successful employees, as well as various preferential social packages. In addition, the company was among the first to suggest its employees the services of trust management of pension funds, having coordinated at the same time the amount of deductions to pension accounts of employees in accordance with the current performance of their work. This program is at testing stage and will be fully launched at the end of 2007. During the same time, Sistema plans to test an optional system for top-managers, development of which is restrained by the fact that not all the key businesses of the corporation are open joint-stock companies.

## WE ARE EDUCATING OUR PERSONNEL

We are striving sincerely so that every employee of Sistema had a personal opportunity to go through the extended education, to increase his/her professional skill, getting a possibility of the career growth inside the company. Training centers for increasing the professional skills are successfully working in large companies of the corporation, like MGTS, MTS, Comstar-OTS, RTI-Systems, etc. Around 30000 of the employees undergo training in the special company's centers, on the courses outside Sistema as well as training in boarders of President's program every year.

The Corporate University-High School on Management and Innovations, provides additional opportunities of training to the employees. Sistema jointly with Lomonosov Moscow State University organize the courses. The Corporate University gives the employees an opportunity to receive high-quality professional education without leaving their employment, ensuring further career growth. The practice of education of promising employees in corporate institutes of higher education has been adopted in the large western corporations, such as General Electrics, Xerox, IBM. Sistema was one of the first Russian companies to create its own corporate university in cooperation with the main institute of higher education of Russia.



President of Sistema, Alexander Goncharuk and the first students of the Corporate University "High School of Management and Innovations".

Besides, in the sphere of personnel training, our company also cooperates with a whole number of leading Russian institutes of higher education, such as Moscow State Technical University (MSTU) N. E. Bauman, Moscow Technical University of Communication and Informatics (MTUCI), Moscow Institute of Electronic Technology (MIET), Moscow State Art Institute (MSAI), Moscow Institute of Physics and Technology (MIPT), Moscow State Institute of Radio Technics, Electronics and Automatics (MIREA), State University of Higher School of Electronics (SU HSE). Sistema finances profile departments, and a number of training programs are specially adapted under the need of the enterprises of the corporation. The company sends students to institutes of higher education, paying for the study, further providing them with a job at the enterprises of the holding.

In our opinion, cooperation with the institutes of higher education helps the company to select the most promising young specialists for work at the enterprises of the holding. Representatives of Sistema take part in the activities of the entrance examination commissions, drawing attention to the best entrants. In future, these young people get an opportunity to do practical work at the enterprises of the corporation. Representatives of services on personnel and managers of subdivisions appraise the students during the probation period. The cooperation of Sistema with institutes of secondary professional education is organized similarly.

During their time of study, the students of the institutes of higher education, where partnership programs of Sistema operate, get additional opportunities for education. The company assists the educational institutions in implementation of a whole number of prosperous high-tech projects. So, since 2004, Innovation-Technological Center MSTU-Sistema functions in the MSTU N. E. Bauman. Within the scope of activities of the center, the corporation carries out expert examination of students' research-technical works and appraises their commercial potential. A database and register of research-technical developments and patents of MSTU have been established and work through the support of the corporation. Besides, the center administrates contests for grant competition and the conduct of scholarship programs of Sistema on instrument-making, machine-building, telecommunications and communication, informatics, robotics, medical technology, microelectronics and nanotechnology.

## WE SHARE COMMON CORPORATE CULTURE

The corporate culture of Sistema includes the philosophy and traditions of the organization, accepted rules and norms of behavior and the style of mutual relations between employees of the corporation. It is not so difficult to form principles of corporate philosophy in a few words: concern for

each other and the whole company for its employees. If our employees see that the corporation cares for their future, then they feel confidence in tomorrow. It ensures a comfortable climate in the staff, stability, and it means that the efficiency of the daily work of each of us increases. We believe that the human capital investments, including raising of skills, social security or improvement of labor conditions, should always be made, guaranteeing a maximum return from each of the employees of the corporation.

An important milestone in the formation of the corporate culture of Sistema was the adoption of the Code of Corporate Behavior and the Code of Ethics. The traditions, formed during the years of existence of the corporation, play an important role for us. Among them include conduct of corporate holidays and ceremonies, sporting events and other internal arrangements. Celebration of birthdays and the New Year, summer and winter sports days enjoy wide popularity. One of our favorite traditions is awarding the most distinguished people with honorary sign of Sistema.

An intra-corporate communications system has been created and is effectively operating in the company, in order to support the belonging of our common corporate culture and to socialize young employees. The employees receive up-to-date information about the life of the company from the corporate journal, which publishes official statements from the management, information about key transactions, information about new motivation and educational programs for the personnel, news about reorganization, appointments, development of the corporation and personal achievements of the employees. In the near future, the corporation plans the establishment of the museum of Sistema.



MTS presented Moscow with a holiday of music - Festival "Red summer", where the Russian and foreign superstars took part.





Part III

Instruments of social investments

The exhibition of the modern actual sculpture "ArtPole Technology", organised by Sitronics in Zelenograd (Moscow Region).

Part III



How does Sistema implement environment programmes?

## WE CARE ABOUT NATURE

Since the particular environmental tasks for various companies of the holding essentially differ, responsibility for the elaboration of environmental programs is delegated to the managers of separate productions. Radio-frequency emission, reprocessing of high-tech production waste and environmental protection during construction are the key problems of the holding enterprises.

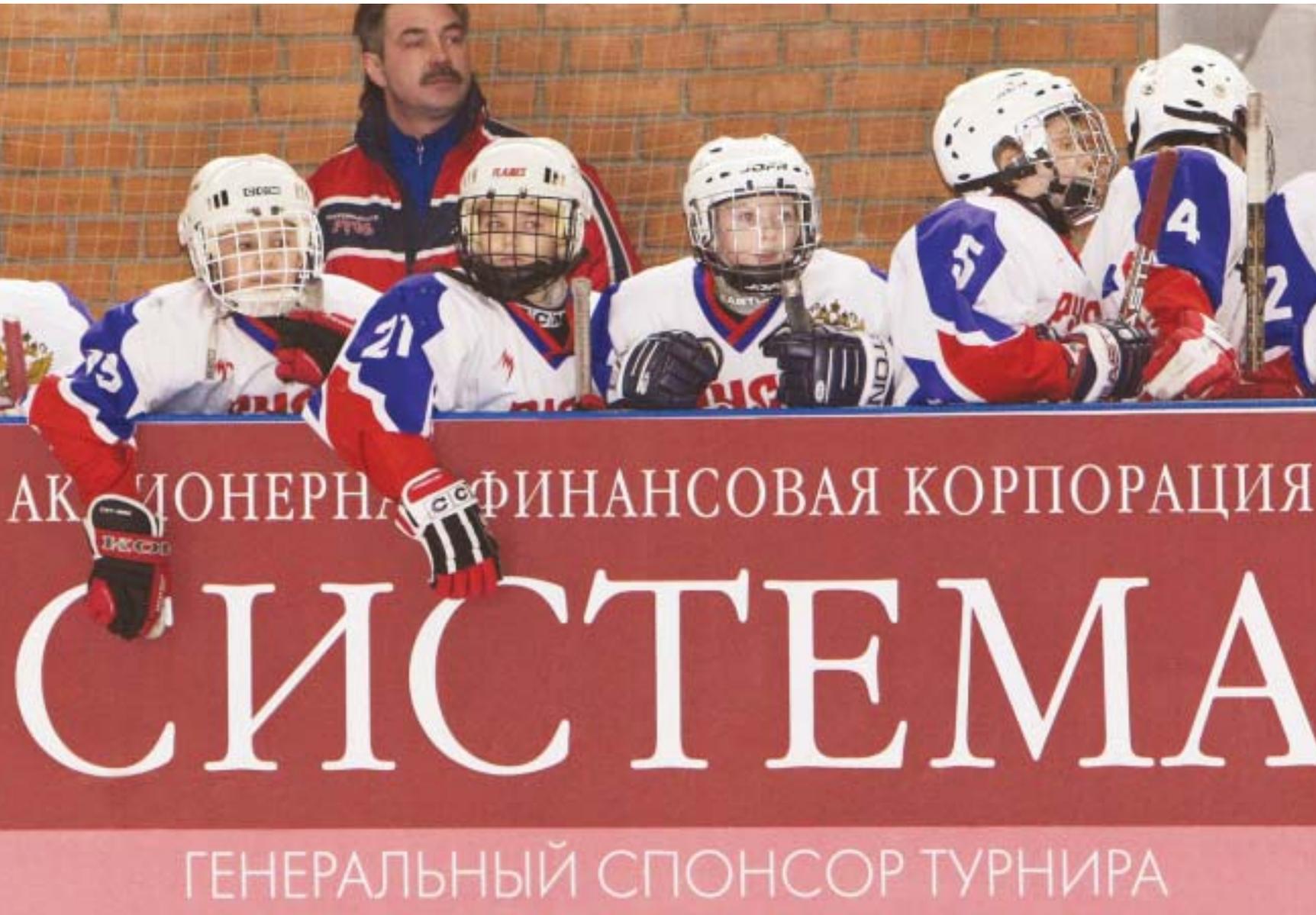
Control over electronic and electric radiation is the main environmental task for Mobile TeleSystems. During construction of communication objects, MTS strictly complies with the requirements of federal laws "On sanitary and epidemiological prosperity of the population", "On environment protection" and "On ecological assessment", as well as strictly follows the construction norms and rules in force. The place of MTS network base stations distribution and their technical parameters are chosen with consideration of environmental protection requirements and population safety. Each of the 1,000 or so communication base stations undergoes compulsory expertise of Federal Service under surveillance in the sphere of consumer's rights protection and human prosperity, state ecological assessment and testing on intensity of the electromagnetic field. Only after all this the station gets the permission for installation. This practice is also applied on other parts of the of MTS radio subsystem.

Sitronics especially attends, for its part, to the development of wasteless production. In June 2006 authorized international company Atkins conducted auditing of environmental policy of Sitronics enterprises, functioning in the territory of Russia and the Czech Republic. The auditor checked the degree of the concern's enterprises' impact on the environment, including the pollution of the atmosphere, soil, water, as well as its system of hard wastes utilization. Within the framework of the research, corresponding measurements and samples were taken, attestation of senior technological management of the enterprise was conducted, production technological chains were investigated, and relevant normative and permissive documentation was studied. The auditing completely confirmed the efficiency of the concern's environmental policy and evaluated environmental risks in all productive areas of the company as low. Nevertheless, the environmental policy of the enterprise was later completed considering the wishes of the auditors: the key potency indicators (KPI) and environmental management corporate system (EMS) were introduced.

Sistema-Hals solves the problems connected to environmental protection during construction activities on an everyday basis. The main principle of the company is minimization of the intervention in the environment at the construction stage. This particularly means that during development of the construction area, no other tree outside the project area will be cut down. In addition, a qualitative program of territorial recultivation is carried out on each project being delivered: the company not only performs the transplanting of green plantations instead of the cut ones, but also directly includes the ecological and landscape solution in the draft project of the construction. All projects of the company undergo preliminary state ecological expertise, in the framework of which each stage of the project is evaluated from the conformity point of view to the norms on environment protection in force. If the project touches upon the interests of the territory's residents, the company organizes public hearings before state ecological experts, by results of which the project is completed considering the wishes of the local residents.

Ice Hockey tournament among the juniors for the prize of V. Tretiakov, organised with support of Sistema.

Part III



What criteria does Sistema use to identify financing for social programs?

It is important for us that our social programs will achieve real results by helping to change society for the better.

## WE HAVE THE STRATEGY OF SOCIAL INVESTMENTS

Sistema plans and fulfills its social programs in a way that they will achieve real results and contribute to the changes in the society: improve social climate, support and increase of the cultural standard of the people, decrease social tension and stimulate the development of national self-consciousness. We consider contributions to such programs as long-term investments: since they do not only help the society to go ahead, but also create more comfortable public conditions for corporation development in future. We also care for the effective evaluation of our social investments.

Sistema chooses support projects of unique, advanced character, often acting in the spheres which were not in sight of the sponsors and philanthropists before. One such project was the creation of the informative and educational centre system "Virtual World of the Russian Museum" in the regions in Russia. Thanks to the newest engineering development, this project gave an opportunity to millions of our fellow citizens to get virtual access to the treasures of the State Russian Museum. Our other social projects are of the same characters of social innovations: creation of three-level support system of professional education, own chairs of the company in the technical institutes of higher education, organization of sports measures for junior sportsmen, support program of Russian Olympians and the rebirth of the unique international ice hockey tournament for the Izvestiya prize (1967-1997) named the "ROSNO Cup".

One more important principle of social activity of the company is the preservation of the best elements from the social heritage of the past, and its support and development on a contemporary technological level. This principle is strictly kept in all our educational programs, where we actively use methods of ensuring scientific succession still elaborated by the High Soviet School. We also use the best of the past years' practice in the support programs of museums, by introducing high-tech equipment and multimedia technics in the museum practice, in the program of potential scientific and industrial rebirth of Zelenograd and in many other undertakings.

The company also practices the traditional charity form, by keeping a reasonable balance between the help of the people in need and investments ensuring long-term social effect and simultaneously by raising the reputation of the company as an important participant in the scientific-technical development process, responsible owner of the group of growing enterprises, Maecenas, and a conscientious "corporate citizen".



School group excursion in the Russian Museum at the exhibition "Big Painting", organised with the support of Sistema.



Christmas charity act in an Orphan home №39 in Pushkin (Moscow region).

## WE ARE DEVELOPING THE CHARITY FUND SISTEMA

For effective management of social investments, in 2004 the corporation established Sistema Charitable Foundation, through which a great part of sponsor and subsidiary projects is being realized. The main task of the Foundation is to achieve maximum efficiency of social and charitable investments. The Foundation elaborates the strategy of the corporation's social investment, unites financial resources, coordinates and plans social projects jointly with the affiliated companies, and realizes large-scale general corporate projects. The mission of the Foundation is to assist in every possible way with the preservation and development of the national cultural, intellectual and scientific potential and economical and spiritual development of Russian society.

The Sistema Charitable Foundation functions by three main directions:

- The program "Science and Education" includes the support of innovative scientific-technical creative work by young people.
- The program "Culture" assists with the implementation of projects directed to the preservation, augmenting and popularization of national cultural inheritance.
- The program "Social development" realizes charitable projects in the social sphere, as well as in the field of sport.

## WE ARE INVESTING IN SCIENCE AND EDUCATION

Programs in the sphere of education and innovation occupy the most important place in the structure of Sistema's social investments. On the one hand by supporting the young specialists and scientists, the corporation makes investments in its own business by providing itself with professional specialists. On the other hand, by giving an opportunity to present and future consumers to communicate to the most contemporary technologies since their college-days, we create a higher level of demand for products and services of high-tech sector for the years ahead.

Strategy tasks of Sistema in the sphere of education, science and support of the innovation processes are fulfilled simultaneously in three directions. The first direction is the search for gifted persons. Within the framework of this task, Sistema Charitable Foundation jointly with MSU M.V. Lomonosov, MSTU N. E. Bauman, MFTI and other institutes of higher education creates and supports school scientific-technical societies and creative laboratories, where gifted persons can realize their abilities.

The task of the second direction is to support the gifted persons. In this sphere, the efforts of the corporation are directed to the support of the students and young scientists. Sistema Charitable Foundation provides task scholarship and grants to more gifted students and young creative collectives, assists in the development of an educational-laboratory base of the universities, in the introduction of innovative studying technologies, at the same time by assisting to improve the traditional methods of education.

The task of the third direction is connected to the introduction of the elaboration in practice. Sistema Charitable Foundation provides assistance to students and young scientists on introduction of the elaborated projects in the industrial production. In addition, the Foundation assists in the creation of an innovation data base, and provides grants to young scientists and specialists to continue their research.

The All-Russian program for young people in scientific and technical creation "Step Into the Future" has become the most significant project of Sistema Charitable Foundation directed to children and young people. The program is held jointly with MSTU N. E. Bauman and aimed at assistance in the revival of the country's technical elite. Within the framework of the project, the company stimulates and supports the scientific and technical work of young people, assists in the organization of cooperation between researchers and scientists of different generations, and involves young people in the sphere of engineering. In addition, the program oversees regular conduct of regional competitions on technical work among the schoolchildren. The winners of regional rounds are given a right to participate in the All-Russian competition, and in case of success, can be admitted to the best scientific and technical institutions of higher education of



Young inventors of the robotic club of MSTU N.E. Bauman and Lomonosov MSU at the competition of robots "Eurobot - 2006".

the country hors concours, to study in the scientific and technical laboratories established on the basis of the chairs of MSTU N. E. Bauman and in some other leading institutions of higher education in Moscow and the Moscow region.

One of the results of the program "Step Into the Future" has become the establishment of a young Russian robot-technical team and its participation in EUROBOT international competitions, which attracts participants from several dozen of countries from all over the world. The aim of the competition is to attract attention to the study in the field of robot-technology, the exchange of technical information and engineering knowledge, and the development of new scientific and technical ideas in the fields connected to the application of automated systems. The Russian robot-technical team, with support of Sistema, took the second place in the EUROBOT cup and won a prize in the "Idea Originality" category for its non-standard approach to the creation of the submitted project.

Another educational program of Sistema is connected to the support of the United Institute of Nuclear Researches in Dubna. Here, a scientific and educational complex was established with support of Sistema Charitable Foundation for students and schoolchildren, where gifted young people conduct research in the field of applied and fundamental nuclear physics. In addition, the Foundation finances the organization of the annual international Olympiad on physics and mathematical modeling in the University of Dubna, the winners of which get the right to sit the entrance examination test on mathematics, for admission to the department of theoretical and nuclear physics of the University.

Sistema plans the establishment of a Russian Management School on the base of Saint-Petersburg State University. The new educational institution will become the business school meeting the global requirements of business education. The future national elite of administrative personnel capable of providing solutions to the challenges of the country's competitive strength increase in the knowledge of 21st century economics will do its professional training at the Russian business school. The University model of business school will include a diversified portfolio of educational programs (bachelor, master's, EMBA, MBA, Executive Education, etc.). Partner relations with leaders of world business education will allow the attainment of the status of an international centre of scientific research in the management field. Later, Sistema is planning to create on its base a specialized section on teaching the specialists of the corporation in the sphere of innovation management.

Sistema takes part in several projects on the creation of Russian technoparks. Since 2004, the company has been working on the creation

of Sistema-Sarov Technopark, where all conditions for scientific activity of young scientists will be provided. A decision has already been taken regarding the creation of one more corporate technopark on the base of the RTI - Systems concern. We are sure that these projects will allow the creation of effective centers for the high-tech sector of Russian economics.

## WE ARE SUPPORTING CULTURE AND ART

The main aim of Sistema Charitable Foundation in the sphere of culture and art is the preservation, support and development of the richest national cultural inheritance. Innovation projects, allowing the introduction of the newest technologies in the practice of Russian institutions are especially important among the whole variety of the cultural programs.

### Museums

The most important direction of Sistema Charitable Foundation in the sphere of culture is the support of domestic museums. In the course of sev-



State Russian Museum - the major custodian of the treasures of Russian Art (Saint-Petersburg).

eral years, Sistema has provided assistance to the State Museum of Fine Arts A. S. Pushkin, the State Tretyakov Gallery, the Museums of Moscow Kremlin the Museum of V.A. Tropinin and Moscow painters of his time, and the State Russian Museum.

The most scaled action of Sistema Charitable Foundation has become the unique project of establishing the informative and educational system called "Virtual World of the Russian Museum" in the regions of Russia. As a rule, the centers located in local picture galleries, museums or institutions of higher educations allow each person interested, above all students, to receive the most detailed information about the history of Russian art. The cultural and educational zone functions in each center, where visitors can get the print and multimedia materials related to the State Russian Museum. The unique program "Virtual World of the Russian Museum" gives an opportunity in real time to have a tour round the halls composing the complex of the State Russian Museum, demonstrates historical reconstructions of the lost interior and even enables "travelling into the picture" and become an immediate participant of the events depicted on it. Informative and educational centers by the name of "Virtual World of the Russian Museum" have been already opened in Nizhniy Novgorod, Saratov, Samara, Petrozavodsk, Kaliningrad, Murmansk, Perm and in other towns of Russia. Later, the opened centers are planning to be consolidated into one system, so that the resident of each region in Russia will have an opportunity to have virtual tours not only around the palaces of the State Russian Museum in Saint-Petersburg, but also around the halls of the regional museums and picture galleries. In addition, the launching of virtual branches of the Russian museum in Strasbourg and London is foreseen in the nearest future. This event will become the beginning of the extensive program on popularization of the Russian culture abroad. The project on cooperation of Sistema Charitable Foundation with the State Russian Museum is scheduled to last 10 years and is worth US\$10 mln.

Sistema regularly implements projects, the aim of which is to open access for wider sections of the population to the treasures of museum exhibitions. It has organized a charitable event in partnership with more than 30 museums in Moscow and Saint Petersburg on the Worldwide Day of the Museums, called "Day of the Open Museums", during which any person interested could visit the museums free of charge.

The "Gifts to the Leaders" exhibition was organized in the halls of Novij Manezh with the support of Sistema Charitable Foundation. A large and complex project was implemented by the State Historical and Cultural Reserve "Museums of Moscow Kremlin" within the framework of the 200th anniversary celebration of the Armoury Chamber. The exhibition aroused keen interest among a wide audience. The spectators could see a complex

of historical and artistic treasures from the 20th century, unique in its volume and content - including presents to the Soviet leaders beginning from V. I. Lenin to M. S. Gorbachev.

## Music

Sistema Charitable Foundation implements a whole series of projects in the field of support and development of classic musical culture. Our partners in these projects are the Mariinsky Theatre, International Charitable Foundation of Nicholai Petrov, foundation of Irina Arkhipova and the charitable foundation V. E. Meyerkhhold. Sistema supports the conduct of traditional festivals and concerts of ancient music "Earlymusic", prestige international ballet contest for prize of 'Benois de la Danse', among other cultural events.

For many years, the Mariinsky theatre has conducted contests of young opera singers for the 'N. A. Rimskiy-Korsakov' prize, with the support of the Sistema Charitable Foundation, as well as charitable concerts, among which the concert of spiritual music in the performance of Mariynka cho-



International festival Earlymusic presents to Russian audience the inheritance of european antique music.

rus within the precincts of Ivangorod Temple of Saint Trinity has become the most famous. The concert was organized for collection of funds for reconstruction of the unique historical music library of the Mariynsk theatre.

The Foundation supports the projects directed to the popularization of Russian classical art abroad. The concerts of the Mariynsky Theatre orchestra in London within the framework of "Shostakovich on the scene" festival dated on 100th anniversary of the composer, aroused a genuine interest on the global cultural scene. The audience listened to the program with enthusiasm and the critics unanimously acknowledged it as one of the most important events dedicated to the anniversary of the great Russian composer.

The international festival "Kremlin Musical" with the support of Sistema charitable foundation has also become a large project. The festival, the initiator of which was a famous pianist, president of Academy of Russian Art, Nicholay Petrov, has been conducted for seven years in the Armory Palace of the Moscow Kremlin. Its aim is to present the best samples of native and foreign music to the connoisseurs of high musical art, and to introduce the creative work of young performers and composers to them.

Until the end of the 1990s, Russia remained indifferent to the overwhelming interest in Europe to Baroque early music (12th-18th c.). Owing to the support of Sistema Charitable Foundation and the "Russian Fund of Ancient Music", during recent years early music has also become popular in Russia. Concerts of early music are held in the best venues in Moscow, Saint Petersburg, Ekaterinburg, Perm, Nizhniy Novgorod, with participation of the musicians on a global level. Their performances are accompanied by history lectures of ancient music and masterclasses for young Russian performers in the category of harpsichord, violin and cello. Publishing house Earlymusic issues historical treatises of music theory, among which are "Treatise about music" of Sebastian Virdung (1511), "The experience of genuine art of playing the clavier" of Charles Phillip Emmanuel Bach (1753). The publishing house is due to issue the music edition of Russian music masterpieces from the 18th century, which were earlier thought to be lost.

## Theatre

Sistema Charitable Foundation constantly provides support not only to the leading theaters of the capital, among which are Sovremennik, the workshop of P. N. Fomenko and Dramatic Art Studio of S. V. Zhenowacha, but also to the Russian Theatre in Tbilisi, Georgia, and to Theatre of the Black Sea Fleet in Sevastopol and other regional studios.



The play "America. Part 2". Plasma panels made by Sitronics were used as the decorations.

The play of the Moscow Theater Sovremennik became the most outstanding project of 2006, which performed "America" play to the audience. For part 2, director Nina Chusova suggested an unusual genre and visual solution - the play is read as a comics-show, and unique visual effects are used in the staging. The performance has become the first multimedia theatre play in Russia. Sitronics concern provided 27 plasma panels, other technics, intellectual elaboration and service support for the play.

Within the framework of cooperation with Charitable Foundation Vs. Meyerhold, the foundation offers assistance to the veterans of theatre scene, pays scholarship to the trainee actors and students of theatre institutions of higher education and maintains the museum-apartment of Vs. Meyerhold. In 2006 the foundation of Vs. Meyerhold, with sponsorship of Sistema, organized 11 charitable concerts for orphans and children from patronage families as part of the "Year of the Child".

## Russian language and literature

The corporation attends closely to social projects in the field of Russian language and literature. Sistema Charitable Foundation provides support to the All-Russian society of bibliophiles, and the All-Russian Children's Literature contest was held World-wide Day of Book, with the support of the foundation.

With the support of Sistema, the international symposium "Russian philology in the World-wide Cultural Context" was held in Russia, which has become the first international forum in the history on the problems of Russian literature unifying writers, translators and researchers from dozens countries all over the world. The symposium took place on the 500th anniversary of the Dostoevskiy family and 185th birthday of the writer. A decision was taken by results of the symposium on the publishing of a unique historical and literary work, "The Chronicle of the Dostoevskiy Family", where information on numerous ancestors, descendants and relatives of Dostoevskiy based on archive research will be included.

### Architecture

Sistema Charitable Foundation actively takes part in reconstruction of the masterpieces of Russian Orthodox architecture. The Cathedral of the Blood in the name of All Saints That Have Illuminated Russia, in Ekaterinburg, the Church of Saint Trinity in Ivangorod (Leningrad region), the Church of Saint Alexander Nevskiy in Simferopol, the Orthodox Church of Mother Derzhavnaya and the nativity of the Holy Virgin Church in the village of Korzhavka, in Ulyanovskaya region, Moscow churches in the monastery of Done and Marpo-Marrinsk cloister, the church of Saint Pnteleymon in the territory of the military hospital in Moscow region and many other famous and forgotten temples and churches are being reconstructed with participation of the foundation. In addition, the corporation provided financial support to the construction of an educational and practical corpus for the Orthodox Nunnery of Vladimir Diocese "Dawn" and finances the study of students in the higher spiritual institution of Russian Orthodox Church - Moscow Spiritual Academy.

### WE ARE SUPPORTING SPORT PROGRAMS

The support of sports projects has become for Sistema not only the method of adhering to native winning traditions, as well as being one of the most promising directions of business-activity. One of the functions of Sistema specializes on the creation, equipping and management of sports installations. Nowadays the company manages the biggest fitness-centre in Europe, "Olympic Star", and the health-improving complex "Wellness Club". Possessing wide experience in the given sphere, we can professionally evaluate the needs of Russian physical training and sports and plan social investments in this sphere, which will give a maximum result.

The support of the Russian Olympic movement became one of the most considerable social projects of the corporation. With the participation of Sistema

and in partnership with leading Russian companies, the "Russian Olympians Relief Fund" was established in 2005. At that time the first grant program of Russian Olympians relief has launched, which allowed support to 700 gifted Russian sportsmen and women. In addition, the fund implemented a set of grant programs for Sportsmen-Olympians: "Turin-2006", "Peking-2008", "Olympic Achievements-2006", "Olympic achievements-1956".

Sistema makes its considerable investment in the development of native sports infrastructure and construction of Olympic sites. The corporation invested more than US\$5mln in the construction of Olympic buildings for winter sports in Sochi. The corporation donated more than US\$10mln dollars altogether for development of the Olympic movement in Russia.

Many affiliated companies of the holding actively take part in the development of the Russian sports. The insurance group ROSNO provides large support to sports competitions. The people of elder generations probably remember this outstanding event in the sporting life of the country, as the ice hockey tournament for the prize Izvestiy. In the Soviet period it was compared with the world championship and Olympic hockey tournament on its scale. Since 1996, the tournament has had the status of the Russian stage of the hockey Eurotour. In 2005 the reborn tournament was newly named - "ROSNO Cup". At present, the tournament is going through



The Art Director of the festival "The musical Kremlin", pianist Nikolai Petrov in the Armoury Chamber of Moscow Kremlin.

rebirth and enjoying wide popularity with the fans. In 2006 the "ROSNO Cup" was conducted in the Palace of Sport Luzhniki, all 11,000 tickets were already sold before the beginning of the competitions.

At present, ROSNO is the official insurer of the Russian Basketball Federation and some Russian sports team, and for several years "Sitronics" company has been the official sponsor of the hockey club Krilya Sovetov.

In the list of sports projects, in which Sistema and its affiliated companies take part, are dozens of famous names. The most famous of them are the international tennis tournament Kremlin Cup, which gets support from MTS and Comstar, sponsorship of the racing team MTS AC Racing in the races of Formula 1, the riding competition for the President's Cup, the chess championship of Moscow. The corporation finances the conduct of the water-ski world cup in Dubna, women's free-style wrestling tournaments Ivan Yarigin and judo among juniors, Russian-British track-and-field relay-race, an annual rugby tournament among juniors for the prize of Sistema, ice tournament among juniors for the prize of Vladislav Tretyak. In addition, Sistema provides support to the MIA Sports Federation, the deaf people's Football Federation, the children's tennis academy, Rugby-Podmoskovye sports club and Olympo invalids sports society. Sistema Charitable Foundation provides support to the national Sports Federations, takes part in the program of modernization of the outdated sports inventory in Moscow schools.

## WE ARE IMPLEMENTING HUMANITARIAN PROJECTS

Sistema Charitable Foundation uses the available opportunities for providing support and assistance to socially insecure sections of the population, first of all to veterans, invalids and orphans. Among the projects in this area, the most considerable are the reconstruction of the veterans' house stage in Saint Petersburg, support of the international prize of the art work Philantrop, Rescue and Independence charitable foundations.

We have assisted the inmates of the Sanatorium Children's Home N 39 in Pushkino for many years, where more than 100 orphans are reside permanently. Clothes, foodstuffs, books and manuals are bought by funds of the corporation and a sports city has been built.

Sistema regularly provides support to the private children's home "Boarding School of Family Upbringing" and Children's Orthodox Orphan's Home in the village Raduzhniy of Vladimir region, where 40 children reside without their parents' care. With the support of the corpora-

tion, an educational and practical complex was built in the Orphan's Home, where paintings, knitting, embroidery and other traditional national mechanical arts have been placed.

The corporation rendered financial aid to the construction and reconstruction of the secondary school of the village Uvarovka in Moscow region, as well as restoration of the heating system in the Orphan's Home for Blind and Weak-sighted Children in Moscow region. Sistema Charitable Foundation built a new easting establishment in the Social Orphan's Home for Children and Teenagers of Zapadnodvinskiy district of Tverskaya region and properties were obtained for the performance of the children's circus collectives of the boarding-school N 15 Yu. V. Nikulin in Moscow.

Sistema Charitable Foundation regularly provides support to invalids. Among the actions of the foundation are the purchase of the contemporary children's wheelchair, the children's art festival "Nadezhda", and a chess tournament among the children-invalids in the house of one of their teachers in Moscow. At present, a program on provision of rehabilitation technical means to the invalids is being fulfilled by means of the foundation. "Independence" charitable foundation is our regular partner in the support programs' implementation for the invalids, functioning in the field of rehabilitation and social adaptation of the invalids. For two years of joint cooperation, we provided material and social support to approximately 10,000 people.



Laureate of the International award Phylantrop in the area of artistic creativity of the invalids' exhibition in Russian Academy of Art.

"Rescue" corporation jointly with Charitable Foundation regularly provides support to the treatment and conduct of immediate operations, purchase of the medical equipment and prosthetics. The corporation assumed the responsibility for the treatment payment and rehabilitation of the children who suffered in the terrorist act in Beslan in September 2004. Thanks to Sistema Charitable Foundation, more than 1,000 patronage nurses of the Red Cross All-Russian society, who take care of single and sick people, received mobile medical accessories for care of sick people, including: apparatus for pressure-gauging and blood tests, physiotherapy apparatus, thermometers, hygienic means.

Activity in the field of patriotic education deserves special attention, and includes training for civil positions among young people to the homeland and armed forces. With the support of Sistema, the best cadets of the Moscow City Club of Young Seamen and River Transport Workers "Peter the Great" and the Moscow Corporation of Cadet Corpus "Heroes of Sevastopol" for the first time in the history of MN did their practical work on board of the sea trawler "Valentin Pikul". The Moscow Club of Seamen and Submariners received equipment for a computer classroom. A ceremony of prize awarding called "Running on the Waves" was held in 2006, which was established in the framework of the Russian Federation Government program "Patriotic Upbringing of Russian Federation Citizens from 2006 to 2010" for the contribution to the work on professional orientation of young people.

Sistema and the companies of the corporations provide support to people who have suffered in terrorist acts and conflicts: veterans, military men and members of their families, as well as other socially insecure categories of the population.

## WE ARE BUILDING RELATIONS WITH LOCAL COMMUNITIES

In regions where several plants of Sistema function simultaneously, the holding has a special approach to the support of local communities and development of territorial infrastructure. Zelenograd is one such territory, which we can by full authority call the Russian Silicon valley. The history of Zelenograd as a center of Russian high technology plants goes back to 1950. In March 1958 the USSR Counsel of Ministers made a decision regarding construction of new town in the region of railway station Kurkino, near Moscow. In 1962 the construction was placed under the jurisdiction of the Electronics State Committee. In March 1964 the Microelectronics Research Institute was opened in Zelenograd (RIM). In 1967 a factory adjunct RIM, producing Mikron integral schemes began

functioning. By this time, the population of Zelenograd amounted already to 65,000 people and the majority of them were working for microelectronics complex plant, closely connected with the defense industry.

The State was making significant investments in development of the town's infrastructure, which became the leader of high technology defense industries. In 1980s another big factory Kvant was built in Zelenograd, which was producing domestic PCs. However, it did not reach planned production capacity.

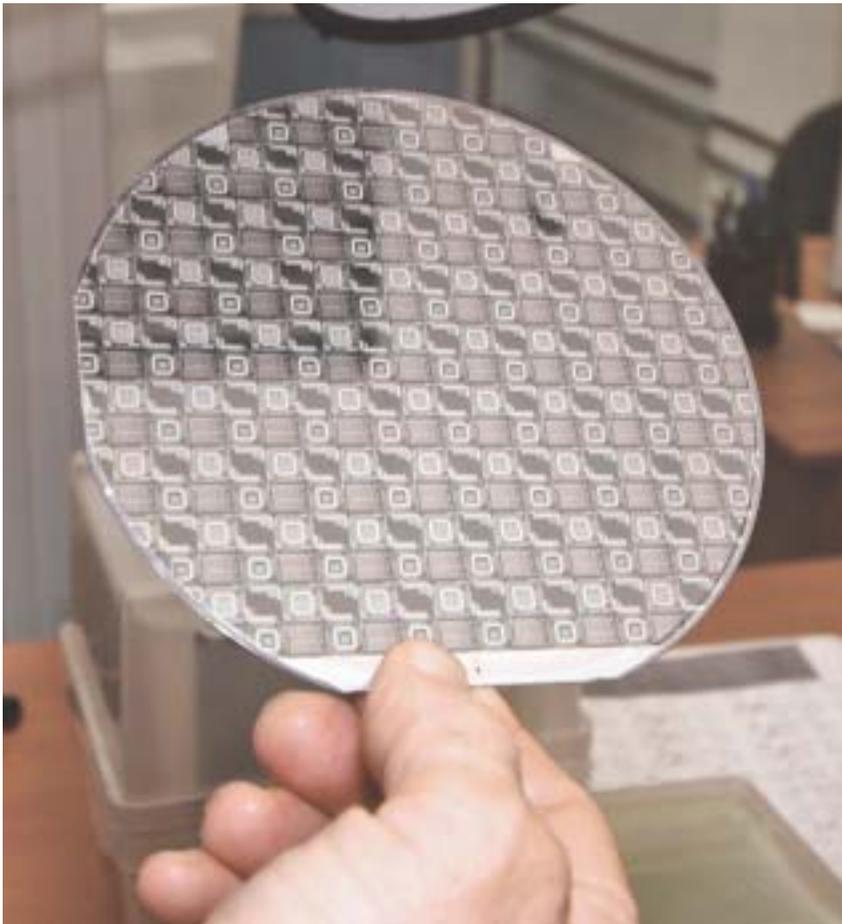
With the collapse of the USSR, Zelenograd declined from once being an industrial leader into a depressed region. There were no more defense orders, the equipment was steadily becoming obsolete, and factories were



In the clean room of Mikron are concentrated the most modern technologies of mass production of microchip in Russia .

carrying out only occasional orders. In the 1990s the average age of micro-electronic factories' workers exceeded 50, as young and qualified specialists were leaving the town. The existence of Zelenograd itself was called into question.

At that time, Sistema offered a plan of modern, dynamic and industrial complex creation on the basis of Zelenograd's enterprises, which was led by Alexander Goncharuk, present President of Sistema. A crisis-management team carried out the assessment of enterprises' financial state, the effectiveness of their business processes and personnel potential. The holding completely paid off the debts of the factories with respect to taxes, salary and electric power. In empty industrial sites was adjusted an assemblage of import componentry of consumer's electronics in wide assort-



ment - from notebooks and TV-sets up to teapots and juicers. The profit gained from the products' sale was completely reinvested in production. The home technology present in Zelenograd entered the market under general trademark Sitronics. In 2005 it became the name of Sistema affiliate concern, combining a number of high technology and science-intensive productions. The core of the Sitronics concern became SRIME and Mikron OJSC and Kvant NGO.

Today, the factory Mikron produces 450 types of chips, including technologies 0.18 micron and the very latest technologies of M5 modules class. In April 2006 the corporation made an investment of US\$200mln in order to purchase new equipment for the factory Mikron, as well as for production of chips by 0.22 micron technology used in biometrics systems. Kvant NGO became the biggest Russian manufacturer of industrial and home electronics from its own components. The company's products are exported in 23 countries of the world under the trademark Sitronics. Since 2003 the profit of Sitronics, which has become the leader of the field in Eastern Europe, has increased rapidly each year.

Sistema revived in Zelenograd not only production but also science. In research and experimental-design laboratories of Sitronics enterprises, about 1,500 people are employed. The general budget for SREDW totals up to 10% of the concern expenses. For a few years, the company's specialists were granted about 2,000 patents and inventors certificates.

At present Sitronics is the main tax payer of Zelenograd and participates actively in the town's public life. It actively cooperates with Zelenograd prefecture and greatly contributes to the development of the city infrastructure, accomplishments of the city, and support institutions of social significance. In addition, the holding is financing its own chair in the Moscow City Institute of Electronics, where many students study from Zelenograd. Many of them after completing their studies will return to the newborn "Silicon Valley" and become employees of Sitronics enterprises.

## WE HAVE A TRANSPARENT SOCIAL INVESTMENTS BUDGET

Charitable projects:

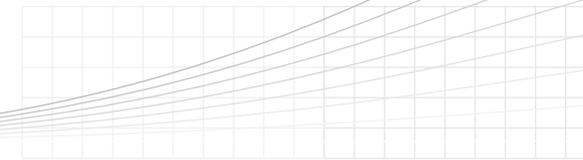
**I. Program "Culture"**

Implementation of projects in the sphere of Russian culture, intended for preservation, increasing and popularization of the national cultural heritage

Program of Russian museums support (introduction of multimedia technologies in museums)		2005, thous \$	2006, thous \$
Cooperation with the Russian Museum	Implementation of the project "Virtual World of the Russian Museum" (creation of a network of informational and educational centers of the Russian Museum)	350	350
	Exhibition projects	150	200
	Publishing projects	250	250
	Improvement of material and technical base	200	250
Cooperation with the Federal State Establishment the State Historical and Cultural Museum-Preserve "Moscow Kremlin"		50	550
Other projects		300	450
<b>TOTAL:</b>		<b>1 300</b>	<b>2 050</b>

Projects of Russian classical music and dramatic art support.  
Projects in the field of Russian language and literature

		2005, thous \$	2006, thous \$
Cooperation with the State Mariinsky Theatre	Touring activity	50	60
	Support of academy of young opera singers	40	40
	New state construction	60	50
Financing of holding of the festival of the early music		50	50
Financing of holding of the classical music festival "Musical Kremlin" and Charitable Foundation of Nikolay Petrov		25	30



Young Opera Singers' Contest of Elena Obraztsova		20	30
Theater projects	Theater Sovremennik	40	110
	Moscow Theater of P. Fomenko	30	30
	Studio of Drama Art of S. Zhenovich	10	25
	Theater of Black Sea Fleet	10	20
	Charitable Foundation of Support of Drama Art "Vsevolod Meyerhold"	50	80
International Union of Book-Lovers		30	80
Other projects		430	480
<b>TOTAL:</b>		<b>845</b>	<b>1085</b>

## II. Program "Education"

Support of scientific, technical and innovative creative work among youth and implementation of educational programs.

		2005, thous \$	2006, thous \$
All-Russian scientific and educational program for youth "Step into the Future" (together with Moscow State Technical University N. E. Bauman).	Regional contests	250	300
	Final All-Russian contests	120	150
	"Academy of Youth"	30	50
	Contests of young scientists of the European Union	70	75
	International competition on robo-technics "Eurorobot"	20	25
United Institute of Nuclear Researches, Dubna	Holding of the contest on physics and mathematical modeling	10	15
	Creation of students' laboratory for nuclear physics	25	30
	International school of young researchers "Dialog"	10	10
Corporate Program of Grants		70	90
Other projects		250	270
<b>TOTAL:</b>		<b>855</b>	<b>1015</b>

### III. Program "Social Development"

Implementation of charitable projects in social, spiritual fields and in sports.

	2005, thous \$	2006, thous \$
Program of support of the Olympic movement in Russia	3 000	3 000
Program of restoration of monuments of the Russian architecture and art of building	400	450
Humanitarian projects	900	5 350
Sportive projects	90	120
Other projects	800	950
<b>TOTAL:</b>	<b>5 190</b>	<b>10 870</b>
<b>TOTAL:</b>	<b>8 190</b>	<b>14 020</b>

#### Social and educational programs for personnel

	2005, thous \$	2006, thous \$
Program of corporate medical insurance	1 100	1 500
Corporate educational programs	320	350
Program of innovative grants and contests for young scientists	250	270
Establishing of the Higher School of management and Innovations (faculty) of the Lomonosov Moscow State University (Corporate University).	140	180
Internal measures intended for development of the corporate culture	800	1 200
Other projects	940	1 100
<b>TOTAL:</b>	<b>3 550</b>	<b>4 600</b>