

Preliminary approved  
by the Board of Directors  
of OJSC “Sistema-Hals”  
on May, 22<sup>nd</sup> 2008 (minutes №52)

# **ANNUAL REPORT 2007 of SISTEMA-HALS Open Joint Stock Company**



**This Report has been executed in conformity with  
Requirements set forth by Resolution  
of the Federal Agency on Financial Markets  
of the Russian Federation N 06-117/pz-n of October, 10<sup>th</sup> 2006  
«On Approval of the Regulations of Disclosure of Data on Securities»**

**Financial data given in this Annual Report  
are based on statements drawn up pursuant  
to the existing law of the Russian Federation**

**President of OJSC Sistema-Hals**

\_\_\_\_\_ **F.V. Evtushenkov**

**Chief Accountant of OJSC Sistema-Hals**

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**Moscow, 2008**

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## **I. THE COMPANY'S FINANCIAL STANDING IN THE BRANCH**

OJSC Sistema-Hals (hereinafter referred to as "the Company") is a large diversified company operating in the real estate market of Russia and CIS countries. OJSC Sistema-Hals has become a first Russian developer company to place its shares at London Stock Exchange. The shares have been allowed to tenders at Moscow Interbank Currency Exchange, Moscow Stock Exchange and Russian Trade System Stock Exchange. OJSC Sistema-Hals ranks among largest companies in the real estate market of Central and Eastern Europe in respect to capitalization.

During 2007 Sistema-Hals Open Joint Stock Company concentrated its efforts on increasing efficiency in implementing its developer projects. Concentration of efforts on the production programme along with marketing success against of favorable market situation made it possible to reach impressive results in 2007.

### **Consolidated financial Results for 2007 by US GAAP standards amounted to:**

- Annual revenues increased by 59.8% and amounted to 452.2 mln. US dollars.
- By independent assessment conducted by Cushman & Wakefield Stiles & Riabokobylko (C&WS&R) Company, the cost of the share of OJSC Sistema-Hals in projects as at 1 January, 2008 amounted to 3.7 bn.US dollars, having increased in the 2<sup>nd</sup> half of 2007 by 30%.
- Major growth factors in the portfolio value manifested themselves in acquisition of new projects and progress in implementation of the existing ones.
- Total number of projects in the portfolio equals to 103, of which 24 are projects in the investment portfolio, 79 are projects on various development stages and reserved for future development.

Impeccable reputation of OJSC Sistema-Hals, its strict complying with assumed obligations are a pledge of success in engaging in cooperation such prominent Western and Russian corporations as: BBDO, DaimlerChrysler, Dresdner Bank, Japan Airlines, Metromedia International Group, Mildberry, Orco Property Group, Raiffeisenbank, Samsung, Scandinavian Airlines, Siemens, Western Union, Alrosa, MGTS, MTS, Nafta-Moscow and many others.

In 2003 OJSC Sistema-Hals became a winner of The Company of the year national competition, which is annually arranged by RosBusinessConsulting Russian Press Agency in nomination "For Contribution in Urban Construction". In 2003 in Frankfurt the Company was awarded with a golden "Arc of Europe" for Quality and Technologies. In addition to it activities of OJSC Sistema-Hals were noted with a number of prestigious Russian and foreign awards in the field of construction and development. Thus, an office of DaimlerChrysler concern has been awarded a blue ribbon in a major category "The Best Construction Project of a New Millenium" at the 13<sup>th</sup> International construction competition in 2001 in Paris, "Golden European award forquality-2001" and award in the competition "The Best Project Implemented in the Field of Investments and Construction in 1990-2000." in the nomination "Office Premises and Buildings, Business Centers".

OJSC Sistema-Hals became a winner all at once in two nominations of a professional Premium in the field of commercial real estate. In the competition "Commercial Real Estate Moscow Awards 2007" held in November, 2006 OJSC Sistema-Hals was the first in Transaction of the Year nomination while Pokrovskiye Vorota hotel-and Office Complex (Moscow, Petrovka Str., 40) was awarded blue ribbon in Multifunctional Real Estate nomination.

## II. THE COMPANY'S BUSINESS PRIORITIES

Priority objectives of OJSC Sistema-Hals in 2008 are further development of the Company's competitive advantages by way of building up inner competence and strengthening positions in premium segments of the real estate market. Along with strong performing discipline and concentration on enhancing operational efficiency actions on generation of project portfolio in the premium segment will make it possible for OJSC Sistema-Hals to successfully employ new opportunities for sustainable growth in the long-term outlook.

Major business directions of OJSC Sistema-Hals are the following:

- Development;
- Project and construction management;
- Administration of assets;
- Real estate project management (upkeep of buildings).

Since commencement of its business in 1994 OJSC Sistema-Hals has successfully completed over 30 projects with total area exceeding 300 000 sq.m. Among them are DaimlerChrysler headquarters, Hals Tower office building, Metallurgic Company headquarters, MaMaison (Orco Property Group) chain of hotels.

Currently OJSC Sistema-Hals is building Leningradsky Towers Complex comprising two buildings; involved in Moscow phone networks complex redevelopment programme ; rehabilitation of Peking hotel and a number of other projects including those in regions of Russia (St. Petersburg, Sochi, Yalta).

OJSC Sistema-Hals and Apsys French company, which is one of the largest companies in Europe involved in development and administration of assets in the real estate segment, have signed an agreement on long-term strategic cooperation in the field of joint development and administration of trade and entertaining complexes in Russia. Within the framework of the above Agreement OJSC Sistema-Hals and Apsys have created an enterprise in which each Party thereto possesses 50%, for joint development and administration of projects in the retail segment as selected jointly by the Parties thereto. A first investment project of such joint venture is acquisition from OJSC Sistema-Hals of Leto trade and entertaining complex erected on an area equal to 17.7 ha in St. Petersburg Pulkovo highway. The Complex area fit for leasing will equal to around 75,000 sq.m.

Also OJSC Sistema-Hals has signed an agreement on strategic cooperation with Saraya company involved in development, administration of assets, investments in the tourism industry with a view to jointly implement a trade and entertaining on the seaboard of the Black Sea. In the city of Sochi. Within the framework of the above agreement company has become an owner of 50% of a recreation complex located in the place of former Camellia vacation hotel. OJSC Sistema-Hals and Saraya company will be jointly involved in redevelopment of the available territory and construction of a world-level resort, which will comprise a 5-star hotel, club-type apartments, its own beach area and inner infrastructure objects. The Complex total area will be around 100,000 sq.m.

Starting from 1 July 2008 OJSC Sistema-Hals will be performing rehabilitation and restoration of "Detsky Mir" toy shop building In Lyubyanka (Teatralny lane.5, building.1) Advanced concept of the rehabilitation project, employment of up-to-date construction and design technologies will make it possible to preserve image of the shop and make inner trade halls more comfortable for customers. It is intended to increase total building area from 57.5 thou. sq.m. to 74.000 sq.m. due to rebuilding inner areas and almost double trade areas which are now 19.000 sq.m. External

appearance of the building and its size will be preserved and in addition to shops now available an entertaining center, multi-hall cinema, restaurant yard and a game center will be built.

OJSC Sistema-Hals is also involved in implementing a developer project in Kiev (the Ukraine) providing for construction of a multifunctional complex on a land plot located at Shevchenko district. Its total area will be over 100.000 sq.m. The building is planned to be built with a variable number of storeys with maximum 20 storeys. The Complex will involve business class dwellings and office premises, a trade center and underground parking.

OJSC Sistema-Hals has generated a comprehensive and well-balanced portfolio of assets in growing market segments. The Company's strategy is directed to building of A-class offices, multifunctional complexes, premium and business-class dwellings, cottage settlements and land development.

OJSC Sistema-Hals has been cooperating with large players of the real estate market – consultants, realtors, architects, builders. Among our partners are leading Russian and Western companies such as Alsop Architects, ARUP, Chapman Taylor, Cushman & Wakefield Stiles & Riabokobylko, Foster and Partners, Hochtief, Jones Lang LaSalle, Knight Frank, McAdamArchitects, RTKL and many others.

City-Hals Closed Joint Stock Company, a subsidiary of OJSC Sistema-Hals is one of the leading companies in Moscow real estate market rendering a complete range of services on upkeeping and administering commercial and living real estate.

OJSC Sistema-Hals employs a team of high-skilled experts capable to solve complex problems. Flexible methods of work applied by OJSC Sistema-Hals unconventional solutions with application of up-to-date business technologies make it possible to procure rendering of services in due time in the field of real estate management and attain financial efficiency of projects.

Largest projects under OJSC Sistema-Hals management are offices and outlets of MTS telecommunication company (117.00 sq.m.), “Detsky Mir” toy shop on Lyubyanka square (59.000 sq.m.), office of ROSNO insurance company (16.000 sq.m.), Hals-Tower business center (12.5 thou. sq.m.), office of Societe Generale-Vostok Bank (3.3 thou. sq.m.).

### **III. REPORT OF THE COMPANY'S BOARD OF DIRECTORS ON BUSINESS PRIORITIES OF OJSC SISTEMA-HALS**

#### **1. Results of financial and economic activities of the Company according to Russian Accounting standard data:**

##### **Share of revenues and its structure.**

<b>Index description</b>	<b>2006</b>	<b>2007</b>	<b>Growth RUB .000</b>	<b>Growth %</b>
<b>Sales revenues (works, services), RUB thou.</b>	142,728	188,137	45,409	32
<b>Share of total revenues, %:</b>	100.0	100.0	-	-
<b>Reference:</b>				
<b>Revenues from performing customer's functions</b>	78,800	50,604	-28196	-55,7
<b>Agent remuneration</b>	63,790	135,823	72,033	112
<b>Consulting services, other</b>	138	1,711	1,573	1,140

The share of sales revenues increased in 2007 by 32 %, which is a positive factor. Revenues from performing Customer's functions reduced by 55.7%. Such revenue reduction in respect to major business activities has been caused by completion of construction in 2006 of two large projects: Pokrovka, 40 hotel complex and Mokhovaya, 13 office center due to which the base (the scope of construction and mounting works) reduced to compute remuneration for performing Customer's functions. In 2007 projects were constructed on which design and exploratory design stages were completed. The remuneration for completion of such stages in the main number of projects is a fixed value and it is lower than on the stage of construction and mounting works.

The remuneration under agent agreements materially augmented (by 112 %), which is due to new agreements signed to implement and increase in remuneration interest under previously signed agreements.

Growth in the volume of consulting services is related to expansion of the range of services rendered to counteragents who have previously cooperating with the Company under other agreements.

### **General structure of prime cost of services rendered by the Company**

<b>Cost item</b>	<b>2006</b>	<b>2007</b>
<b>Total cost of works, services, RUB thou.</b>	405421	709142
<b>including:</b>		
<b>Materials and raw materials, %</b>	1	1,2
<b>Acquired component parts, semi-finished products, %</b>	-	-
<b>Production works and services performed by outside companies, %</b>	4,5	12,8
<b>Fuel, %</b>	0,3	0,2
<b>Power, %</b>	1	1
<b>Payroll, %</b>	70,8	66,3
<b>Loan interest, %</b>	-	-
<b>Rent, %</b>	1	2,1
<b>Allocations for social needs, %</b>	16,5	9,8
<b>Амортизация основных средств, %</b>	1,4	1,1
<b>Taxes included in the prime cost of products, %</b>	-	-
<b>Other costs:</b>		
<b>Depredation of intangible fixed assets, %</b>	-	-
<b>Remuneration for innovation proposals, %</b>	-	-
<b>Mandatory insurance payments, %</b>	1	0,9
<b>Hospitality expenditure, %</b>	1	0,3
<b>Other general expenses of administration, %</b>	1,5	4,3
<b>Total: costs of production and sales of products (works, services) (prime cost), %</b>	100	100
<b>Reference: revenues from sales of products (works, services), % to prime cost</b>	35	26,5

A major share in the prime cost structure is occupied by labor cost (66.3%), which is related to the fact that the Company's major type of business activities is rendering of the following services:

- rendered by customer and customer – developer in construction arrangement;
- rendered by a technical customer;
- consulting services;

- agent services.

Enhancement in administration expenses for works carried out by outside companies is due to capital repair works and partial rehabilitation of the Company's office building.

Here a positive factor is reduction dynamics of the ratio between revenues from sales and prime cost. This aspect proves the fact revenue growth rates materially outstrip those of prime cost.

Reduction in allocations for social needs is explained by the fact that due to payroll increase in 2007 a regressive flat tax rate has been computed starting from March 2007 while in 2006 this rate was applied by the Company starting from October.

### **Profit and loss**

<b>Indicator</b>	<b>2006</b>	<b>2007</b>
<b>Revenues, RUB, thou.</b>	142,728	188,136
<b>Gross profit, RUB, thou.</b>	- 262,693	- 521,005
<b>Net profit(retained profit( uncovered loss)), RUB, thou.</b>	- 66,031	144,664
<b>Return on equity, %</b>	0	0.01
<b>Return on assets, %</b>	0	0.003
<b>Net profit ratio, %</b>	0	77
<b>Product (sales) profitability, %</b>	0	-
<b>Capital turnover</b>	0.01	0.005
<b>Uncovered loss amount as at a reporting date, RUB thou.</b>	308,580	168,492
<b>Ration of uncovered loss as at a reporting date to grand total, %</b>	0.97	0.004

### **The economic analysis of issuer profit/loss proceeding from the above indicators:**

The Company's business efficiency is characterized by a net profit value. In 2007 the Company shows a stable tendency to profitable business. The net profit ratio amounted to 77 % against 0 in 2006, which proves the Company's economic efficiency.

The reduction in the capital turnover in 2007 is explained by material increase in long-term liabilities (by RUB 7 bn.), while changes in other items participating in the computation were minor. In addition to it when considering the capital turnover indicator one should account specific features in the Company's business activities, consisting in accumulation and placing appreciable assets in the construction-in-progress projects for long term.

Reduction of the ratio of uncovered loss to grand total is a positive factor.

### **Issuer liquidity, capital and current asset adequacy**

<b>Indicator</b>	<b>2006</b>	<b>2007</b>
<b>Own circulating assets, RUB thou.</b>	9,626,650	- 766,405
<b>Perpetual asset index</b>	1.0	1.0

<b>Current ratio</b>	1.40	2.5
<b>Fast liquidity ratio</b>	1.36	2.3
<b>Own asset autonomy ratio</b>	0.54	- 2.6

#### **Analysis of issuer liquidity and solvency:**

These indicators have been computed proceeding from specific features of the investment-and-construction process. Target financing funds (TF), given in the balance sheet on page. 625 amounting to RUB 3.784.752 for a Customer-developer are considered to be net worth, since used directly for implementing construction projects and given on page 130 (In-progress-construction) in the Section «Non-current assets» of the Accounting balance-sheet.

The indicator of own circulating assets decreased by RUB 7 bn. as compared to 2006. This was due to investing such own funds in long-term financial investments (shares of subsidiaries) and in-progress-construction equal to RUB 3 and 4 bn. respectively.

The general solvency indicator (Perpetual asset index) is equal to 1.0 (normal reduction is less or equal to 1): the perpetual asset index characterizes a ratio between non-circulating assets to be financed from own sources, and a value of such sources. Should this indicator be less 1, such own sources are sufficient.

Fast liquidity ratio is corresponding to a required value which is not less 0.1.

Current ratio 2,5 is perfectly corresponding to a required value (not less 2) and characterizes the Company's short-term debt security with circulating assets for it to be able to maintain economic business and repay term liabilities in due time.

Own asset autonomy ratio shows the share of own funds in the Company's total amount of all funds.

Above indicators are corresponding to required values and make it possible to derive a conclusion on adequacy of own funds, financial independence and solvency of the Company.

One should note a positive tendency in changes in the Company's 1 major indicators of solvency and liquidity. The above ratios computed on the basis of accounting statements (with account of quantitative growth of in-progress construction projects, which, in their turn, entail new tendencies in the strategy of financial flow management in optimization of the structure of assets and liabilities) show the Company's increased sustainability with account of its specific features (for instance, the construction cycle length).

## **MAJOR FINANCIAL FIGURES**

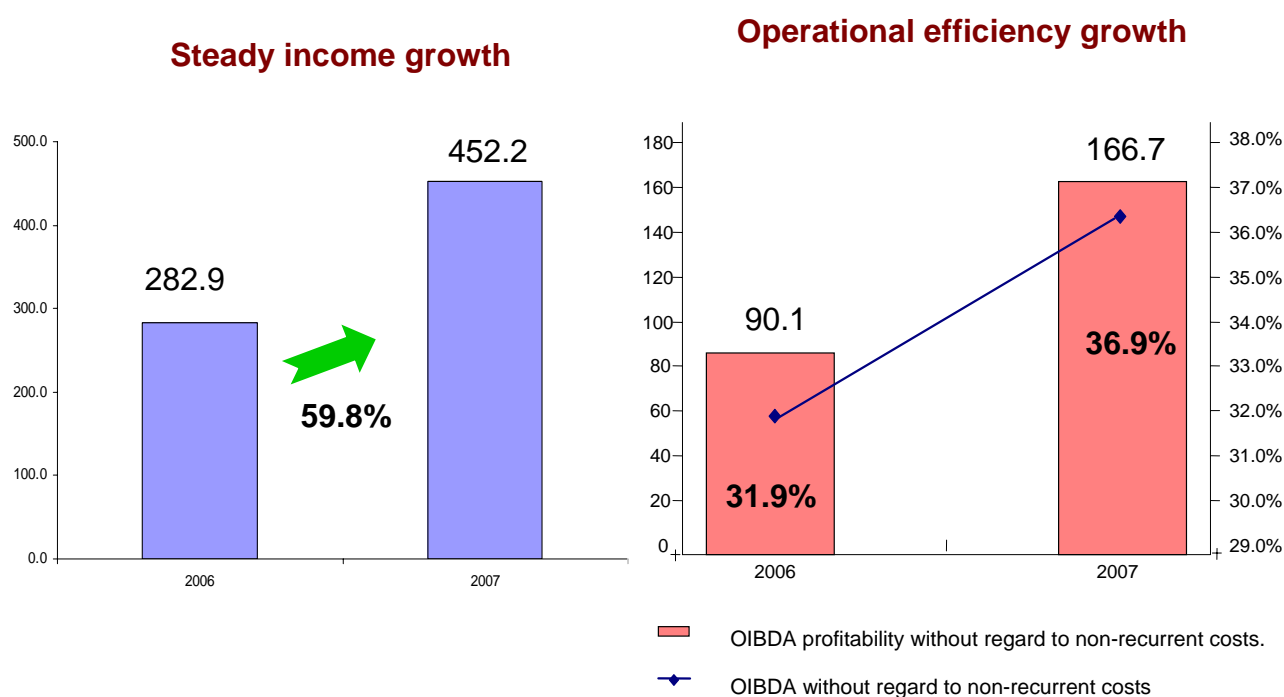
- Consolidated income OJSC Sistema-Hals in 2007 amounted to \$452.2 million. Main growth was ensured by outstripping income growth rates of Development business line. Income from this business line in 2007 amounted to \$356.0 million demonstrating 72.7% growth as compared to 2006. This growth was favoured by several forces with such major forces as: sale of the building located at the address: Sadovnicheskaya str. 75, Moscow; sale of Kamenniy Ostrov project and the share in Kostianskiy 13 project; growth of prices and volumes of sale of land plots in the framework of Aurora project (Stepankovo, Moscow Region); and growth of sales of apartments in current projects located at the addresses in Moscow: Dnepropetrovskaya str., Nakhimovskiy ave., Michurinskiy ave., Rubliovskoye highway, and sale of apartments in the Yartsevskaya 27v residential center which was commissioned in December 2007. Strategic agreements with the sale of 50% share in the Kameliya project of Saraya and transfer of Leto project located in St. Petersburg to the joined enterprise with Apsys also increases the income of the Company in 2007.
- Consolidated income of the Company from assets management in 2007 amounted to \$44.8 million growing by 67.2% as compared to 2006. Income growth is in the first place explained by the increase of income from sale and lease of cottages. The cottage village in Serebrianniy Bor



remains the main source of income from lease in 2007.

- Income of the Company from activity within the framework of Real Estate Management business line in 2007 amounted to 22.8 million growing by 127.5% as compared to 2006. Main reason of growth was the increase in income from real estate management services provided by the affiliated company OJSC AFK Sistema.

Consolidated OIBDA figure without regard to non-recurrent costs for the bonus programme amounted to \$166.7 million growing by 85.0% as compared to 2006. OIBDA profitability without regard to non-recurrent costs for the bonus programme amounted to 36.9% in 2007.



In 2007, OJSC Sistema-Hals passed from active forming of projects portfolio to the stage of systematic implementation of a large-scale production programme.

Around 500 thousand m<sup>2</sup> has been under construction in 2007.

In November, a residential center was commissioned located in Moscow at the address Yartsevskaya 27V. This business class residential center with the total area of approximately 30 thousand m<sup>2</sup> comprises two 19-storey monolith-brick buildings with the total of 144 apartments.

Also, technical opening of Detskiy Mir trade and entertainment center took place in Kazan in November. This trade and entertainment center will include around 30 renters. Total area of the center is approximately 20 thousand m<sup>2</sup>.

A unique Zhivopisniy Bridge was commissioned in Moscow in November located in the vicinity of Serebrianniy Bor natural park. The bridge is a component of Zvenigorodskaya highway. This is the first cable bridge in Moscow and only the third one in Russia.

Work is active and apartments sale is growing in residential objects Michurinskiy, Dnepropetrovskaya, and Nakhimovskiy.

In 2007, the Company entered the construction site and began sales of apartments in the residential center at the address Rubliovskoye highway 111.

Implementation of the St. Petersburg Leto project is going on implemented by the Company together with the French partner Apsys.

Also, implementation of the office project is going on at Leningradskoye highway and other projects of the Company belonging to residential property segment and to the office and trade segments as well.

## **2. Report on the work of the Company Board of Directors in 2007.**

During 2007, OJSC Sistema-Hals performed 11 meetings of the Board of Directors and considered 72 issues.

During the 1<sup>st</sup> six months of 2007, 6 meetings were held with 40 issues considered.

During the 2<sup>nd</sup> six months of 2007, 5 meetings were held with 32 issues considered.

No.	Date of meeting	Quorum	Meeting agenda
1	January 29, 2007	88.9%	<ol style="list-style-type: none"> <li>1. Approval of the Company budget for 2007. Actions plan on the implementation of the Company Budget for 2007.</li> <li>2. Consideration and approval of Production programme for 2007 and actions plan for the implementation thereof.</li> <li>3. On the work of the Board of Directors Committees.</li> <li>4. Approval of interested-party transactions.</li> </ol>
2	March 23, 2007	88.9%	<ol style="list-style-type: none"> <li>1. On election of the Corporate Secretary of OJSC Sistema-Hals.</li> <li>2. Development strategy of Construction and Real Estate business line up to 2010.</li> <li>3. Results of the Company activity in 2006.</li> <li>4. Approval of business plan of the project on reconstruction of the building of Detskiy Mir Trade Center.</li> <li>5. Approval of interested-party transactions</li> <li>6. On the use of the Company assets</li> <li>7. Approval of major provisions of the Investment Declaration.</li> </ol>
3	April 16, 2007	66.7%	<ol style="list-style-type: none"> <li>1. On the proposals of the Company shareholders on the agenda of the Annual General Meeting of Shareholders, as well as on candidates in management and monitoring bodies of OJSC Sistema-Hals.</li> <li>2. On assembling the Annual General Meeting of Shareholders of OJSC Sistema-Hals.</li> <li>3. On debts management of OJSC Sistema-Hals.</li> <li>4. On the management of the assets portfolio of OJSC Sistema-Hals.</li> <li>5. On the condition of the Kamelia project implementation in Sochi.</li> <li>6. On payment of bonuses to top executives of the Company based on the results of work in 2006.</li> </ol>
4	April 28, 2007	88.9%	On amendments to the Decision of the Board of Directors of OJSC Sistema-Hals.
5	May 22, 2007	55.6%	<ol style="list-style-type: none"> <li>1. On approval of the annual report and annual accounting statements including profit and loss statements (profit and loss accounts) of the Company in 2006.</li> <li>2. On profit (including dividends) and loss distribution of the Company in accordance with the results of 2006 financial year.</li> <li>3. On the results of performance of the external audit of the Company in 2006 and recommendations on the approval of the candidate of external auditor of the Company in 2007.</li> <li>4. On regional development strategy of OJSC Sistema-Hals for the period up to 2010.</li> <li>5. On the realization process of the investment programme of OJSC Sistema-Hals in 2007.</li> <li>6. On purchase of the property complex.</li> <li>7. Consideration of the <i>Provision on remunerations and compensations paid to the members of the Board of Directors of the Company.</i></li> <li>8. Consideration of the <i>Provision on the option programme for the members of the Board of Directors of the Company.</i></li> <li>9. On approval of the <i>Provision on the option programme for the Management of the Company.</i></li> <li>10. On approval of the <i>Provision on business secret of OJSC «Sistema-Hals</i> in revised version.</li> <li>11. On approval of the interested-party transaction.</li> </ol>
6	June 25, 2007	66.7%	<ol style="list-style-type: none"> <li>1. On election of the Chairman and Deputy Chairman of the Board of Directors of OJSC Sistema-Hals.</li> <li>2. On approval of Work plan of the Board of Directors of OJSC Sistema-Hals in 2007 - 2008 (June 2007 – June 2008).</li> <li>3. Approval of the composition and election of Chairmen of Committees of the Board of Directors of OJSC Sistema-Hals.</li> <li>4. On election of the members of the Management of OJSC Sistema-Hals.</li> <li>5. On approval of Criteria base of Construction and Real Estate business line in 2007-2010.</li> <li>6. On approval of regional development strategy of Construction and</li> </ol>

			<p>Real Estate business line up to 2010 and of the complex actions plan on the implementation thereof.</p> <p>7. On the complex debt management programme of OJSC Sistema-Hals.</p> <p>8. On approval of individual option agreements for the Management of OJSC Sistema-Hals.</p> <p>9. Approval of the composition and of the Provision on the Expert Board of the Board of Directors of OJSC Sistema-Hals.</p>
7	July 27, 2007	100%	<p>1. Report on the implementation of the budget for the first six months of 2007 and approval of the adjusted budget of OJSC Sistema-Hals for the last six months of 2007.</p> <p>2. On organizational and management structure of OJSC Sistema-Hals.</p> <p>3. On approval of criteria base of Construction and Real Estate business line for 2007-2010.</p> <p>4. On the complex programme of the management of the assets portfolio of OJSC Sistema-Hals.</p> <p>5. On the debt growth of OJSC Sistema-Hals.</p> <p>6. On the approval of a major transaction.</p> <p>7. On approval of interested-party transactions.</p>
8	September 19, 2007	100%	<p>1. On the recommendations of the Audit Committee of the Board of Directors of the relative current financial and economic activity of the Company.</p> <p>2. On financial model of OJSC Sistema-Hals up to 2011.</p> <p>3. On predicted financial figures of the activity of the Company with the participation of OJSC Sistema-Hals in new projects in the last six months of 2007.</p> <p>4. On approval of organizational management structure of OJSC Sistema-Hals.</p> <p>5. On improvement of personnel motivation system of OJSC Sistema-Hals.</p> <p>6. On consideration of the project development strategy.</p> <p>7. On cessation of power of a member of the Management and on election of a new member of the Management of OJSC Sistema-Hals.</p> <p>8. On liquidation of a branch of OJSC Sistema-Hals.</p>
9	October 18, 2007	55.6%	<p>1. On the programme of decreasing of commercial, administrative and management costs (CAMC) of OJSC Sistema-Hals.</p> <p>2. On the risks management policy of OJSC Sistema-Hals.</p> <p>3. On the participation of OJSC Sistema-Hals in the activity of affiliated and dependent Companies.</p> <p>4. On the creation of the Committee on tenders and procurement of the Board of Directors of OJSC Sistema-Hals.</p> <p>5. On the current situation of the project implementation.</p>
10	December 7, 2007	100%	On approval of interested-party transactions.
11	December 20, 2007	77.8%	<p>1. On approval of the budget on Construction and Real Estate business line in 2008.</p> <p>2. On approval of the investment and production programmes of Construction and Real Estate business line in 2008.</p> <p>3. On the programme of decreasing of commercial, administrative and management costs (CAMC) of Construction and Real Estate business line.</p> <p>4. On the complex programme of assets management of OJSC Sistema-Hals in 2008.</p> <p>5. On the motivation system of the employees of OJSC Sistema-Hals.</p> <p>6. Approval of interested-party transactions.</p>

In the reporting year 2007 quorum was registered at every meeting of the Board of Directors of OJSC Sistema-Hals.

#### **IV. PROSPECTS AND DEVELOPMENT STRATEGY OF THE COMPANY.**

The Company has several strategic aims – increase in capitalization, annual income and OIBDA growth, forming the investment portfolio for stable rent flow, increase in efficiency/ manageability, diversification in regions, segments and industries, and maintaining of optimal debt level.

The key strategic aim of OJSC Sistema-Hals is the increase in capitalization up to \$5 billion by 2012 by way of rebalancing the current portfolio for creation of rent assets and implementation of new investment projects.

Implementation of several internal projects will allow to increase the efficiency of business processes, decrease personnel quantity, administrative and management costs and prime cost of construction.

##### **Major focus of strategic development of OJSC Sistema-Hals is:**

###### **1. In development:**

- Focusing business models on bonus segments of commercial (A class offices; A class trade centers in partnership with Apsys) and housing real estate;
- Rebalancing the portfolio of the current projects of OJSC Sistema-Hals in order to increase the presence in key segments;
- Creation of partnerships allowing to get access to professional competencies and increase the level of financial stability (by way of decreasing debt load and getting access to financing);
- Quitting several large non-strategic projects.

###### **2. In assets management:**

- Forming the portfolio of assets generating rent flow;
- Quitting projects not in key segments at the initial stage in order to focus;
- Development of service function on servicing cottage villages in the Moscow region.

###### **3. In projects and construction management:**

- Increase of own general contractor function in order to increase the implementation of own projects;
- Completion of current projects in infrastructure construction.

###### **4. In real estate management and operation:**

- Commissioning the objects constructed by OJSC Sistema-Hals;
- Involvement for servicing the objects of OJSC AFK Sistema companies;
- Search and involvement of market objects in Moscow, St. Petersburg and cities with millions of population.

#### **V. REPORT ON PAYMENT OF DECLARED (ACCRUED) DIVIDENDS ON THE SHARES OF THE COMPANY**

On June 25 2007 (Minutes No.16) the Annual General Meeting of Shareholders of OJSC Sistema-Hals made a decision not to pay dividends based on the results of 2007 financial year because of absence of income in the Company.

## **VI. DESCRIPTION OF MAJOR RISK FACTORS RELATING TO THE ACTIVITY OF THE COMPANY**

Risks characteristic exclusively of the Company, including risks relating to current lawsuits in which the Company takes part, are insignificant because the Company doesn't take part in any lawsuits which can have negative results with significant negative influence on financial state and activity of the Company.

The Company performs its activity on the basis of two licenses (design and construction). Thus, there's a risk that such licenses won't be prolonged or re-issued. If regulating authorities find any violations of licenses conditions made by the Company or any affiliated companies thereof, this can lead to suspension, withdrawal or refusal to prolong licenses and permissions issued to the Company or any affiliated companies thereof. Any of the said outcomes can have significant negative influence on financial state and activity of the Company.

Currently, the Company has the risk of responsibility for the debts of affiliated companies but the probability of such risk as of the moment is low because operational and financial activity of affiliated companies is totally controlled by the Company.

The Company is also subject to influence of the following major financial risks:

- Currency risks;
- Risks of interest rates change and foreign currency exchange rates change;
- Other market risks, including liquidity risks;
- Risk of inflation rate growth.

### Currency risks.

Sharp fluctuations of the RUB exchange rate as compared to foreign currencies can negatively influence financial condition of the Company. Financial condition of the Company, liquidity, financing sources, results of activity depend in some degree on the change of exchange rate. The Company draws monetary funds mainly in USD and sharp strengthening of the USD exchange rate can lead to the increase in payment for such loans. As of the moment, the Company as far as possible pursues the policy to decrease the disproportion between monetary units in which main income and expenses items of the Company are expressed, and between the assets and obligations thereof.

### Risks of interest rates change and foreign currency exchange rates change.

Since the Company uses loan funds in its activity, interest rate growth on bank loans or other loan financing instruments can increase the Company expenses relating to debt servicing. In the past, interest rates (first of all in Russia) were subject to significant fluctuations. At the same time, it should be noted that the price of RUB loans has been decreasing in recent years, and the terms of loan issue has been increasing, which allowed Companies to finance their activity on the basis of more efficient interest rates and for more prolonged terms than before. The Management of the Company plans to take loan at the fixed rate in the future.

Possible actions of the Company in case of negative influence of the exchange rate change and interest rates on the activity of the Company:

In this case the Company plans to perform the following actions:

- Reconsider the financing structure of the Company;
- Optimize expenses of its activity;
- Reconsider investments and loans programmes;

Hedging of the aforementioned risks doesn't take place currently.

Other market risks, including liquidity risks.

There are risks relating to losses and/or loss of investments as the result of price growth, low quality, violation of terms of design work and construction completion, bad supply of construction materials, equipment, engineering systems, growth of prime cost thereof, non-execution of substantial obligations by contractors, untimely acquisition of necessary licenses, permissions, agreements and other documents from public authorities, decrease of rent rates or other incomes, as well as growth of expenses by the moment of commissioning of the object under construction, various difficulties, including impossibility of renting the object or sale thereof within the planned term and at the planned price, as well as other risks relating to partial or full loss of an object as the result of breakdowns, fire, natural disasters or other events of any complaints and claims to the Company and the affiliated companies thereof on the part of third parties relating to the construction activity thereof. Moreover, insolvency of renters can lead to termination of rent agreements and decrease of rent incomes.

Also, there are risks of falling prices on land and real estate owned by the Company as well as decreasing market level of rent rates or other incomes received by the Company from its projects as the result of worsening of the market trends.

Obligations of the Company on previously concluded loan agreements can: (a) limit the possibility of the Company to draw additional financing, (б) give the competitive advantage to competitors having lower debt load, (в) lead to the loss of the Company of control of the affiliated companies or property thereof, (г) lead to the need to direct a sufficient share of the Company incomes for debt servicing and limit the possibility of the Company to finance the main activity thereof.

The aforementioned risks form liquidity risk, i.e. the possibility of loss due to the shortage of monetary funds within the required term, and, as a consequence, inability of the Company to perform the obligations thereof. Such risk event can lead to fines, penalties, damage to the business reputation of the Company, etc.

Liquidity risk management is performed by the Company by way of analysis of planned money flows.

Risk of inflation rate growth.

In case of significant exceeding of actual inflation figures over the predictions of analysts, namely if inflation rates increase up to 25-30% per year (critical level), the Company plans to take necessary measures to adapt to the changed inflation rates.

Figures of financial accounting of the Company which are most subject to change as the result of influence of the said financial risks, including risks, probability of their emergence, and the type of changes in financial accounting:

No.	Risks	Probability	Type of changes in financial accounting
1.	Interest rate growth	Average	Growth of interest rates will increase the price of loans of the Company, which correspondingly can negatively influence financial condition of the Company – in particular, increase operational expenses of the Company and decrease income.
2.	Change of exchange rate of USD vs. RUB	Average	Smooth change of rate should not have any strong influence because debts, main incomes and expenses of the Company are tied to foreign currency (USD). Sharp fluctuations of currencies rates can lead to the increase of expenses of the Company and decrease of income.

3.	Risk of inflation rates growth	Average	Inflation rates growth will lead to the increase in prime cost expenses (costs of materials, remuneration, etc.).
4.	Liquidity risk	Low	Inability of the Company to timely execute the obligations thereof can lead to the payment of fines, penalties, etc. which will lead to unarranged expenses and decrease the income of the Company. Because of this, the Company pursues a policy of budget and money flows planning.

The abovementioned financial risks can have the greatest influence on the volume of expenses and income made by the Company.

**VII. THE LIST OF TRANSACTIONS MADE BY THE COMPANY IN THE ACCOUNTING PERIOD WHICH ARE CONSIDERED UNDER THE FEDERAL LAW *ON JOINED-STOCK COMPANIES* TO BE LARGE TRANSACTIONS AS WELL AS OTHER TRANSACTIONS WHICH ARE MADE UNDER THE ARTICLES OF ASSOCIATION OF THE COMPANY IN ACCORDANCE WITH THE PROCEDURE OF APPROVAL OF LARGE TRANSACTIONS**

**Information on large transactions made by the Company in 2007**

No.	Name of the agreement party	Subject of the agreement	Agreement value	Management body which made a decision to approve the transaction
1	OJSC Bank VTB.	Loan agreement	\$500,000,000.00	Board of Directors

**VIII. THE LIST OF TRANSACTIONS MADE BY THE COMPANY IN THE ACCOUNTING PERIOD WHICH ARE CONSIDERED UNDER THE FEDERAL LAW *ON JOINED-STOCK COMPANIES* TO BE INTEREST-PARTY TRANSACTIONS.**

**Information on interest-party transactions made by the Company in 2007**

No.	Name of the agreement party	Subject of the agreement	Agreement value	Management body which made a decision to approve the transaction
1.	OJSC Alfa-Bank	Guarantee agreement as a security of CJSC Kuntsevo-Invest obligations for loan line	\$20 million at most	Board of Directors Concerned Parties: F.V. Evtushenkov
2.	OJSC PL Kamelia	Loan agreement between OJSC Sistema-Halsand OJSC PL Kamelia	RUB 320,000,000	Board of Directors Concerned Parties: F.V. Evtushenkov



3.	AKB MBRR (OJSC)	Security agreement right for registering the ownership of apartments as a security of execution of all obligations under loan agreements	\$31,000,000	Board of Directors Concerned Parties: F.V. Evtushenkov, A.N. Buyanov
4.	AKB MBRR (OJSC)	Guarantee agreements on loan agreements (agreements of open loan line) between AKB MBRR (OJSC) and CJSC Ferro-Stroy	\$30,000,000	Board of Directors Concerned Parties: F.V. Evtushenkov, A.N. Buyanov
5	LLC Gorki-8	Sales agreement of ordinary registered uncertificated shares of CJSC Landshaft in the number of 100 pieces.	\$85,077,000	Board of Directors Concerned Parties: OJSC Sistema-Halsshareholder OJSC AFK Sistema owing more than 20 votes comprising registered capital of OJSC Sistema-Hals.

**IX. COMPOSITION OF THE BOARD OF DIRECTORS OF THE COMPANY  
INCLUDING THE INFORMATION ON THE CHANGES IN THE COMPOSITION OF THE  
BOARD OF DIRECTORS OF THE COMPANY TAKEN PLACE IN THE REPORTING  
YEAR AND THE DETAILS ABOUT THE MEMBERS OF THE BOARD OF DIRECTORS  
INCLUDING THEIR BACKGROUND PROFILES AND HOLDINGS OF THE COMPANY'S  
SHARES DURING THE REPORTING YEAR**

During the period from January 1<sup>st</sup>, 2007 to June 25<sup>th</sup>, 2007 the Board of Directors was acting in the following composition elected at the Annual Meeting of Shareholders in June 2006:

1. Abramson Valery Mikhailovich
2. Buyanov Alexei Nikolaevich
3. Goncharuk Alexandr Juryevich
4. Daft Douglas
5. Drozdov Sergey Alexeevich
6. Evtushenkov Pheliks Vladimirovich
7. Zubov Dmitry Lvovich
8. Lapidus Azariy Abramovich
9. Telichenko Valery Ivanovich

At the Annual Meeting of Shareholders on June 25<sup>th</sup>, 2007 the Board of Directors was elected to the number of 9 people in the following composition:

1. Abramson Valery Mikhailovich
2. Buyanov Alexei Nikolaevich
3. Gummer John
4. Goncharuk Alexandr Juryevich
5. Daft Douglas
6. Drozdov Sergey Alexeevich
7. Evtushenkov Pheliks Vladimirovich
8. Zubov Dmitry Lvovich
9. Tsenin Robert Eugene

<b>Full name</b>	<b>Background details</b>	<b>Share in charter capital</b>
1. Abramson Valery Mikhailovich	Year of birth: 1961. Education background: higher education. In 1982 – graduated from the Gubkin Russian State University of Oil and Gas, the information technology department In 1984 – graduated from the automated control system department of the Moscow Physics Technology Institute. Academic degree: Doctor of Economic Sciences	No share
2. Buyanov Alexei Nikolaevich	Year of birth: 1969. Education background: higher education. Graduated from the Moscow Physics Technology Institute (MphTI), the speciality “Applied mathematics and physics”.	No share
3. Gummer John	Year of birth: 1939. Education background: higher education. Scholarship holder at Selvin college; Cambridge – Diploma with excellence on History; Scholarship holder at King's	No share

	School, Rochester.	
4. Goncharuk Alexandr Juryevich	Year of birth: 1956. Education background: higher education. Graduated from: - Grechko Naval Academy; - Sevastopol Higher Naval Engineering School	No share
5. Daft Douglas	Year of birth: 1943. Education background: higher education. Graduated from the University of New England, Bachelor of mathematics; the University of South Wales, Academic degree in Management	No share
6. Drozdov Sergey Alexeevich	Year of birth: 1970. Education background: higher education. In 1993 graduated from the S. Ordzenikidze State Academy of Management, Doctor of Philosophy.	No share
7. Evtushenkov Feliks Vladimirovich	Year of birth: 1978. Education background: higher education. Graduated from the Griboedov Institute of International Law and Economics, the speciality "Law".	No share
8. Zubov Dmitry Lvovich	Year of birth: 1954. Education background: higher education. Graduated from the Moscow Ordzenikidze Aviation Institute. Academic degree: Doctor of Economic Sciences	Share of 1.1% in charter capital
9. Tsenin Robert Eugene	Year of birth: 1949. Education background: higher education. Graduated from the Sydney University, London University, London Business School	No share

#### **X. INFORMATION ON THE PERSON HOLDING THE POSITION OF THE SOLE EXECUTIVE BODY AND MEMBERS OF THE COLLEGIAL EXECUTIVE BODY OF THE COMPANY**

Evtushenkov Feliks Vladimirovich had been holding the position of the Managing Director of OJSC SISTEMA-HALS since November 2003. Since March 1, 2006 he has been holding the position of the President of the Company (Minutes of the Meeting of the Board of Directors No.13) due to the changes in the title of the position of the Sole Executive Body of the Company.

Background details:

He was born in Moscow in 1978.

In 2000 he graduated from the Griboedov Institute of International Law and Economics, the speciality "Law".

From 1998 till 1999 he was working as a leading specialist of the legal department of OJSC JSFC Sistema.

From 1999 till 2000 he was acting as the Assistant to the President of OJSC Sistema-Invest and then he was appointed the Executive Director of the production department of OJSC JSFC Sistema.

In December 2000 he moved to the development company OJSC Sistema-Hals – a management company of business trend "Construction and real estate" OJSC JSFC Sistema to the position of the Deputy Director General – the manager of the Strategy and Marketing department.

He doesn't hold any shares.

## INFORMATION ON THE MEMBERS OF THE COLLEGIAL EXECUTIVE BODY

Full name	Background details	Share in charter capital
1. Evtushenkov Feliks Vladimirovich	Year of birth: 1978. Education background: higher education. Graduated from the Griboedov Institute of International Law and Economics, the speciality "Law".	No share
2. Golomb Michael Since September 19 <sup>th</sup> , 2007 hasn't been the member of the Board	Year of birth: 1975. Education background: higher education. Graduated from: - Occidental College in 1996, Bachelor's degree in finance; - Santa Clara University in 2000, MBA degree. Certified Public Accountant, CPA.	Held 0.1% of shares in the charter capital from July 12, 2007 till August 22, 2007
3. Kolodkin Evgeny Aleksandrovich	Year of birth: 1975. Education background: higher education. Graduated from the Plekhanov Russian Economic Academy, the speciality "Finance and Credit"	No share
4. Kascheev Igor Nikolaevich	Year of birth: 1978. Education background: higher education. Graduated from the Moscow State Law Academy (2001), lawyer	Share in the charter capital of the emitter: <b>0.1%</b>
5. Uzhondin Vladimir Sergeevich	Year of birth: 1953. Education background: higher education. Graduated from: - Kalinigrad Technical Institute of Fishing Industry and Economy (1975); - Moscow Financial Institute (1983) - Financial Academy at the Government of the Russian Federation (1996)	No share
6. Lapidus Azary Abramovich Since February 22 <sup>nd</sup> , 2008 hasn't been the member of the Board	Year of birth: 1958. Education background: higher education. Graduated from the Moscow Kuybyshev Construction Engineering Institute (MCEI) Doctor of Engineering Science, professor: Honored Builder of Russia. Honored Builder of Moscow; gives lectures at the Moscow State University of Civil Engineering (MSUCE, former MCEI); the author of a number of scientific papers and articles in the sphere of construction including the monograph "Organizational engineering and large-scale investment project managing» and the co-author of the books "Structural building construction technology" and "Building process technology".	Held 0.1% of shares in the charter capital of the emitter from July 12, 2007 till February 19, 2008
7. Makovsky Konstantin Edvardovich	Year of birth: 1962. Education background: higher education. Graduated from the Management Academy of the Ministry of Internal Affairs of Russia, a lawyer- organizer in the sphere of management.	No share
8. Batalov Ivan Gennadievich	Year of birth: 1974. Education background: higher education.	No share

The member of the Board since September 19 <sup>th</sup> , 2007	Main: – Moscow State Institute of International Relationships (MGIMO) of the Ministry of Internal Affairs of Russia, Bachelor of Management (with the knowledge of a foreign language). Second: – Diplomatic Academy of the Ministry of Foreign Affairs of the Russian Federation, Moscow Banking School at the Bank of Russia, All-World Information Distribution University. Academic degree: Ph.D.	
9. Shengeliya Teymuraz Teymurazovich The member of the Board since June 25 <sup>th</sup> , 2007	Year of birth: 1975. Education background: higher education. Graduated from the Moscow State Law Academy. Academic degree: Ph.D.	No share

# **XI. CRITERIA FOR DEFINING THE SIZE OF REMUNERATION TO THE PERSON HOLDING THE POSITION OF THE SOLE EXECUTIVE BODY OF THE COMPANY, TO EACH MEMBER OF THE COLLEGIAL EXECUTIVE BODY OF THE COMPANY AND TO EACH MEMBER OF THE BOARD OF DIRECTORS OF THE COMPANY**

The size and the procedure of paying remuneration and compensation to the members of the Board of Directors are defined in accordance with the Regulations on Remuneration and Compensation paid to the members of the Board of Directors of OJSC SISTEMA-HALS approved by the General Meeting of Shareholders on June 25, 2007 (Minutes No.16).

In the reporting year at the Annual General Meeting of Shareholders on June 25, 2007 the decision on paying the remuneration to the members of the Board of Directors of OJSC SISTEMA-HALS following the results of the year 2006 in the amount of 100 (one hundred) thousand US Dollars to each member was adopted.

In accordance with the active Charter of the Company, approved at the Extraordinary General Meeting of Shareholders on May 17, 2006, the size of remuneration to the Sole Executive Body of the Company – the President – is to be established by the Board of Directors. The remuneration to the members of the Collegial Executive Body is defined by the Agreement, the provisions of the Agreement being approved by the Board of Directors.

# **XII. INFORMATION ON OBSERVANCE BY THE COMPANY THE CODE OF CORPORATE GOVERNANCE**

The Code of Corporate Governance was adopted by the Board of Directors on August 4, 2006. (Minutes No.27)

Information on observance by the Company the Code of Corporate Governance of OJSC SISTEMA-HALS <sup>\*\*</sup>.

No.	Provisions of the Code of Corporate Governance	Observed or not observed	Notes
1	2	3	4
<b>General Meeting of Shareholders</b>			
1	Notifying shareholders on the General Meeting of Shareholders not less than 30 days prior to the date of holding the meeting irrespective of the questions included into its agenda, unless otherwise provided for by the active legislation	Observed	
2	Providing an opportunity to the shareholders to study the list of persons entitled to take part in the General Meeting of Shareholders starting from the day of notification on holding the General Meeting of Shareholders and until the closing of the face-to-face General Meeting of Shareholders or, in the case of the extramural General Meeting of Shareholders, until the deadline for receipt of the voting ballots	Observed	
3	Providing an opportunity to the shareholders to study the information (materials) that must be submitted during the preparations for the holding of the General Meeting of Shareholders through electronic means of communication, including via the Internet	Observed	
4	Providing an opportunity to a shareholder to introduce any matter into the agenda of the General Meeting of Shareholders or to demand the convocation of the General Meeting of Shareholders without submission of the statement from the registry of shareholders if the record-keeping for his rights to the shares is executed in the shareholder registry maintenance system, and if his rights to the shares are accounted for on a deposit account, the deposit account statement should be sufficient for execution of the above mentioned rights	Observed	
5	Availability in the Charter or other internal documents of the joint-stock company the requirement on the obligatory presence of the General Director, members of the Management Board, members of the Board of Directors, members of the Audit Commission and the auditor of the company at the General Meeting	Observed	Clause 8.5 Article 8 of the Regulation on the General Meeting of Shareholders, Clause 3.17 Article 3 of the Code of Corporate Governance
6	Obligatory presence of the nominees for the positions of members of the Board of Directors, the General Director, members of the Management Board, members of the Audit Commission and external auditor during consideration by the General Meeting of their election and appointment	Observed	Clause 8.5 Article 8 of the Regulation on the General Meeting of Shareholders, Clause 3.17 Article 3 of the Code of Corporate Governance
7	Availability in the internal documents of the Company a registration procedure for the participants of the General Meeting of shareholders.	Observed	Article 5 of the Regulation on the General Meeting of Shareholders
<b>Board of Directors</b>			
8	Availability in the Company's Charter the authority of the Board of Directors to approve annual financial and economic plans of the Company	Observed	Clauses 18.2.1 Clause 18.2 Article 18 of the Charter
9	Availability of the risk management procedure approved by the Board of Directors.	Observed	

10	Availability in the Company's Charter the right of the Board of Directors to establish requirements for the qualifications and the size of remuneration to the General Director, members of the Management Board, and managers of the key structural divisions of the company.	Observed	Clauses 18.2.24 Clause 18.2 Article 18 of the Charter
11	Availability in the Company's Charter the right of the Board of Directors to approve the terms of the contracts with the General Director and members of the Management Board.	Observed	Clauses 18.2.9, 18.2.10, Clause 18.2, Article 18 of the Charter
12	Presence on the Board of Directors of the company not less than ¼ of independent directors meeting the requirements of the Code of Corporate Governance	Observed	
13	Absence of persons on the Board of Directors convicted of committing offences in the sphere of economic activity; against the government, against interests of the federal, regional and local government service; or that have been subjected to administrative penalties for offences in the sphere of entrepreneurial activities or in the sphere of finance, taxes and levies and the securities market.	Observed	
14	Absence of persons on the Board of Directors who serve as members, the General Director (manager), members of the management body or legal employees of any competitor of the company.	Observed	
15	Availability in the Company's Charter the requirement for the Board of Directors to be elected by cumulative vote	Observed	Clauses 13.5.4, Clause 13.5 Article 13 of the Charter
16	Availability in the internal documents of the Company the obligation of the members of the Board of Directors to refrain from any actions that will or may potentially lead to a conflict of interests between their own interests and the company's interests, and in the case of such conflict - their obligation is to disclose the information on such conflict to the Board of Directors.	Observed	Clause 5.3 of the Regulation on the Board of Directors, Clause 4.7 of the Code of Corporate Governance
17	Availability in the internal documents of the Company the obligation of the members of the Board of Directors to notify the Board of Directors in writing of their intention to perform any transactions with securities of the company, whose members of the Board of Directors they are, or its subsidiaries (associates), as well as disclose the information on any transactions performed with such securities	Observed	Clause 4.7 of the Code of Corporate Governance, Clause 5.2, Article 5 of the Regulation on the Board of Directors
18	Availability in the internal documents of the Company the requirement that the meeting of the Board of Directors should be held at least once in six weeks	Observed	Clause 19.2 Article 19 of the Charter
19	Holding the meetings of the Board of Directors of the company at least once in six weeks in the year for which the annual report is presented	Observed	
20	Availability in the internal documents of the Company the procedure for the conducting of meetings of the Board of Directors	Observed	

21	Availability in the internal documents of the Company the provision on the need to have approval of the Board of Directors for the company's transactions amounting to 10% and more of the company's assets value, other than transactions performed in the ordinary course of business	Observed	Clauses 18.2.16 Clause 18.2 Article 18 of the Charter
22	Availability in the internal documents of the Company the right of the members of the Board of Directors to receive the information necessary for the performance of their functions from the executive bodies and managers of the key structural divisions, and liability of the latter for non-provision of such information	Observed	Clause 5.4 Article 5 of the Regulation on the Board of Directors
23	Availability of a strategic planning committee of the Board of Directors or assigning the functions of such committee to some other committee (other than the Audit Committee or the Nomination and Remuneration Committee)	Observed	
24	Availability of a committee (Audit Committee) of the Board of Directors that recommends an external auditor to the Board of Directors and communicates with the external auditor and the internal Audit Commission of the company	Observed	
25	Availability of only independent and non-executive directors in the Audit Committee	Observed	
26	The Audit Committee is chaired by an independent director	Observed	
27	Availability in the internal documents of the Company the right of all the members of the Audit Committee to access any documents and information of the company subject to non-disclosure of confidential information	Observed	Clause 14.1 Article 14, Clause 15.1, 15.2 Article 15 of the Regulation on the Audit Committee
28	Creating of a committee (Nomination and Remuneration Committee) of the Board of Directors that is responsible for the determination of the criteria for the selection of candidates to the Board of Directors and development of the company's compensation policies	Observed	
29	The Nomination and Remuneration Committee is chaired by an independent director	Observed	
30	Absence of executives of the company in the Nomination and Compensation Committee	Observed	
31	Creating of a committee for the settlement of corporate conflicts of the Board of Directors or assigning the functions of such committee to some other committee (other than the Audit Committee or the Nomination and Compensation Committee)	Observed	
32	Availability of the internal documents approved by the Board of Directors providing for the procedure of formation and operation of the committees of the Board of Directors	Observed	
<b>Executive bodies</b>			
33	Availability of a collegial executive body (Management Board) of the company	Observed	Clause 12.2 Article 12 of the Charter



34	Availability in the Charter or the internal documents of the Company provisions on the need to have approval of the Management Board for real estate transactions and loans received by the company unless such transactions are major deals or are performed in the ordinary course of business	Observed	Clauses 21.6.12 Clause 21.6 Article 21 of the Charter
35	Absence of persons in the executive bodies who serve as members, the General Director (manager), members of the management body or employees of any competitor of the company	Observed	
36	Absence of persons in the executive bodies convicted of committing offences in the sphere of economic activity; against the government, against interests of the federal, regional and local government service; or that have been subjected to administrative penalties for offences in the sphere of entrepreneurial activities or in the sphere of finance, taxes and levies and the securities market.	Observed	
37	Availability in the internal documents of the Company the obligation of the executive bodies to refrain from any actions that will or may potentially lead to a conflict of interests between their own interests and the company's interests, and in the case of such conflict - their obligation is to disclose the information on such conflict to the Board of Directors	Observed	Clause 5.11 Article 5 of the Code of Corporate Governance
38	Stipulating liability in the contracts made by the company with the General Director (managing entity, manager) and members of the Management Board for violation of the provisions on the use of confidential and insider information.	Observed	
<b>Secretary of the Company</b>			
39	Availability of a special official in the company (Company's Secretary) whose function is to ensure that the company's bodies and officials comply with procedural requirements guaranteeing the exercise of the legal rights and interests of the company's shareholders	Observed	
40	Availability in the Charter or the internal documents of the company a procedure for the appointment (election) of the Company's Secretary and responsibilities of the Company's Secretary	Observed	Articles 2,4 of the Regulations on the Company's Secretary
41	Availability in the Charter of the company requirements to the candidate for the position of the Company's Secretary	Observed	Clause 2.3 Article 2 of the Regulations on the Company's Secretary
<b>Major corporate actions</b>			
42	Availability in the Charter or the internal documents of the company a requirement on approval of any major deal before it is concluded	Observed	Clause 7.4 of the Code of Corporate Management of the Company
43	Obligatory engagement of an independent appraiser to determine the market value of any property that is subject to major transactions	Observed	

<b>Disclosure</b>			
44	Availability of an internal document approved by the Board of Directors determining policies and procedures used by the company for the disclosure of information (Regulation on Information Policies)	Observed	
45	Availability in the internal documents of the Company a list of information, documents and materials that should be provided to shareholders for the decision on the issues put for the consideration of the General Meeting of Shareholders	Observed	Clause 3.5 Article 3 of the Regulation on the General Meeting of Shareholders
46	Availability of a web site and regular disclosure of information about the company on the web site	Observed	Address on the Internet: <a href="http://www.sistema-hals.ru">www.sistema-hals.ru</a>
47	Availability in the internal documents of the Company a requirement to disclose the information on the deals of the company with persons that are senior executives of the company in accordance with the Charter, and deals of the company with entities where senior executives of the company directly or indirectly hold 20 or more percent of the share capital or on which such persons may otherwise exercise significant influence	Observed	
48	Availability in the internal documents of the Company a requirement to disclose the information on all transactions that may affect the market value of the company's shares	Observed	
49	Availability of an internal document approved by the Board of Directors on the use of significant information on the activity, shares and other securities of the company and transactions with such shares and other securities, which is not publicly available and the disclosure of which may have material impact on the market value of shares and other securities of the company	Observed	The Company has adopted the Regulation on Insider Information
<b>Control of financial and economic operations</b>			
50	Availability of internal control procedures over the financial and operational activities of the company approved by the Board of Directors	Observed	These procedures are stated in the Regulation on internal control over financial and operating activities
51	Availability of a special division in the company ensuring compliance with the internal control procedures (internal control service)	Observed	The Internal Audit Service ensures the compliance with the internal control procedures (the Regulation on internal control over financial and operating activities)
52	Availability in the internal documents of the Company a requirement that the structure and members of the internal control service should be determined by the Board of Directors	Observed	Clause 4.3 Article 4 of the Regulation on internal control over financial and operating activities

53	Absence of persons in the internal control service convicted of committing offences in the sphere of economic activity; against the government, against interests of the federal, regional and local government service; or that have been subjected to administrative penalties for offences in the sphere of entrepreneurial activities or in the sphere of finance, taxes and levies and the securities market	Observed	
54	Absence of persons in the internal control service who serve as members of the executive bodies of the company, as well as members, the General Director (manager), members of the management bodies or employees of any competitor of the	Observed	
55	Availability in the internal documents of the Company the obligation of the internal control service to communicate any violations detected to the Audit Committee, and where there is no such committee to the Board of Directors	Observed	Clauses 3.3.4 Clause 3.3 Article 3 of the Regulation on internal control over financial and operating activities
56	Availability in the internal documents of the Company a procedure for the agreement of any unusual transactions with the Board of Directors	Observed	Clauses 2.4.4 Clause 2.4 of the Regulation on the Audit Committee
57	Availability of an internal document determining the procedure of audits of the financial and operating activities by the internal audit commission, approved by the Board of Directors	Observed	Article 5 of the Regulation on the Audit Committee
58	Performing the assessment of the auditor's report by the Audit Committee before it is presented to the shareholders in the General Meeting of Shareholders	Observed	Clauses 3.1.6 Clause 3.1 of the Regulation on the Audit Committee
<b>Dividends</b>			
59	Availability of an internal document approved by the Board of Directors used as guidance by the Board of Directors in developing recommendations on the size of dividends (Regulation on Dividend Policies)	Observed	
60	Availability in the Regulation on Dividend Policies a procedure for the determination of the minimum share of the net profit of the company used for the payment of dividends, and conditions under which dividends are not paid or are not paid in full on preferred shares for which the size of dividends is determined in the company's Charter	Observed	Article 3 of the Regulation on Dividend Policies
61	Publication of information on dividend policies of the company and any amendments thereto on the web site of the company on the Internet	Observed	

The Charter of OJSC SISTEMA-HALS and the internal documents of the Company ensure the observance of the provisions of the Code of Corporate Governance of OJSC SISTEMA-HALS.

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\* - This report was prepared in accordance with the Methodical recommendations on the structure and the form of presenting the information on observance of the Code of Corporate Governance in annual reports of companies, approved by the Directive of the FCSM of Russia No. 03-849/p dated April 30<sup>th</sup>, 2003.

**Conclusions of the Audit Committee  
on the reliability of the information contained in the Annual Report of the Company  
for the year 2007**

The reliability of the information contained in the annual report of OJSC Sistema-Hals for the year 2007 was confirmed by the Audit Committee of the Company (Chairman of the Audit Committee – Shatokhin A.A.)

President of OJSC Sistema-Hals

Evtushenkov F.V.

Chief Accountant OJSC Sistema-Hals

Uzhondin V.S.