

Pre-approved by the
Board of Directors,
Sistema JSFC
21 May 2011
Minutes No 06-11
On 25 May 2011

Approved by the Annual General
Meeting of shareholders,
Sistema JSFC
25 June 2011
Minutes No 2-11
On 29 June 2011

ANNUAL REPORT of Open Joint-Stock Company Sistema Joint-Stock Financial Corporation for 2010

This report was compiled pursuant to the requirements of the Federal Law "On the stock market". Financial information set out in this Annual Report is based on the accounting data compiled pursuant to the Russian laws, and contains elements of consolidated financial reports compiled under international standards.



Moscow 2011

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1. COMPANY'S POSITION IN THE SECTOR

1.1. *Sistema JSFC business profile*

Sistema JSFC is the largest public diversified financial corporation in Russia and the CIS, a majority shareholder of leader companies serving over 100 million customers in the sectors of telecommunications, high technologies, oil and energy, petrochemicals, radio and aerospace, banking, retail, mass-media, tourism and healthcare services.

Subsidiaries of Sistema JSFC operate in the markets of Russia, the CIS, Central and Eastern Europe, and in India. The subsidiaries of the Corporation focus on implementing advanced technologies that ensure faster development of the sectors in which they operate, as well as growth of the standard of living.

Sistema JSFC has no counterparts among Russian public companies, and provides investors with unique investment opportunities. The Corporation's investment activities support the growth of its shareholder value and provide for the maximum possible returns on its portfolio of assets.

Sistema JSFC is managed by a highly professional management team, in line with the generally recognized corporate governance standards. The experience of the Board members and the management, as well as the opportunities they have, make it possible for them to gain access to unique investment objects and funding, create businesses that take leading positions in their sectors, rely on many years of their success and on a high level of profits for the shareholders.

In March 2011, in line with the new approach to the management of the Corporation, the Board of Directors of Sistema JSFC took the decision on the migration to the Financial and Investment Holding model in place of the previous Operating Holding model, and to the new organizational structure.

1.2. *Equity capital structure of Sistema JSFC**

Sistema JSFC has 9,650,000,000 ordinary shares outstanding with the par value of RUB 0.09 each. Its shareholder capital amounts to RUB 868,500,000.00.

Sistema JSFC went public in February 2005, its shares were listed under the SSA ticker at the London Stock Exchange. The Company's shares are traded at the London Stock Exchange (LSE) in the form of global depositary receipts (GDRs). The receipts are included in the LSE quotation list under the SSA ticker. One GDR stands for 20 ordinary shares. The shares of the company are also traded under the AFKS ticker at the RTS Stock Exchange, under the AFKC ticker at the MICEX Stock Exchange, and under the SIST ticker at the Moscow Stock Exchange.

As of December 31, 2010, the Sistema JSFC Group included three public companies whose shares are traded at international stock exchanges: the shares of MTS are traded at the New York Stock Exchange in the form of American depositary receipts (ADRs), the shares of SITRONICS and COMSTAR-UTS - as GDRs at the London Stock Exchange. On March 21, 2011 COMSTAR-UTS announced the de-listing of its shares in the form of GDRs in the UK due to the program of merging COMSTAR-UTS and MTS. The shares of Bashneft and its subsidiaries are traded at the RTS and the MICEX stock exchanges.

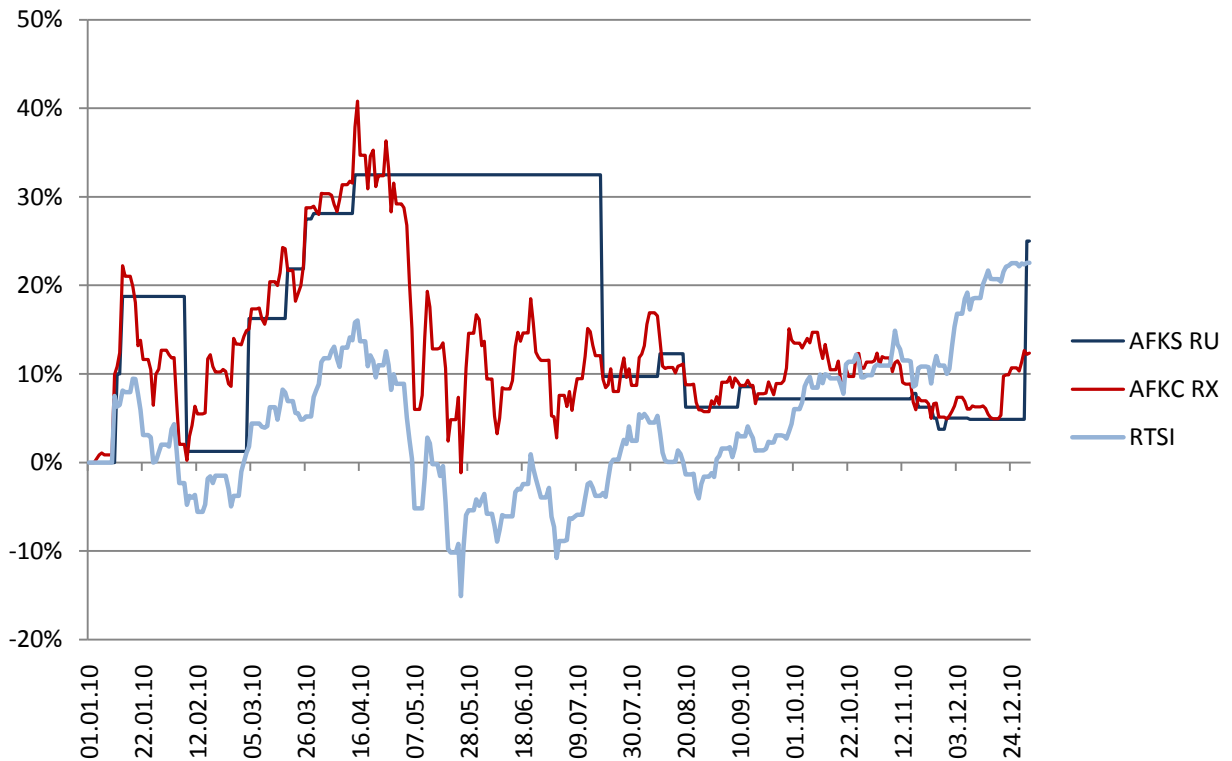
* as of 31 December 2010.

Comparative performance of the RTS Index and the GDRs of Sistema JSFC at the LSE



Closing price of Sistema's GDRs on the London Stock Exchange on the first trading day of 2010 was \$21.0, on the last trading day it reached \$24.93. The Corporation's GDRs reached their high of \$30.99 on April 14, 2010 and their low of \$21.0 on January 4, 2010 and May 25, 2010.

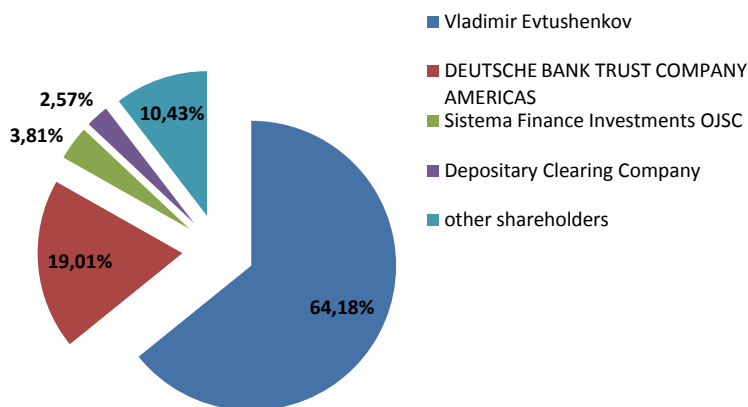
Comparative performance of the RTS Index and the Sistema JSFC share price at MICEX and RTS



Closing price of Sistema's shares on the first trading day of 2010 was \$0.88 at MICEX and \$0.88 on the RTS stock exchange, on the last trading day of 2010 it was \$0.89 on MICEX and \$1.00 on RTS respectively. The Corporation's shares reached their high of \$1.12 on MICEX on April 15, 2010, and \$1.06 on RTS on April 14,

2010. The Corporation's shares reached their low of \$0.78 on MICEX on May 25, 2010, and \$0.81 on RTS on February 08, 2010.

Equity structure of Sistema JSFC



*as of 31 December 2010

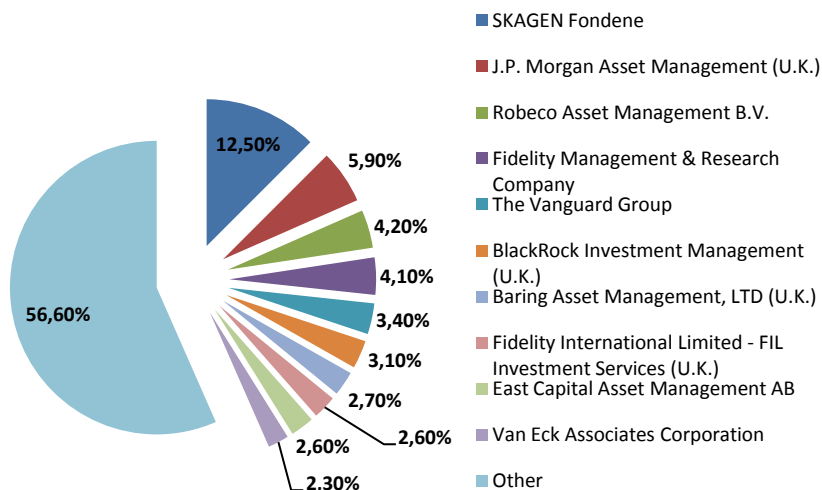
About 19% of Sistema's shares are traded as GDRs on the London stock exchange, and 5.2% of shares are in circulation on the MICEX and RTS.*

As of December 31, 2010, Sistema's shareholder register had 25 individuals and 10 legal entities, including eight nominal holders, registered as shareholders.

The Chairman of the Board of Directors of Sistema JSFC Vladimir Evtushenkov, with 64.18% of shares, is the principal shareholder of Sistema JSFC.

About 19% of shares are traded as GDRs at the London Stock Exchange, and 5.2% of shares are in circulation at MICEX and RTS.

Sistema JSFC GDR holders structure



** as of 10 March 2011

1.3. Portfolio of Sistema JSFC

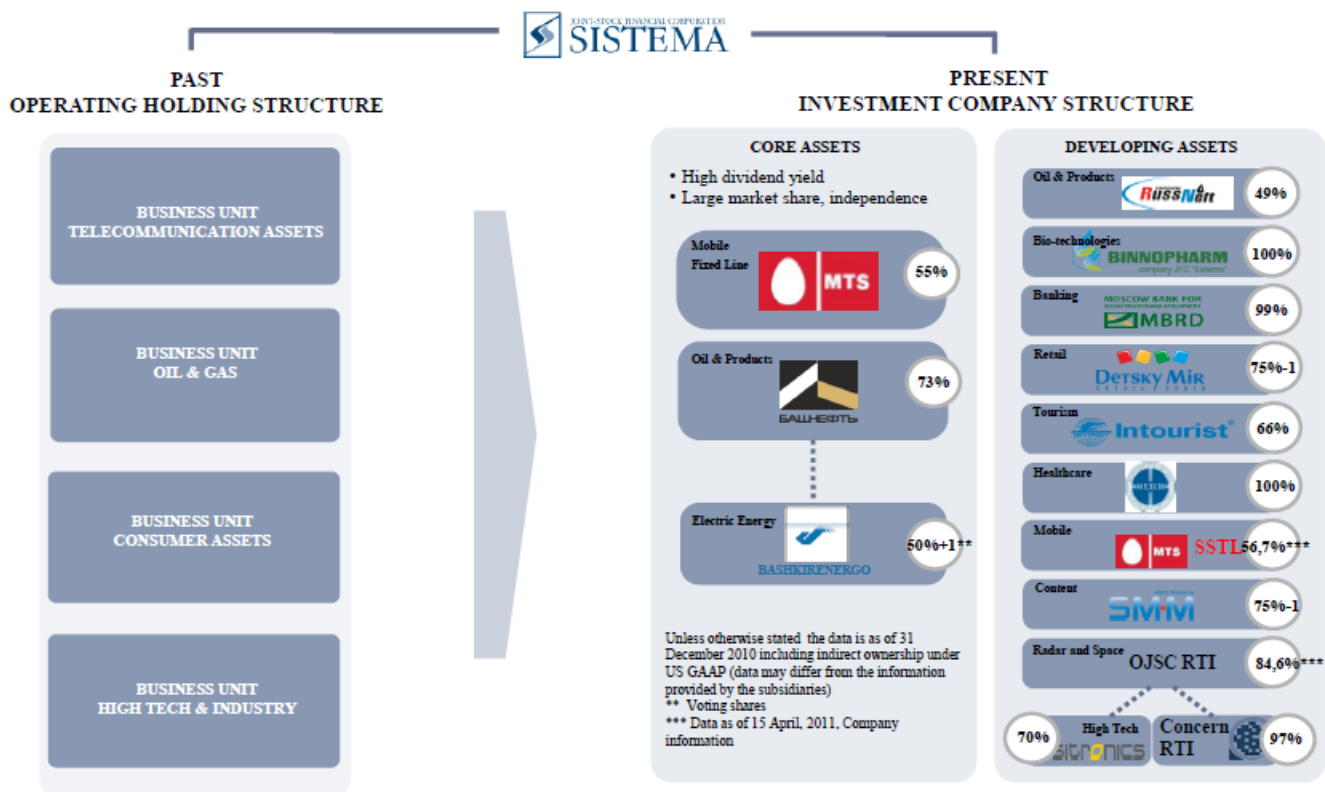
Throughout the reporting period from January 1 through December 31, 2010 the organizational structure of Sistema JSFC had four industry-based Business Units:

- Telecommunication Assets;
- Oil and Energy;
- High Technologies and Industry;
- Consumer Assets.

The 2010 restructuring resulted in a complete exit from our real estate business, Sistema-Hals, as the remaining 28% stake was sold to the state bank VTB. Also, implementation of the project for the Corporation to exit VAO Intourist which, as agreed, will be performed via a sale of the majority stake to Thomas Cook, a global tour operator, started in 2010. We remain a partner in the company and will get additional payments as the company achieves its agreed parameters.

In early 2011 the Board of Directors of Sistema JSFC took the decision on the in principle need to transform the organizational structure of the Corporation and to group its assets on the basis of their maturity, so that to provide for the target portfolio structure where 80% of the NAV comes from mature assets (hereinafter "Core Assets") that generate a stable dividend flow, and 20% comes from developing businesses (hereinafter "Developing Assets").¹

The structure of the portfolio that reflects the transformation of Sistema JSFC from an operating holding into an investment holding is shown in the portfolio restructuring chart.



Description of major assets

Core Assets

Telecommunications	MTS	Largest cellular and fixed line telecom operator in Russia and the CIS.
Oil	Bashneft	Head company of the Bashkir oil and energy group, Russia's Top 10 company in oil production and Top 5 company in oil refining. The company's business portfolio includes crude oil production, oil refining, petrochemicals, and sales of oil products.
Power	Bashkirenergo	Head company of the division consolidating Bashkir energy assets. No 5 by installed electric capacity and No. 7 by installed heat capacity among territorial generating companies of Russia.

¹ NAV - Net Asset Value

Developing Assets

Oil	RussNeft	RussNeft is No 10 Russian oil company by the volume of oil production, No. 7 by the volume of oil refining. The holding is a large supplier of crude oil and oil products to the FSU and other foreign countries, and to the domestic market of the RF.
Telecommunications	Sistema Shyam TeleServices Ltd. (SSTL)	A joint venture of the Russian Sistema JSFC and the Indian Shyam Group.
Banking	MBRD	Universal commercial bank, a Top 30 bank of Russia. MBRD also owns Dalcombank at Khabarovsk and East-West United Bank in Luxembourg.
Retail	Detsky Mir Center	Leading retail network in the children's goods market, one of the oldest and the best recognized Russian brandnames.
Media	Sistema Mass-media	One of the largest media holdings in Russia, managing assets in pay TV, premium content, and advertising.
Tourism	Intourist	Leading universal operator in the Russian tourism market that renders its services to both Russian and foreign tourists.
Private Healthcare	Medsi Group	Leading national network company rendering medical and healthcare services in Moscow and other regions of Russia.
High technologies and radar equipment	RTI	Recently formed company that has the goal of forming the investment, organizational and technological basis for implementing large-scale public projects done in the form of public-private partnerships, such as programs in the area of geo-information systems (GIS) and GLONASS, control and monitoring systems, systems for identifying and responding to threats to the state, the business and the person.
	SITRONICS	Largest high-tech company in Eastern Europe, one of the leading vendors of solutions in telecommunications, information technologies, system integration, consulting and microelectronics.
	RTI Systems Concern	One of the largest Russian defense industry holdings that includes the largest enterprises possessing unique scientific and industrial potential and experience in high-tech projects.
Pharmaceuticals	Binnopharm	Pharmaceutical company managing the largest in Russia full-cycle GMP-compliant manufacturing facility producing bio-technology drugs.

2. PRIORITY BUSINESS AREAS AND DEVELOPMENT STRATEGY

2.1. Mission and strategy of Sistema JSFC

Mission

Sistema JSFC is focused on the long-term growth of shareholder value achieved through high returns on invested capital and investment diversification. Sistema's portfolio consists of unique businesses, including mature companies that generate stable cash flows and developing companies that have growth potential.

Strategy

The Corporation's strategic goal is to ensure sustained growth of the shareholder value of the business. Sistema JSFC intends to achieve this goal by means of increasing the level of return on capital invested in the current assets, and by means of reinvesting a larger portion on non-committed cash in new investment projects so that the assets base can be diversified and expanded.

Key investment principles:

1. Creation of additional value:
 - Achievement of strong and transparent financial results;
 - Diversification of risks, and proactive raising and management of capital.
2. Maintaining strict financial discipline:
 - Dominance of TSR and ROIC in investment decision making;
 - Transparent and balanced system of KPIs for the Corporate Center and all the portfolio companies.
3. Efficient and law-compliant corporate structure.
4. Macro-economic trends driven investment strategy and risk-assessed asset allocation.
5. Weighted application of best practices in corporate governance and IR.

2.2. Strategy and principles for asset portfolio management

Principles of asset portfolio management

Besides managing the current portfolio focused on realizing its assets growth potential, Sistema JSFC strives to achieve high returns and smart capital allocation. Investment decisions are made on the basis of the following principles: 80% of NAV of the target portfolio is made up by the core assets that generate a stable dividend flow, and 20% is contributed by developing businesses.

The Corporation considers investment projects with enterprise values (shareholders' equity plus net debt) of at least \$300 million;

- All assets must generate return on investment above the cost of capital within the investment horizon of 5-7 years ($IRR > WACC$);
- All assets (current projects and new investments) must start making a profit in the medium term and independently service their financial liabilities;
- Sistema JSFC considers potential partnerships with financial and strategic investors and the government.

Strategy implementation in 2010

In 2010, Sistema JSFC continued its evolutionary transition from the operating holding to the investment fund model. In total 13 M&A deals were completed in the reporting period, marking the most active spell in the Corporation's investment history.

The Corporation finalized reorganization of its telecom assets: Sistema-Telecom and Sky Link were sold, a series of transactions between Svyazinvest and Comstar-UTS was completed. Sistema JSFC decided to sell the real estate assets and agreed to a partial disposal of Intourist assets to Thomas Cook. The Corporation continued engaging new partners - the RF Government to SSTL and Sberbank of Russia to Detsky Mir-Center. Sistema JSFC also succeeded in utilizing new investment opportunities as it acquired 49% in RussNeft, a Top 10 upstream oil company in Russia.

The Corporation also adopted changes to the incentive system for the employees of the Corporate Center and the subsidiaries, and revised the processes and procedures for investment decision-making.

The key step towards the new investment model was made in 2011 when the Board of Directors approved the reorganization of the Corporation's assets into two business units based on the maturity of the underlying assets.

These and other portfolio actions reflect the management's drive to effectively execute Sistema's development strategy and grow its shareholder value.

3. REPORT FROM THE BOARD OF DIRECTORS ON THE RESULTS OF THE COMPANY'S DEVELOPMENT IN THE PRIORITY AREAS

3.1 Key Events in 2010

April 2010	Sistema Group acquired a 49% stake in RussNeft.
July 2010	Sistema acquired a 51% stake in M2M Telematics, the leader in the Russian market of transport monitoring, navigation and telematics based on GLONASS/GPS technologies. Sistema has a right to acquire the remaining 49% stake in the next 2-5 years in accordance with the agreement between the companies.
October 2010	<p>Sistema Shyam TeleServices Ltd. and the Russian Federation signed an agreement on an equity investment in Shyam TeleServices Ltd. After the end of the reporting period, the Government of Russia acquired 17.14% of shares for \$600m in the course of an additional issue of shares.</p> <p>Sistema completed the reorganization of its telecommunication assets, having finalized the transactions between Comstar-UTS, Sistema JSFC and Svyazinevst, including the transfer of shares in Sky Link and MGTS.</p>
November 2010	VAO Intourist and Thomas Cook Group Plc. signed an agreement on the sale of a controlling stake in Intourist's tour operating and retail businesses for \$45m and on the establishment of a joint venture to manage the business.
December 2010	<p>Sistema closed the transaction of selling 100% in Sistema Telecommunications, Informatics and Communications (Sistema Telecom) for RUB 11.588bn. (ca \$379m). Besides, MTS bought out the debts of Sistema Telecom to the total amount of RUB 1.801bn (ca \$59m), including RUB 1.35bn (\$44.04m) of debt liabilities between subsidiaries of MTS and Sistema Telecom.</p> <p>The transaction with Sberbank of Russia was closed resulting from which Sberbank acquired 25%+1 share of Detsky Mir-Center. The stake was acquired in the course of expanding the authorized capital of the company via an additional issue of shares in favor of Sberbank of Russia, placed by closed subscription. The transaction was worth about RUB 3.4bn. (ca \$113m).</p> <p>Sistema completed the sale of 27.6% in Sistema-Hals. The stake was bought by Blairwood Limited and Stoneflower Limited that acquired 13.8% of Sistema-Hals shares each. The total value of the transaction amounted to \$70m.</p> <p>Sistema signed a Framework Agreement with the India's largest oil and gas corporation, ONGC Videsh. The parties agreed to consider the opportunity of combining all or some of their assets in oil production and refining. In particular, the Corporation considers the stake in Bashneft and 49% in RussNeft as potential assets for the combination, and ONCG Videsh's considers its 100% stake in Imperial Energy Corp. - plus possible cash investments, and any other oil and gas assets which both companies may acquire before mutually binding agreements are signed.</p>

Bashneft won the tender for the development of the R. Trebs and A. Titov oilfields. The license obtained in February 2011 cost RUB 18.5bn.

3.2. Russian Accounting Standards (RAS) financial results of Sistema JSFC

<i>Indicators</i>	<i>2009</i>	<i>2010</i>
Revenue, RUB '000	21,780,038	42,188,113
Gross income, RUB '000	21,686,058	42,090,662
Net income (loss) in the reporting period, RUB '000	-43,401,803	111,694,947
Return on equity, %	-13.13%	25.29%
Return on assets, %	-10.29%	21.80%
Net income ratio, %	-199%	265%
Return on sales, %	82.06%	77.06%
Capital turnover	0.053	0.086
Net income/loss as of reporting date to grand total ratio	0.1	0.22

<i>Revenue structure:</i>		<i>RUB '000</i>	
<i>Indicators</i>	<i>2009</i>	<i>2010</i>	
Shareholdings: dividends receivable	20,936,710	41,390,818	
Other income (rental, agent services, guarantees)	843,329	797,295	
TOTAL:	21,780,038	42,188,113	

The issuer's core business is managing stakes and shares in commercial organizations.

<i>Structure of other earnings and costs:</i>		<i>RUB '000</i>	
<i>Indicators</i>	<i>2009</i>	<i>2010</i>	
Interest receivable	3,630,831	2,615,670	
Interest payable	-15,206,334	- 9,912,875	
Other earnings	305,794,800	184,967,477	
Other expenses	-349,355,289	- 97,152,643	
TOTAL:	-55,135,992	80,517,629	

Positive re-valuation of investment in the publicly listed shares of Bashneft and MTS acted as the key driver of Sistema JSFC getting yield not related to its core business in 2010.

<i>Efficiency indicators</i>		<i>2009</i>	<i>2010</i>
<i>Indicators</i>			
Net assets value, RUB '000		330,512,110	441,737,914
Funds raised to capital and provisions ratio, %		26.71%	15.27%
Short-term liabilities to capital and provisions ratio, %		1.70%	4.04%
Cover of debt servicing payments, %		-	241%
Level of past-due debt, %		0%	0%
Receivables turnover, times		0.78	1.51
Share of dividends in profits, %		0%	0.48%
Productivity of labor, RUB '000 per employee		70,258.19	126,312
Depreciation to revenues		1%	0.47%

Analysis of the financial solvency and the level of the credit risk of the issuer suggests that in general the issuer has both material own resources and opportunities to raise additional credit resources without the risk of repayment of such funds becoming doubtful.

In 2010 net assets amounted to RUB 441,737.9m, having grown by 33.7% vs. 2009.

Long-term liabilities account for a major part in the structure of borrowings (ca 70%). Accounts receivable and payable are recurring.

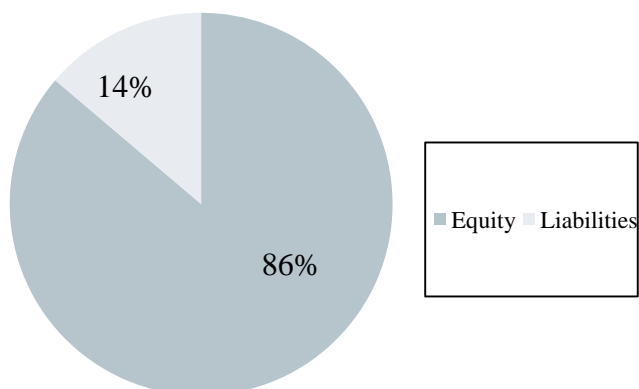
Financial stability indicators

<i>Indicators</i>	<i>2009</i>	<i>2010</i>
Working capital, RUB '000	-41,257,875	1,197,144
Fixed assets to equity ratio	1.12	1.00
Current ratio	5.80	3.45
Quick ratio	5.76	3.45
Equity ratio	0.78	0.86

The issuer's liquidity and solvency indicators are satisfactory.

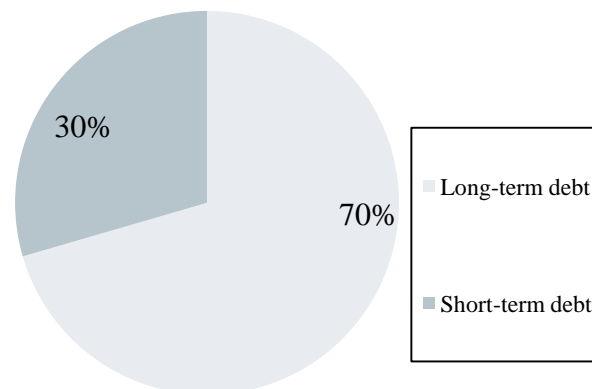
The amount of the issuer's own capital is sufficient to discharge its short-term liabilities and to cover its operating costs. As of the end of 2009, the company's own capital amounted to RUB 441,737,914,000, the volume of its short-term liabilities as of the mentioned date amounts to RUB 20,867,796,000, production costs in 2010 amounted to RUB 97,451,000.

Liabilities and equity



The share of equity in the structure of the company's liabilities amounts to 86%.

Structure of borrowings



Long-term debts account for 70% of the total volume of the company's liabilities.

3.3. US GAAP consolidated financial results of Sistema JSFC

- The revenues grew by 49.9% to \$28.1bn.
- OIBDA increased by 8.6% to \$7.3bn, OIBDA margin amounted to 26.0%.
- Net income attributable to Sistema JSFC went down by 44.1% to \$918.7m.

Key financial indicators

(USD m)	2010	2009	YOY variance
Consolidated revenue	28,098.5	18,749.8	49.9%
OIBDA	7,308.6	6,727.3	8.6%
Operating income	4,362.2	4,236.8	3.0%
Net income attributable to the Group	918.7	1,643.4	(44.1%)
Base and diluted earnings per share (cents)	9.9	17.7	(44.1%)

Review of consolidated results²

In 2010, Sistema Group's consolidated revenues increased by 49.9% year-on-year, largely as a result of the contribution from the Oil and Energy Business Unit. Non-telecommunication businesses, including the Oil and Energy Business Unit, accounted for 59.2% of total Group consolidated revenues in 2010 vs. 46.9% in 2009.

Selling, general and administrative expenses increased by 25.1% year-on-year to \$3,838.5 million in 2010, mainly due to the growth in marketing expenses at MTS as well as consolidation of the full 2010 year Bashneft expenses compared to only nine months consolidation in 2009.

The Group OIBDA for the full year 2010 increased by 8.6% year-on-year following the significant revenue growth, with the OIBDA margin of 26.0%.

Depreciation, depletion and amortization expense increased by 18.3% vs. 2009 to \$2,946.4 million in 2010, mainly due to the consolidation of the full 2010 year Bashneft expenses compared to only nine months consolidation in 2009.

The Group's operating income in 2010 was 3.0% higher than that in the previous year, notwithstanding the \$2.8 billion gain on acquisition of Bashkir Oil and Energy assets recognized by the Group in 2009. Such outstanding operating results are due to the strong operational growth at Bashneft. The operating margin in 2010 was 15.5% compared to 22.6% in 2009.

The Group's interest expense was \$1,597.2 million for the full year 2010, compared to \$1,246.4 million in the previous year, mainly due to the increase in the share of debt denominated in currencies other than the USD (particularly, SSTL debt is denominated in INR) and foreign exchange effects resulting from the decrease in average USD/RUB exchange rates.

The effective tax rate was 37.3% for the full year 2010, compared to 24.4% for 2009. The increase in the effective tax rate resulted from the decrease in non-taxable income, including \$2.8 billion gain on the acquisition of Bashkir Oil and Energy assets in 2009.

The consolidated net income attributable to Sistema decreased by 44.1% year-on-year from \$1,643.4 million to \$918.7 million. The decrease resulted mostly from the gain on the acquisition of the Bashkir Oil and Energy assets recognized in 2009.

² The report of the financial results for 2010 is structured with the changes to the organizational structure that occurred in early 2011 disregarded, and includes analysis by segments that include 4 Business Units: Oil & Energy, Telecommunication Assets, High Technologies and Industry, and Consumer Assets.

Review by segment

Telecommunication Assets Business Unit

(USD m)	2010	2009	YOY variance
Revenue	11,476.2	9,956.0	15.3%
OIBDA	4,344.8	3,880.4	12.0%
Operating income	2,282.4	2,016.3	13.2%
Net income attributable to the Group	579.0	374.9	54.5%
Debt	8,422.8	8,910.7	(5.5%)
MTS			
Revenue	11,293.2	9,867.3	14.5%
OIBDA	4,735.1	4,400.1	7.6%
Operating income	2,734.6	2,555.9	7.0%
Net (loss)/ income attributable to the Group	756.5	555.7	36.1%
SSTL			
Revenue	114.6	36.4	215.1%
OIBDA	(329.0)	(222.7)	-
Operating loss	(410.8)	(250.8)	-
Net loss attributable to the Group	(349.7)	(191.3)	-
Sistema Mass-media			
Revenue	94.5	87.2	8.3%
OIBDA	40.5	(14.3)	384.4%
Operating (loss)/ income	2.2	(72.1)	-
Net (loss)/ income attributable to the Group	(11.5)	(51.7)	-

As of December 31, 2010, the Telecommunication Assets Business Unit comprised MTS, Sistema Shyam TeleServices Ltd. (SSTL), and Sistema Mass-media. In 2010 Sistema JSFC completed the consolidation of its telecom assets via a series of transactions, including the sale of the 25%+1 share stake in Svyazinvest held by Comstar-UTS to Rostelecom, the transfer of 28% in MGTS held by Svyazinvest to a subsidiary of Sistema JSFC, Sistema-Invenchur, the sale of a stake in Sky Link held by Sistema JSFC to Svyazinvest, and the sale of the debt of Sky Link to subsidiaries of Svyazinvest. In a secondary share issuance by SSTL which was completed in March 2011, the Russian Government acquired a 17.14% stake in the Indian telecom operator for approximately \$600 million with the funds of the Indian government's debt to the Russian Federation. SSTL plans to use the proceeds to further strengthen its leading position in wireless broadband services, to expand its mono-brand retail network in existing telecommunications circles, and to launch in new circles.

The revenues of the Telecommunication Assets Business Unit increased by 15.3% year-on-year in 2010. The unit accounted for 40.8% of the Group's consolidated revenues for the full year 2010, compared to 53.1% in the previous year.

The Telecommunication Assets Business Unit's OIBDA increased by 12.0% year-on-year for the full year 2010. The OIBDA margin was 37.9% in 2010, compared to 39.0% in the previous year, following the write-offs in the fourth quarter of 2010.

The Telecommunication Assets Business Unit's net income attributable to Sistema increased by 54.5% year-on-year in 2010, mainly due to the gain from the disposal of Sky Link amounting to \$324.7 million.

MTS' total mobile subscriber base reached 108.1 million customers at the end of 2010, resulting in a 5.7 million subscriber growth year-on-year. MTS' revenues increased by 14.5% year-on-year in 2010 as a result of the growth of its subscriber base and the volume of VAS services, as well as local currencies' appreciation against US dollar. The average monthly service revenue per subscriber (ARPU) in Russia increased from RUB 248.4 in the fourth

quarter of 2009 to RUB 261.9 in the fourth quarter of 2010. Russian subscribers' monthly Minutes of Use (MOU) were up by 18.3% year-on-year and amounted to 259 minutes in the fourth quarter of 2010, compared to 219 minutes in the fourth quarter of 2009.

MTS' broadband subscriber base increased by 31.8% year-on-year to 9.9 million customers in 2010, and its Pay-TV customer base grew to 2.8 million, compared to 2.1 million customers in 2009.

The OIBDA of MTS increased by 7.6% vs. 2009. The OIBDA margin decreased year-on-year from 44.6% to 41.9% for 2010, primarily as a result of growth in dealer costs and a strong subscriber growth.

SSTL's revenues more than tripled year-on-year in 2010 as a result of strong growth of the mobile subscriber base, the rollout of new networks in five telecom circles and the launch of EV-DO based high speed data services in 99 of India's largest cities. SSTL's mobile subscriber base increased by 27.3% in the fourth quarter of 2010 and reached 8.4 million customers at the end of 2010. The number of mobile broadband subscribers totaled 430 thousand at the end of 2010.

SSTL's OIBDA loss increased year-on-year in 2010 due to the growth in expenses associated with the rollout of new mobile networks.

Sistema Mass-media's revenues increased by 8.3% year-on-year in 2010 as a result of higher revenues from film sales, including additional sales of rights to show TV series in the CIS countries, as well as increased revenues from content distribution and aggregation resulting from the organic growth of TV Company Stream.

Sistema Mass-media reported an OIBDA profit for the full year 2010, compared to OIBDA loss in the previous year, as a result of revenue growth and optimization of selling, general and administrative expenses. OIBDA margin increased by 59.3 percentage points and equaled 42.9%.

Oil and Energy Business Unit³

<i>(USD m)</i>	2010	2009	<i>YOY variance</i>
Revenue	13,318.0	5,730.7	132.4%
OIBDA	3,004.3	1,086.0	176.7%
Operating income	2,295.3	587.8	290.5%
Net income attributable to the Group	927.0	391.4	136.9%
Debt	3,932.6	2,500.4	57.3%
Bashneft			
Revenue	11,578.7	4,134.4	180.1%
OIBDA	2,344.4	680.8	244.4%
Operating income	2,165.4	565.3	283.1%
Net income attributable to the Group	1,112.0	320.3	247.2%
Refineries			
Revenue	1,490.5	1,083.2	37.6%
OIBDA	555.9	291.5	90.7%
Operating income	161.0	4.6	3,379.3%
Net income attributable to the Group	85.4	4.9	1,633.0%
Bashkirenergo			
Revenue	2,067.8	1,165.4	77.4%
OIBDA	234.0	107.4	117.9%
Operating income	116.5	25.2	362.7%
Net income attributable to the Group	23.7	3.5	583.6%

³ Hereinafter OIBDA, operating income and net income indicators of the Bashkir oil and energy group operations are shown net of profits from acquiring the Bashkir oil and energy group operations.

Bashkirnefteprodukt			
Revenue	857.0	531.1	61.4%
OIBDA	6.5	37.4	(82.7%)
Operating income / (loss)	(11.7)	23.9	-
Net (loss)/ income attributable to the Group	(3.5)	15.9	-

As of December 31, 2010, the Oil and Energy Business Unit comprised companies of the Bashkir Oil and Energy Group, as well as Sistema's 49% stake in RussNeft which is accounted by the equity method. The unit's operating results are included in the Group's consolidated results for the full year 2010, compared to nine months in 2009. The unit's revenues more than doubled year-on-year in 2010 as a result of increased oil production, increased volumes of oil products sold following the cancellation of the tolling scheme, increased effectiveness of the companies in the business unit, and the rising oil prices. The unit contributed 47.4% of the Group's consolidated revenues in 2010, compared to 30.6% for the nine months of the previous year.

The Business Unit's OIBDA increased year-on-year, mostly due to the gain resulting from the acquisition of significant control in Belkamneft amounting to \$477 million, and the growth in sales. The OIBDA margin was 22.6% in 2010, compared to 19.0% in the previous year.

The Business Unit's net income attributable to Sistema more than doubled year-on-year in 2010.

Bashneft's revenues more than doubled year-on-year as its oil production reached approximately 14.1 million tons of oil, compared to 9.4 million tons for the nine months of 2009. In 2010, Bashneft sold 18.8 million tons of oil products compared to 6.8 million tons in 2009.

Bashneft's OIBDA more than doubled year-on-year as a result of growth in oil and oil products sales volumes in 2010.

The Group's refining facilities that include four oil refinery companies - Ufaneftekhim, Ufimsky NPZ, Novoil and Ufaorgsintez, - processed 21.2 million tons of crude oil in 2010, compared to 20.7 million tons in the previous year. The Group's refining segment's revenue increased by 37.6% year-on-year to \$1,490.5 m. This increase, net of effect of comparing full 2010 to the nine-months' period of 2009, was primarily driven by the greater volumes of processing.

The OIBDA of the refining segment of the Group nearly tripled year-on-year primarily due to higher prices of processing services.

Bashkirnefteprodukt's revenues increased by 61.4% year-on-year mainly due to increased volumes of oil products sold. At the end of 2010 the total number of petrol stations owned and operated by Bashkirnefteprodukt was 318 as the company continued to develop its own retail network.

Bashkirnefteprodukt's OIBDA decreased by 82.7% year-on-year due to provisions for business litigations made in 2010.

Bashkirenergo's revenues increased by 77.4% year-on-year in 2010, as a result of the growth in retail electricity consumption and average retail electricity tariffs, as well as the increase in wholesale energy sales. Bashkirenergo generated 22,612 million kW/h of electricity and supplied 24,128 thousand Gcal of heat in 2010, compared to 19,834 million kW/h of electricity and 23,899 thousand Gcal of heat supplied in the previous year.

The electric energy business' OIBDA more than doubled year-on-year with the OIBDA margin expanding to 11.3%, compared to 9.2% in the previous year.

Following the end of the reporting period, Bashneft received a license for federal-level subsoil deposits covering oil fields named after Roman Trebs and Anatoly Titov located in the Nenets autonomous district of Russia. Bashneft was granted the license to perform geological research, and to explore and produce hydro-carbon materials. Total recoverable oil reserves (C1+C2) of both fields are estimated as 140.1 million tons.

Consumer Assets Business Unit

<i>(USD m)</i>	2010	2009	YOY variance
Revenue	1,978.7	1,896.8	4.3%
OIBDA	205.7	(183.8)	-
Operating (loss)/ income	144.6	(236.2)	-
Net (loss)/ income attributable to the Group	80.5	(326.4)	-
Debt	362.0	403.0	(10,2%)
Banking			
Revenue	613.8	720.4	(14,8%)
OIBDA	39.9	(63.5)	-
Operating (loss)/ income	21.3	(77.1)	-
Net (loss)/ income attributable to the Group	10.1	(91.4)	-
Retail			
Revenue	659.9	583.1	13.2%
OIBDA	40.9	(47.4)	-
Operating (loss)/ income	24.4	(65.1)	-
Net (loss)/ income attributable to the Group	(3.1)	(99.1)	-
Tourism			
Revenue	518.2	399.7	29.7%
OIBDA	6.9	7.8	(11.7%)
Operating (loss)/ income	(4.0)	(1.1)	-
Net loss attributable to the Group	(15.5)	(8.8)	-
Private Healthcare			
Revenue	156.5	125.9	24.3%
OIBDA	17.1	6.2	174.7%
Operating (loss)/ income	8.1	(0.4)	-
Net loss attributable to the Group	(2.5)	(7.3)	66.3%

As of December 31, 2010, the Consumer Assets business unit comprised of the following segments: Banking, Retail, Tourism, and Healthcare. In 2010 Sistema JSFC continued the optimization of the consumer assets portfolio by means of establishing a joint venture with Thomas Cook (the JV will own the tourism business of VAO Intourist), and selling a stake in a consumer assets operating company, Detsky Mir-Center, to Sberbank. In 2010 the revenues of the unit increased by 4.3% vs. 2009 thanks to the growth of revenues in the retail, tourism and healthcare sectors. In 2010 the unit accounted for 7% of the Group's consolidated revenues, compared to 10% in the previous year.

Resulting from a significant improvement of performance in all segments, the Consumer Assets Business Unit demonstrated a notable growth of OIBDA, with the OIBDA margin reaching 10.4% in 2010 vs. negative values in 2009. The significant growth in 2010 was achieved thanks to the good results of all companies of the unit.

In 2010 the Consumer Assets Business Unit generated net income attributable to Sistema, compared to net loss in the preceding two years.

The Banking business' revenues declined by 14.8% year-on-year in 2010 due to a contraction in the debt securities and loan portfolio, as well as a decrease in the average interest rates charged on loans to corporate and retail customers.

The Banking business' loan portfolio, excluding leases, decreased by 16.64% year-on-year to \$ 4,603 million as of December 31, 2010. The retail deposits-to-loans ratio stood at 236.7% at the end of 2010. Interest income received

from retail and corporate lending operations decreased by 16.9% year-on-year to \$529.7 million in 2010. The retail banking business included 162 points of sales, including 23 points located in Moscow and 138 points in 37 Russian regions, and one in Luxembourg as of the end of 2010.

The Banking business reported an OIBDA profit in 2010, compared to an OIBDA loss in the previous year.

Revenues from the Retail business increased by 13.2% year-on-year in 2010, mainly as three stores were opened in 2010. The retail network included 131 stores located in 67 Russian cities with the aggregate retail space of 214.5 thousand square meters as of the end of 2010.

The Retail business reported a significant OIBDA growth in 2010, compared to the OIBDA loss in the previous year, following the introduction of a large-scale cost cutting program.

The Tourism business' revenues increased by 29.7% year-on-year in 2010 as a result of better market conditions and following the launch of new travel routes. The tourism companies of the business unit serviced 812.1 thousand customers in 2010, compared to 667.3 thousand clients in the previous year. The hotel group's total number of rooms owned, managed and rented was 3,059 at the year end.

The OIBDA of the Tourism sector went 11.7% down year-on-year as the competition became more intensive.

The Healthcare business' revenues increased by 24.3% year-on-year in 2010 as a result of the growth in the volume of services by 13.1% year-on-year to 6.0 million, the increase in the number of visits to medical clinics by 10.6% year-on-year to 3.4 million, and the rise in the average bill by 12.4% year-on-year to \$45.5 despite the unfavorable weather conditions in the third quarter of 2010. At the end of 2010 the network consisted of 80 medical clinics and hospitals, including 20 based in Moscow and the Moscow Region, and 4 fitness clubs. The business launched the second building of the Clinic and Diagnostics Center at the Belorusskaya station (Gruzinsky Per. 3a) in Moscow, and a clinic in Shchyolkovo (a town in the Moscow Region), extending the total clinics' space to 46,914 square meters, an 18.3% increase year-on-year.

High Technologies and Industry Business Unit

<i>(USD m)</i>	2010	2009	<i>YOY variance</i>
Revenue	1,781.6	1,508.5	<i>18.1%</i>
OIBDA	143.8	61.6	<i>133.4%</i>
Operating (loss)/ income	37.6	(6.4)	-
Net loss attributable to the Group	(63.5)	(64.6)	<i>1.7%</i>
Debt	935.6	926.2	<i>1.0%</i>
High Technologies			
Revenue	1,166.9	1,024.2	<i>13.9%</i>
OIBDA	114.9	0.9	<i>13,403.3%</i>
Operating (loss)/ income	24.1	(54.8)	-
Net loss attributable to the Group	(31.9)	(83.0)	-
Radars and Aerospace			
Revenue	506.0	409.9	<i>23.5%</i>
OIBDA	69.5	51.3	<i>35.4%</i>
Operating income	57.5	39.2	<i>46.7%</i>
Net income attributable to the Group	15.2	13.8	<i>10.2%</i>
Pharmaceuticals			
Revenue	32.1	55.7	<i>(42.3%)</i>
OIBDA	(27.9)	10.8	-
Operating income / (loss)	(34.1)	8.2	-
Net income / (loss) attributable to the Group	(33.9)	3.9	-

As of December 31, 2010, the High Technologies and Industry Business Unit comprised the High Technology, the Radars and Aerospace, and the Pharmaceuticals businesses, as well as NIS and M2M Telematics. The unit's

revenues increased by 18.1% year-on-year in 2010, largely as a result of growth in the High Technology and Radars and Aerospace businesses. The unit accounted for 6.3% of consolidated Group's revenues in 2010, compared to 8.0% in the previous year.

The High Technologies and Industry Business Unit's OIBDA more than doubled year-on-year in 2010, following a significant growth of OIBDA in the High Technology business.

Net loss of the High Technologies and Industry Business Unit attributable to Sistema JSFC remained at the 2009 level despite the reduction of net loss in the High Technology and Industry segment. The loss resulted from a material loss in the Pharmaceuticals segment.

Revenues for the High Technology business increased by 13.9% year-on-year in 2010 due to growth in the Information Technologies and Microelectronics business segments.

The High Technology business' OIBDA expanded substantially in 2010, compared to the loss in the previous year, with the OIBDA margin of 9.9%. The year-on-year increase resulted from the large amount of provisions for accounts receivable and impairment of inventories, fixed assets and investments in 2009, as compared to these accounts balance in 2010.

The Radars and Aerospace business' revenues increased by 23.5% year-on-year in 2010 as a result of completion of several large contracts and increased government spending on defense.

The OIBDA of the Radars and Aerospace business grew by 35.4% year-on-year in 2010 with the OIBDA margin of 13.7%, compared to 12.5% in the previous year, due to higher profitability of completed projects and the expenses optimization program.

The Pharmaceuticals business' revenues declined by 42.3% year-on-year in 2010, following a reduction in the volumes of supplies to the federal vaccine project and a delay in the production of new drugs.

The Pharmaceuticals business reported an OIBDA loss in 2010, compared to the OIBDA profit in the previous year, following an overall decrease in profitability on the produced and distributed drugs and some write-offs of assets.

After the end of the reporting period the Board of Directors of Sistema JSFC approved the sale of the 63% stake held by the Group in SITRONICS, an operating company of the High Technology sector, to RTI, a company established together with the Bank of Moscow. Sistema JSFC also contributed 97% in RTI Systems Concern, an operating company of the Radars and Aerospace segment, in the authorized capital of the new company. Resulting from that, the Bank of Moscow got 15.4% of shares in RTI, and Sistema JSFC controls 84.6% of the new entity. Sistema hopes that the effects of scale will help the new structure to implement large-scale governmental projects, including projects related to the development of geoinformatics and the GLONASS systems, in a more efficient manner.

Corporate & Other

<i>(USD m)</i>	<i>2010</i>	<i>2009</i>	<i>YOY variance</i>
OIBDA	(281.3)	328.6	-
Net Income/ (loss)	(538.6)	(12.1)	-
Total debt	1,749.5	2,704.9	(35.3%)

The Corporate and Other segment comprises companies that control and manage the Group's interests in its subsidiaries.

Financial Review

Cash flow from the operations of the Group in 2010 increased by 10.1% year-on-year to \$4,056.0 million due to changes in the working capital.

Cash used for investment activities amounted to \$4,589.6 million in 2010 vs. \$6,070.8 million in 2009. The Group spent \$4,179.6 million on capital investments in 2010 vs. \$3,434.4 million in 2009. The Group paid \$364.5 million (net of cash proceeds) to acquire new businesses in 2010, including the purchase by MTS of 100% stake in Multiregion for \$123.5 million, the purchase of the remaining stake in Sky Link, a Group's affiliate (which increased Sistema's effective ownership to 100%) for \$168.5 million, as well as other acquisitions by the Group during the year.

Cash flow from the financial operations amounted to \$6.9 million in 2010 vs. \$5,207.9 million in 2009. The Group spent \$787.4 million to acquire additional stakes in the subsidiaries in 2010, including \$171.9 million in 4Q 2010 (mostly related to the Group's acquisition of 10% in Sistema-Invest for \$120.0 million).

Other major changes in the financial activities during the 4Q 2010 included:

- Voluntary repayment by MTS of the second tranche of the syndicated loan (ING Bank N.V., The Bank of Tokyo-Mitsubishi, Bayerische Landesbank, HSBC, Raiffeisen, Sumitomo) to the amount of \$161.5 million. The loan was originally signed in April 2006 for a term of 5 years;
- Redemption by MTS of the \$400.0 million 2010 eurobonds;
- Placement of the Series 07 and Series 08 ruble-denominated bonds totaling RUB 25 billion (approximately \$820.3 million);
- MTS signing an agreement with Sberbank to open two non-revolving lines of credit for the total amount of RUB 100.0 billion (approximately \$3,281.2 million);
- Voluntary repayment by Sistema JSFC of the Sberbank loan amounting to \$341.7 million. The loan was signed in July 2008 for the term of five years;
- Placement by Sitronics of the RUB 3 billion (approximately \$98.8 million) bonds maturing in 2013;
- Voluntary repayment by Bashneft of the loan from VTB-Capital in the amount of \$250.0 million. The loan was signed in August 2010 for a term of seven years;
- Redemption by the Group of the Sistema-Capital notes to the amount of \$89.1 million.

In addition, the cash outflow from financial activities in the 4Q resulted from the payment of \$823.6 million of dividends by Bashneft and MTS and the net increase in liabilities of the Banking business' operations totaling \$1,167.7 million.

The Group's cash balances stood at \$ 5,050.7 million as of December 31, 2010 (including the balance of \$2,163.9 million related to the banking operations), compared to \$5,600.5 million as of December 31, 2009 (including the balance of \$2,785.6 million related to the banking operations). The Group's net debt (short-term and long-term debt less cash and cash equivalents) amounted to \$13,137.4 million as of December 31, 2010, compared to \$12,008.5 million as of December 31, 2009.

3.4. Credit ratings of Sistema JSFC

<i>Agency</i>	
Fitch Ratings Ltd Eldon House, 2 Eldon Street London EC2M 7UA UK	BB- (forecast positive) confirmed on 26.11.2010
Standard & Poor's Garden House 18 Finsbury Circus London EC2M 7NJ UK	BB (forecast stable) confirmed on 09.03.2011

Moody's Investors Service Limited

2 Minster Court,
Mincing Lane,
London EC3R 7XB
UK

Ba3
(forecast stable)
assigned on 05.02.2010

3.5. Report on the payment of announced (paid out) dividends on the shares of Sistema JSFC

The resolution on the payment of dividends was passed by the Annual General Meeting of the shareholders of Sistema JSFC on June 26, 2010 (Minutes No 2-10).

Pursuant to the resolution of the General Meeting of shareholders, the amount of RUB 530,750,000 was allocated to the payment of the dividends, which equals RUB 0.055 per one ordinary registered share.

The total amount of dividends paid out as of December 31, 2010 amounted to RUB 530,749,642.74, and tax on dividend income paid to foreign legal entities in the amount of RUB 16,459,903 was subtracted.

As of December 31, 2010, non-paid dividends amounted to RUB 276,757.26. Reasons for the non-payment of the announced dividends are as follows: lack of the information on the recipients of the dividends required to remit the respective amounts to them.

4. OUTLOOK AND DEVELOPMENT STRATEGY OF THE SISTEMA GROUP

4.1. Core Assets

The Core Assets include companies being leaders in their industries that generate stable cash flow in the form of dividends for the Group. These are companies with developed operations that service their liabilities independently. Sistema is the majority shareholder in these core assets. The Business Unit combines telecom and oil&gas companies and includes Mobile TeleSystems (MTS) and the companies of the Bashneft holding, including Bashkirenergo.

	Ordinary shares held by Sistema JSFC, directly or indirectly
Mobile TeleSystems (MTS)	54.8%
Bashneft	73.0%
Bashkirenergo	50%+1*

*Voting shares

Core Assets management goal

The key goal in the management of the Core Assets of Sistema JSFC is to gain a substantial dividend yield from the assets of the unit, and to achieve stable growth of its businesses that should outperform the market growth. Provided they continue to perform to the expectations, these investments are held long term.

Core Assets management strategy

Sistema JSFC is pro-actively involved in the development of the Core Assets companies by means of optimizing their performance and, if necessary, reorganizing them. We are also ready to consider combining these assets with the leading players in the respective markets. We expect such development to increase the scale of the assets and to realize a range of synergies.

Businesses included in Core Assets are mature assets that are fully independent, and all operations and business development is driven by their management teams. Sistema's role in managing these companies is to apply the best corporate governance practices for the purpose of implementing the approved strategy.

Financial results

	Revenue			OIBDA			Net income attributable to Sistema		
	2010	2009	Δ	2010	2009	Δ	2010	2009	Δ
MTS	11,293.2	9,867.3	14.5%	4,735.1	4,400.1	7.6%	756.5	555.7	36.1%
BashTEK	11,578.7	4,134.4	180.1%	2,344.4	680.8	244.4%	1,112.0	320.3	247.2%
Bashkirenergo	2,067.8	1,165.4	77.4%	234.0	107.4	117.9%	23.7	3.5	583.6%

USD m

Mobile TeleSystems

Mobile TeleSystems (MTS) is the largest telecommunications operator in Russia, Eastern Europe and Middle Asia. MTS offers mobile and fixed telecommunications, broadband Internet access and pay TV, as well as information and entertainment services in one of the most dynamically developing regions globally. The company was founded in 1993. MTS renders GSM services in 82 regions of Russia, and in the Ukraine, Belarus, Uzbekistan, Armenia and Turkmenistan. In 2010, MTS continued expanding rapidly, delivering revenue growth and maintaining solid profitability and dividends.

President of Mobile TeleSystems - Andrey Dubovskov, Chairman of the Board of Directors - Ron Sommer.

Operating and financial results

In 2010 MTS retained its leading position in the Russian mobile telecommunications market in terms of both subscriber numbers and revenues. Over the year the number of Russian subscribers increased from 69.3 million in December 2009 to 71.4 million in December 2010. The consolidated number of MTS subscribers exceeded 100 million people for the first time in 2010.

In 2010, MTS increased its share of subscribers in the mobile market of the Ukraine from 31.8% to 33.7%. In December 2010, MTS was the leading operator in Armenia, Belarus, Turkmenistan and Uzbekistan by the total number of subscribers. On December 21, 2010 the company halted its operations in Turkmenistan following the announcement by the country's Telecommunications Ministry that MTS's operating license had been suspended.

MTS continued to develop its retail network in Russia in 2010, which enabled the company to expand its subscriber base substantially and improve customer loyalty; this was also a key driver of revenue growth.

In July 2010, MTS acquired Multiregion, a cable operator, thus strengthening its position in the rapidly expanding market of broadband Internet access and cable TV. The transaction is in line with the "3i" strategy of MTS, as it broadens its portfolio of integrated services and improves the company's competitive position. The development of the 3G network prompted greater demand for 3G services, which helped to deliver stronger revenues in 2010.

The full consolidation of Comstar-UTS helps to reduce the operating expenses and to further develop convergent services. In early October 2010 Sistema sold a 25% + 1 share stake in Svyazinvest for RUB 26 billion in order to streamline the telecommunication assets portfolio and reduce debt. The proceeds were used to repay the Sberbank loan of Comstar-UTS. As part of the transaction, Sistema swapped a 50% stake in Sky Link for 28% of the ordinary shares of MGTS.

In 2010, for the third year in a row, MTS was chosen as the most expensive Russian brand in the BRANDZ™ annual rating of the world's top 100 brands. It ranked 72 overall, with a brand value of \$9.7 billion.

In 2010 the company restructured its backbone network assets and created a new Backbone Division on the basis of the assets of MTS and its Eurotel subsidiary.

MTS became a member of the Wholesale Applications Community (WAC), an international telecommunications alliance which aims to create an open global platform for designing and selling mobile applications.

Key financial results of MTS in 2010:

<i>(USD m)</i>	2010	2009	<i>YOY variance</i>
Revenue	11,293.2	9,867.3	14.5%
OIBDA	4,735.1	4,400.1	7.6%
OIBDA margin	41.9%	44.6%	2.7 pp
Operating income	2,734.6	2,555.9	7.0%
Net income attributable to the Group	756.5	555.7	36.1%
Debt	7,160.6	8,350.2	(14.3%)
CAPEX	2,647.1	2,328.3	13.7%

Key operating results of MTS in 2010:

<i>Indicator, (region: Russia)</i>	2010	2009	<i>YOY variance</i>
MOU	234	213	10%
ARPU (USD)	8.3	7.8	6%
Subscribers			
- Mobile, million	71.4	69.3	3%
- Households passed, thousand	9,890	7,502	32%

- Broadband customers, thousand	1,805	1,298	39%
- Pay-TV, thousand	2,753	2,124	30%

Number of subscribers in Russia vs. peers⁴

<i>Subscribers in Russia, million</i>	<i>2010</i>	<i>2009</i>	<i>YOY variance</i>
MTS subscribers	71.4	69.3	3.0%
Vimpelcom subscribers	52.0	50.9	2.1%
MegaFon subscribers	56.6	50.2	11.1%

Development strategy

MTS is expected to continue the implementation of the “3i” strategy – Integration, Innovation and the Internet – in 2011. The company will be developing comprehensive communication services for all subscriber groups and promoting them via integrated sales channels.

As the competition intensifies, one of the key objectives for MTS is to enhance the quality of client service and to continue offering unique and convenient services. To achieve this objective, MTS will continue its rapid rollout of 3G networks in Moscow and the RF regions. In 2011 the company plans to increase its 3G CAPEX year-on-year, as it believes this investment creates great potential and high returns.

Importantly, the integration of Comstar-UTS allows MTS to offer both fixed and wireless Internet services via cable broadband and 3G.

Coupled with the expansion of the 3G network, MTS is focused on developing and launching 3G related products. MTS intends to drive sales in this segment by extensively deploying its own retail network. It will also continue to offer high-quality products and services, attractively priced and transparent tariff plans, innovative bundles of services, and loyalty programs.

MTS aims to retain its position as the leading national mobile telecommunications operator in Russia and the wider CIS, in terms of both subscriber numbers and revenues.

Market

The Russian mobile telecommunications market is one of the most developed in the world. In 2010 the penetration of cellular communication services reached 151.0%⁵. In value terms, the mobile communication industry grew by 6.5% over the year. The mobile segment’s share of the country’s telecommunications industry rose to 44.1%, up 0.4 p.p. year-on-year. The high saturation of the Russian mobile market leads to a gradual shift in marketing efforts of mobile operators towards retaining existing subscribers by enhancing service quality and offering attractive products.

Market growth prospects

By the end of 2013 Russia’s mobile telecommunications market is expected to expand at a CAGR of around 8%⁶. The growth is expected to be predominantly generated by the mobile segment (7%) and the broadband and TV segments (20% and 31%, respectively).

Consolidation trends may become stronger in the fixed-line segment this year, other trends include greater competition in the mobile broadband segment resulting from the strategies of the other Big Three operators (MTS, Vimpelcom and MegaFon). We expect the strongest growth to come from the Internet traffic segment, both mobile and fixed, while sales of USB modems will also increase due to the expansion of 3G networks, higher speed of data connection and stronger demand for mobile broadband services.

⁴ According to data from MTS and its peer companies.

⁵ According to AC&M, 2011.

⁶ According to Sistema JSFC.

Bashneft

Bashneft is a vertically integrated oil company that manages oil and energy assets in the Republic of Bashkortostan, the Russian Federation. The company's assets include Bashneft-Production, one of Russia's most modern refining complexes comprising three facilities (Ufimsky NPZ, Novoil and Ufaneftekhim), plus the Ufaorgsintez petrochemical plant and the Bashkirnefteprodukt oil trading company.

	Ordinary shares held by Sistema JSFC, directly or indirectly*
Bashneft	73%
Ufimsky NPZ	88.2%
Novoil	95.6%
Ufaneftekhim	88.3%
Ufaorgsintez	90.2%
Bashkirnefteprodukt	80.6%

* as of December 31, 2010

President of Bashneft - Alexander Korsik (appointed in April 2011), Chairman of the Board of Directors - Alexander Goncharuk.

Operating and financial results

In 2010, Bashneft produced 14.1 million tons of oil, up 15.6% year-on-year. These strongest in the industry growth tempos resulted from streamlining the wells pool, enhanced recovery techniques and improved geotechnical work, reduction of technological losses and cutting internal utilization of oil. The receipt of licenses to develop the Trebs and Titov oil deposits was an important event in terms of expanding the resource base. In 2010, the main growth drivers of the Bashneft Group were the increase in the output of own crude oil bolstered by higher oil prices and a recovery in domestic demand, as well as corporate restructuring - building a vertically integrated oil company on the basis of Bashneft.

In 2010, Bashneft's refineries processed over 21 million tons of crude oil, up 2.2% year-on-year. The refining depth increased by 3 percentage points to 86.3%, while the share of light products was up by 0.3 percentage points to 65.6%.

The company made significant progress in expanding its commercial activities and establishing own sales channels: a partnership program for fuel stations was designed and launched, agreement was reached on the acquisition of a fuel stations network in Udmurtiya and a jobber company specializing in oil products. In addition, Bashneft signed an agreement to acquire a retail network in the Orenburg region.

Key financial results of Bashneft in 2010:

(USD m)	2010	2009	YOY variance
Revenue	11,578.7	4,134.4	180.1%
OIBDA	2,344.4	680.8	244.4%
OIBDA margin	20.2%	16.5%	3.8%
Operating income	2,165.4	565.3	283.1%
Net income attributable to the Group	1,112.0	320.3	247.2%
Debt	3,894.0	1,655.0	135.3%
CAPEX	846.2	171.0	394.8%

Crude production in the RF, million tons

Company	2010	2009	YOY variance
Rosneft	112.4	105.4	6.6%
Lukoil	90.1	92.2	-2.3%

TNK-BP	71.7	70.2	2.0%
Surgutneftegaz	59.5	59.6	-0.1%
Gazprom Neft	29.8	29.9	-0.2%
Tatneft	26.1	26.1	0.0%
Slavneft	18.4	18.9	-2.8%
Bashneft	14.1	12.2	15.6%
RussNeft	13.0	12.7	2.3%
Russia:	505.1	494.2	2.2%

Refining volume in the RF, million tons

Company	2010	2009	YOY variance
Rosneft	50.8	50.2	1.1%
Lukoil	45.2	44.1	2.4%
TNK-BP	24.0	21.5	11.8%
Bashneft	21.2	20.7	2.2%
Surgutneftegaz	21.2	20.5	3.7%
Gazprom Neft	19.0	18.4	3.0%
Slavneft	14.3	13.6	4.9%
RussNeft	5.2	5.1	1.0%
Russia:	250.0	235.7	6.0%

Key events in 2010:

- In 2010, Bashneft produced 14.1 million tons of oil, up 15.6% year-on-year;
- Bashneft gained the license for the development of the Trebs and Titov oilfields in the Nenets Autonomous District;
- Long-term agreement on oil supplies signed with RussNeft;
- Retail network acquired in Udmurtia;
- Acquisition of a trading company.

Development strategy

Strategic goals of Bashneft through 2013 are to improve the balance between upstream and downstream and to increase the scale while maintaining the leading position in refining. Key strategic initiatives aimed at achieving those goals include the following: (i) growing oil production and development of current assets, (ii) development of large new deposits, (iii) acquisition of upstream assets in the RF, (iv) participation in international upstream projects. Plans also include strengthening positions in the segments of the petrochemical market that have the highest margins by means of expanding the jobber and the fuel stations network up to 1,200-1,300 points of sale.

Market

In 2010, the Russian oil and gas industry enjoyed a benign operating environment, mainly due to rising oil prices and the continued consolidation in the industry.

Production of crude oil in Russia for the first time since 1991 exceeded 505 million tons a year allowing the country to maintain its leadership position in global crude production. Production went 2.3% up year-on-year. Refining volumes grew by 5.6% vs. 2009 to 248.7 million tons. The depth of refining at Russian facilities on average fell from 71.4% to 70.6% year-on-year, and the share of light products declined from 56.3% to 55.5%. The production of petrol stood at the previous year's level, while the output of diesel fuel rose by 3.6% and that of fuel oil by 7% year-on-year.

In 2010 changes in the tax regulations were introduced. In particular, excise taxes on petrol and diesel fuel were increased.

Market growth prospects

The oil and energy sector plays the leading role in the economy of Russia. Sustained and dynamic operation of its segments makes a crucial contribution to the acceleration of the economy growth processes in the country and to the achievement of high GDP growth rates. New oilfields are the core contributors to the growth of crude oil production in Russia. Their importance for this sector grows every year. In 2010 production in Russia increased 2.2% thanks to new fields alone (Vankorskoe, Uvatskoe, Verhnechonskoe and Talakanskoe oilfields). Without new projects crude production in Russia would have fallen by ca 1.0% year-on-year in 2010. Further growth of oil production in the RF will depend on the development of the existing new deposits and the implementation of new projects.

In the near term, a further increase in the tax burden of the RF oil industry is expected, as this segment accounts for most of the taxable income of the state budget. Starting from 2012 it is planned to gradually increase the Mineral Extraction Tax on oil. In 2011 a decision may be made to equalize export duties on light and heavy products, and there are suggestions to compensate for the consequent losses by reducing export duties on crude oil (the '60-60' regime).

The presence of excessive primary refining capacities in Russia pushes the competition between oil processing facilities up. At the same time, the secondary process capacities are not sufficient to improve the quality structure of the products. Hence, Russian refining companies are currently facing the task of prompt modernization of equipment.

Bashkirenergo

Bashkirenergo is one of the largest regional energy systems in Russia. The installed electric capacity amounts to 4,235.2 mW, and installed heat capacity reaches 12,472.327 Gcal/h.

The generating capacities of the Republic of Bashkortostan energy systems include one state district power station (GRES), ten combined heat and power plants, including the Zauralskaya gas piston power plant, two hydro power plants, five gas turbine plants, seven gas piston units, one wind power station and eight smaller hydro power plants. The total number of retail customers of Bashkirenergo as of July 01, 2010 amounts to 1,191,452 clients.

General Director of Bashkirenergo - Alexei Doronin, Chairman of the Board of Directors - Nikolai Kurapov.

Operating and financial results

In 2010, Bashkirenergo retained its dominant position in the Bashkir electricity market. The company generated revenue growth and expanded OIBDA and net profit margins in the Generation and Transmission segments ahead of the rest of the market. Bashkirenergo delivered results in line with sector averages in the Sales segment.

Throughout the year 2010 Bashkirenergo was actively preparing for the inclusion of its generation capacities into the wholesale electricity and power market, which will make it possible for the company to become a full participant of this market from January 01, 2011. Bashkirenergo took initial steps to convert unregulated wholesale prices for end users in Bashkortostan starting from January 1, 2011 to make them compliant with the existing regulatory requirements for the electricity supply contract scheme.

Preparations started to move transmission companies to RAB-based tariffs from January 1, 2012.

In 2010, in accordance with antimonopoly requirements, Bashkirenergo began the process of divesting its transmission business. The restructuring is expected to be completed in 2011 after the EGM of Bashkirenergo passes the respective resolution.

In 2010, Bashkirenergo reported results at the same level as in the previous year following an increase in production, a decrease in costs, and more prudent use of fuel and energy resources. However, the profitability of the business declined as a result of the rise in fuel prices ahead of the electricity and heat tariff increases. The

company completed the expansion of the Zauralskaya Thermal Power Plant with its installed capacity increased to 16 MW. It also commissioned substation Zaton (2*125 MVA). Bashkirenergo continued construction of new generating facilities, including the expansion of the Ufinskaya Thermal Power Plant (60 MW), and the Yuryuzan boiler plant (36 Gcal/h).

Key financial results of Bashkirenergo in 2010:

<i>(USD m)</i>	2010	2009	<i>YOY variance</i>
Revenue	2,067.8	1,165.4	77.4%
OIBDA	234.0	107.4	117.9%
OIBDA margin	11.3%	9.2%	2,1 pp
Operating income	23.7	3.5	583.6%
Net income attributable to the Group	5.3	49.5	(89.4%)
Debt	107.3	113.9	(5.7%)
CAPEX	2,067.8	1,165.4	77.4%

Development strategy

The development strategy of Bashkirenergo implies material expansion of its generating capacities. The company intends to achieve this goal by means of restructuring the business model via divestiture of the grid business and migration to RAB-regulation of tariffs. It is also planned to invest in enhancing the performance of the current assets, optimizing the boiler houses pool, and developing smaller generating facilities.

Furthermore, Bashkirenergo plans to build new capacity in Bashkortostan and seek M&A targets outside the region.

Market

In 2010, the volumes of electricity consumption in Russia were recovering steadily. RF installed capacity went 1.4% up to 214.9 GW, with 68% of the total capacity contributed by thermal, 20.7% by nuclear and 11.3% by hydroelectric power plants.

Production of electric power by the UES of Russia power stations grew by 5% year-on-year in 2010 and reached 1,005 bn kWh. In 2010 the total consumption of electric power in the sector increased by 4.9% up to 989 bn kWh.

In 2010, rules for the long-term capacity market were adopted and the first competitive tender for capacities for 2011 was run. The activity of the government related to the restriction of the electric power tariff growth accelerated (keeping down the growth of regulated gas tariffs, proposals to review the already approved RAB regulation parameters for grid companies, introduction of the price cap in the capacity market for 2 years).

Furthermore, in 2010 the government approved a list of investment projects to expand generation capacity, which will be financed through the long-term capacity contracts mechanism. In addition, it adopted a regulatory framework for the heating market and established RAB parameters for the heating network business.

Market growth prospects

In the medium term (up to 10 years) the demand for electricity in Russia is expected to rise by at least 2% on an annual basis⁷. Given the announced investment program in new capacity construction is implemented, the competition in the electricity market is expected to intensify from as early as 2013, and old generation capacity may be out of demand by that time.

The Russian government is expected to continue controlling the tariff increases for end users, which could restrain the growth of returns in the regulated electricity sectors (electricity transmission and supply, heat generation and

⁷ According to the Agency for forecasting balances in the electric energy sector.

transmission). The government may also encourage the market players to upgrade their generation and transmission assets by potentially prohibiting the use of outdated equipment.

4.2. Developing Assets

Developing Assets include companies that are at the intensive development stage. There are two portfolio scenarios assumed for the companies of this category: (i) the company becomes a reliable source of the dividend flow and is moved to the Core Assets group; (ii) monetization of the accumulated development potential via an IPO, a strategic partnership or divestiture.

Sistema JSFC expects that in some cases, in order to achieve their targets, the companies of the Developing Assets sector will need funding or guarantees from Sistema JSFC.

Developing Assets include the following companies: RussNeft, Sistema Mass-media, Sistema Shyam TeleServices Limited, SITRONICS, RTI, Binnopharm, Detsky Mir Group, MBRD, EAST-WEST UNITED BANK, Dalcombank, VAO Intourist, Medsi Group, and NIS.

	Ordinary shares held by Sistema JSFC, directly or indirectly*
RussNeft	49%
Sistema Shyam TeleServices Ltd.	73.7%
SITRONICS	70%
RTI Systems Concern	97%
MBRD	99%
EAST-WEST UNITED BANK	99%
Dalcombank	99%
Detsky Mir - Center	75%-1
Sistema Mass-media	75.0%-1
VAO Intourist	66.2%
Meds Group	100%
Binnopharm	100%
NIS	51%

* Data as of December 31, 2010.

Developing Assets management strategy

Sistema JSFC views its developing assets as potential points of shareholder value growth. Developing Assets get aggressive objectives in growing the volumes of their business with a simultaneous increase of profitability. Such growth will be achieved by means of developing competencies in sales and operating expertise.

The goal of the Developing Assets' strategy is to search for opportunities to acquire assets with a high potential. When performing such M&A transactions, most attention will be paid to whether the target assets have a high quality business model and whether they have opportunities for a substantial growth of their value. Another important factor for selecting assets will be the volume of potential synergies.

Sistema JSFC plans to invest own funds and the funds of potential partners to ensure growth of the Developing Assets. The key factors for attracting partners to the projects of Sistema JSFC are the potential partners' opportunities for financing and their expertise that could be used to rapidly increase the value of the joint projects.

Financial results

USD m

	Revenue			OIBDA			Net income attributable to Sistema		
	2010	2009	Δ	2010	2009	Δ	2010	2009	Δ
SSTL	114.6	36.4	215.1%	(329.0)	(222.7)	(47.7%)	(349.7)	(191.3)	(82.8%)

SITRONICS	1,166.9	1,024.2	13.9%	114.9	0.9	13,403.3%	(31.8)	(83.0)	-
RTI	506.0	409.9	23.5%	69.5	51.3	35.4%	15.2	13.8	10.2%
MBRD	613.7	720.4	(14.8%)	39.9	(63.5)	-	10.1	(91.4)	-
Detsky Mir	659.9	583.1	13.2%	40.9	(47.4)	-	(3.1)	(99.1)	-
SMM	94.5	87.2	8.3%	40.5	(14.3)	-	(11.5)	(51.7)	-
Intourist	518.2	399.7	29.7%	6.9	7.8	(11.7%)	(15.5)	(8.8)	-
Medsi	156.5	125.9	24.3%	17.1	6.2	174.7%	(2.5)	(7.3)	-
Binnopharm	32.1	55.7	(42.3%)	(27.9)	10.8	-	(33.9)	3.9	(968.8%)

In 2010 the Group's developing assets demonstrated substantial organic growth, many of the companies were consistently recovering after the crisis. Partners were attracted to some of the assets, which helped to strengthen their competitive position in their sectors and to expand the range of further development opportunities.

RussNeft

RussNeft is a top 10 Russian vertically integrated oil company. The company's 2P reserves amount to over 2.2 billion barrels of oil, and the company's annual production reached 13 million tons in 2010.

President of RussNeft - Mikhail Gutseriev, Chairman of the Board of Directors - Leonid Melamed.

Operating and financial results

The key achievement of RussNeft in 2010 was restructuring the debt and prolonging its maturity, which freed up part of cash flows that can be reinvested in new projects in 2011. In December 2010 RussNeft restructured its debt to Sberbank of Russia and Glencore amounting to ca \$6.2 billion. The interest rate was reduced to 9%, and the repayment term was postponed until 2020.

In 2010 RussNeft increased its oil output volume to 12.9 million tons vs. 12.7 million tons in 2009. The growth resulted from the enlarged CAPEX program that totaled \$347m vs. \$227m in 2009. 121 new wells were commissioned in 2010 vs. 73 wells in 2009. Successful implementation of the drilling program in the Zapadno-Varjeganskoye oilfield, where 11 new wells were drilled, one of them providing the regional record high flow rate of 600 tons of hydrocarbons per day, - was the key operating result. At the strategic Shapshinskoye group of oil fields 45 new wells were put into operation, increasing group production by 29%.

The structure of RussNeft includes two refineries - Orsknefteorgsintez (ONOS) and Neftemaslozavod (NMZ). Installed capacity of the facilities is 6,630 thousand tons per annum (ONOS), 90 thousand tons per annum (NMZ). In 2010 the volume of refining reached 5.1 million tones, which is 2% more than in 2009.

Key events

- Crude production volume increased to 13 million tons.
- 2P reserves increased by 58 million barrels to 2.2 billion.
- Restructuring of \$6.2bn of debt: reduction of the interest rate and prolonging the terms till 2020.

Development strategy

RussNeft is expected to keep its focus on growing production volumes and increasing its reserves in 2010. It is planned to increase the production volumes by 5% to 13.6 million tons and to raise CAPEX to \$481m. RussNeft is also expected to continue its refining facilities modernization program to improve their efficiency and margins. In the middle term, RussNeft plans to achieve the production level of 18 million tons per annum.

Description of Oil Market and Market growth prospects see at pp. 27-28.

Sistema Shyam TeleServices Ltd
(MTS India)

Sistema Shyam TeleServices Ltd. (SSTL) is an Indian mobile and fixed communication operator with spectrum in 22 license circles that cover all of the 28 administrative states and seven union territories in India with a total population of approximately 1,160 million people.

President of Sistema Shyam TeleServices Ltd. - Vsevolod Rozanov, Chairman of the Board of Directors - Ron Sommer.

Operating and financial results

In 2010, SSTL's mobile subscriber base nearly tripled year-on-year, reaching 8.5 million customers, compared to 3.1 million customers in the previous year, with the Indian mobile market share exceeding 1.1%. The number of mobile broadband subscribers increased to 430,000 from 7,000. SSTL reached a 15% market share in the mobile broadband segment and occupied a leading position with approximately 60% market share in the pre-paid broadband services segment.

Over the past year SSTL expanded its geographical footprint, having launched operations in four new circles, thus broadening its coverage to 15 circles. The company now renders services to ca 80% of the population of India. SSTL rolled out its high-speed mobile broadband services in 99 major cities in India, including five metropolises, and received an industry award as the fastest-growing data services provider in India.

The company was actively developing its franchise network of retail stores under the MTS brand in order to attract more voice subscribers with a high ARPU, as well as mobile broadband subscribers. At the end of the reporting year, the company's retail network consisted of approximately 1,000 stores.

In March 2011 the company closed the transaction for getting an equity investment from the RF Government amounting to \$600 million in the course of an additional placement of shares.

Key financial results of SSTL in 2010:

(USD m)	2010	2009	YOY variance
Revenue	114.6	36.4	215.1%
OIBDA	(329.0)	(222.7)	-
Operating loss	(410.8)	(250.8)	-
Net loss attributable to the Group	(349.7)	(191.3)	-
Debt	1,245.9	530.7	134.8%

Key operating indicators of SSTL in 2010:

	2010	2009	YOY variance
Subscribers, million	8.5	3.1	174.19%
Fixed line subscribers, million	0.1	0.2	(50%)
Mobile subscribers, million	8.4	2.9	189.66%
Mobile services ARPU, \$	1.8	1.7	5.88%

Development strategy

SSTL's strategy is aimed at developing high-speed mobile broadband and profitable voice services in the priority circles. The goal of Sistema Shyam TeleServices Ltd. is to create a pan-Indian CDMA 800 MHz mobile network.

In 2011 Sistema Shyam TeleServices Ltd. intends to consider options of strategic partnership with a telecom operator in the Indian market, and get ready for an IPO in the Indian stock market.

SSTL plans to pro-actively promote sales of Blackberry and Android-based smartphones in a variety of price segments, including smartphones under the brand of MTS with content services focused on corporate clients and the mass market. The company also plans to launch new value-added services (VAS) for retail users (mCommerce, mAdvertising, Location Based Services, MTS TV) and corporate clients (Blackberry BES, Bulk SMS), which may ensure a stable growth of revenues for the coming years.

The company plans to achieve nation-wide coverage in the voice segment before the end of 2011. To achieve this objective, SSTL plans to sign agreements on sharing networks and roaming with one or more existing operators.

Market

As of the end of 2010, India had more than 752 million mobile communication users, with a quarterly growth of the subscriber base exceeding 50 million. Mobile penetration increased from 44.3% to 63.2% over 2010. In 2010 there were 15 mobile operators in the market that continued competition by offering tariff plans with per second billing.

The penetration level of Internet access in India is ca 7%, and that of broadband access is only 1%, which is due to the low level of fixed communications development and lack of personal computers in the country. In 2010 the government of India held an auction for the 3G spectrum that resulted in seven operators winning frequencies. Development of wireless data services is the key growth driver for Internet access penetration in India that is expected to exceed 10% in the coming years.

In 2010, mobile number portability (MNP) was introduced in the first test circle of Haryana. The Indian market continues operating predominantly as a prepaid market with contract voice customers representing around 2% of the total. Further spread of MNP is expected to lead to still higher competition.

Market growth prospects

By the end of 2012, according to a Business Monitor International (BMI) forecast, India is expected to have one billion mobile service subscribers.

According to the national development plan for broadband Internet, the total number of users is expected to increase from 10.3 million to 160 million by 2014, with 60 million wireless users.

SITRONICS

The largest high-tech company in Eastern Europe, one of the leading vendors of solutions in telecommunications, information technologies, system integration, consulting and microelectronics.

President of SITRONICS - Sergey Aslanyan, Chairman of the Board of Directors - Sergey Boyev.

Operating and financial results

The year 2010 was a successful one for SITRONICS. The company kept its promises to the investment community. Revenues grew by almost 14% year-on-year to \$1.2bn, adjusted OIBDA increased from \$0.9m in 2009 to \$114.9m in 2010 with a margin of 9.9%. In 2010 SITRONICS signed a number of contracts for the total amount of \$935m. The sound financial indicators resulted from the strict abidance by the strategy of SITRONICS. During the year the company strengthened its positions as the leading technology partner to the government in high technologies, and once again proved that it is the leader of the Russian ICT market in innovations that is actively developing its R&D.

Key events

- Within the framework of a joint project with RUSNANO on the establishment of a 90 nm microelectronics manufacturing facility, at the end of 2010 test 90 nm microchip structures were produced at the Micron factory.

- Implementation of the project for introducing the Oracle Siebel CRM system at Sberbank of Russia and its subsidiary in the Ukraine was launched.
- The first ITSM project for the automated support to the operation of the MTS retail network on the basis of the Axios assist platform was successfully implemented.
- Project for the integration of the universal banking solution Oracle FLEXCUBE started at Prominvestbank; project for the automation of the budgeting process at VTB-Ukraine on the basis of Oracle Hyperion Planning was completed, which was the first case of implementing Oracle Hyperion in the banking sector of the country.
- Agreement with Aeroexpress (a subsidiary of Russian Railroads) for the supply of RFID tickets to be used on railroad connections to Moscow airports was signed.
- Agreement with Vimpelcom and SMARTS for supply of SIM cards was signed, resulting from which the company now supplies SIM cards to all the Big Three operators and occupies 60% of the market.

Key financial results of SITRONICS in 2010:

<i>(USD m)</i>	2010	2009	<i>YOY variance</i>
Revenue	1,166.9	1,024.2	13.9%
OIBDA	114.9	0.9	13,403.3%
OIBDA margin	9.85%	0.09%	9.76 pp
Operating income (loss)	24.1	(54.8)	-
Net loss attributable to the Group	(31.8)	(83.0)	-
Debt	840.2	834.4	0.7%
Amount of contracts signed	578.4	672.5	(14.0%)

Development strategy

The strategy of SITRONICS provides for the development of partnership with the government in the area of high technologies, the strengthening of its leading positions in the Russian ICT market and in R&D for new products to be created.

Strategic priorities in the SITRONICS Telecom Solutions business segment are as follows: development of the current portfolio of products and solutions, focus on developing markets with a low share of technological know-how, and entering into new industry markets, in particular - development and promotion of solutions for the housing and utilities sector, development of comprehensive products and solutions for corporate and governmental clients. It is also planned to strengthen the existing strategic alliances in R&D, and to create new ones.

Strategic priorities in the SITRONICS Information Technologies business segment are as follows: expansion of the company's market share in the IT markets of Russia and the CIS, increase of the share of high margin services and the margins of the business in general, including the priority development of consulting and system integration services.

Strategic priorities in the SITRONICS Microelectronics business segment are as follows: strengthening positions of the technology leader and the leading manufacturer of integrated circuits and smart cards in the RF and the CIS, participation in governmental programs for modernization and in social projects, strengthening positions in the segments of SIM cards, transport cards, RFID and other types of smart cards in the RF, forming a full chain of adding value - from developing technologies of manufacturing, design and production of microchips to the manufacturing and assembly of finished products and solutions.

Market

Market segments where SITRONICS operates - telecommunication solutions, information technologies and manufacturing of microelectronics products - demonstrated material growth in 2010, though still failed to achieve the pre-crisis level.

The IT sector is a service one in relation to other industries, hence it is very sensitive to the situation in the economy in general. Hence the growth factors in 2010 included the improvement of the financial sustainability in the corporate sector, the increase in the personal income, and more intensive investment activities in the country. The growth to a great degree depended on the demand for IT products and solutions that was delayed in the crisis. The industry also got substantial support from the government, which is currently the largest client in the IT systems area.

According to Gartner, a market research company, in 2010 the market grew by 5.6% and reached \$24bn.

The most rapidly growing market is the Russian microelectronics one that grew by 25% to \$1bn after the dip to \$0.8bn in the crisis year of 2009.

Market growth prospects

According to Gartner, the Russian IT market will grow by 3.5% in 2011 and will reach \$24.8bn. By 2014 the volume of the IT market should come close to \$30bn.

Growth tempos in Russian microelectronics will be less intensive than in 2010, still in 2011 the industry will earn \$1.05bn, and by 2014 it will reach \$1.3bn. During 2011-2015 growth is expected in the market of microchips for RFID cards and tags, and in that of chips for documents with electronic data carriers. Growth is expected in car electronics (6%) and in security systems equipment (5%). If the government takes the decision to place a public contract in RFID, smart cards and electronic components for the modernization of the infrastructure, the development of the industry may speed up significantly and exceed 10% per annum.

RTI Systems Concern

RTI Systems Concern is a large Russian defense industry holding specializing in the development of projects in: radar and missile technology, integrated communications and security systems, and drive technology. It also acts as lead contractor in creating land-based guidance and warning systems for space and missile defense. Its main clients are the RF Ministry of Defense, the RF Ministry of Emergency Situations, the Federal Security Service, the State Corporation for Atomic Energy, the RF Ministry of the Interior.

Among the Company's largest projects are: the new generation Voronezh radar station (Voronezh-M), the National Crisis Management Center (under the Ministry of Emergency Situations), and networks for regional anti-crisis management centers.

General Director of RTI Systems Concern - Sergey Tishchenko, Chairman of the Board of Directors - Sergey Boyev.

Operating and financial results

The organizational structure of RTI Systems Concern was changed in 2010, with the industry business segments introduced (radars and missile equipment, comprehensive communications and security systems, drive equipment). Transparency and quality of the corporate governance structure were improved, a common automated enterprise management system was implemented, and the property structure of the Concern was optimized.

Key events

- Concern's work program under the State Arms Program till 2020 and the Public Defense Contract for 2011-2013 was approved.
- Investment agreement on the establishment of the International Innovative Nanotech Center at Dubna signed with the State Corporation RUSNANO, the United Institute for Nuclear Research, and CJSC Information Technologies and OJSC Special Economic Zones.
- Contract signed with Rosoboronexport to design and supply telecom terminals for the People's Republic of China.

- Agreement on cooperation signed with EADS, framework agreement signed with THALES - for the development and production of communication units for military control systems at the Yaroslavl Radio Factory.
- Open tender of Rosreestr for creating maps of the Central, the Volga, the Urals and the Far East Federal Regions won, total amount - RUB 1.2bn.
- About five M&A transactions were performed, including the acquisition of 100% of shares in Intellect-Telecom.

Key financial results of RTI Systems Concern in 2010:

<i>(USD m)</i>	2010	2009	<i>YOY variance</i>
Revenue	506.0	409.9	23.5%
OIBDA	69.5	51.3	35.4%
OIBDA margin	13.7%	12.5%	1.22 pp
Operating income	57.5	39.2	46.7%
Net income attributable to the Group	15.2	13.8	10.2%
Debt	77.2	81.9	(5.8%)

Key operating results of RTI Systems Concern in 2010:

	2010	2009	2008
Output per employee (\$K)	52	43	50

Development strategy

The strategy of the RTI Systems Concern is aimed at maintaining its RF leadership in military radar building and at diversification into related segments to provide state and large business clients with high-tech products and create new series of products with a high R&D content.

The company's main strategic goals for 2011 are to accelerate the pace of organic growth, including via investment projects for modernizing its businesses; to attract additional public contracts, to access new markets through public-private partnerships, and to carry out targeted acquisitions, both in its current and in the related industry segments.

RTI Systems Concern's long-term development strategy includes commercializing R&D, promoting dual-use goods for export, as well as continuing with M&A transactions aimed at accumulating technological, managerial and market-based competitive advantages in its core areas of expertise.

Market

The government defense contracts in 2010 were worth approximately \$40bn. Russia's arms and military equipment exports in 2010 were worth \$10bn.

The Concern is present on the following key segments of the defense industry market: radio engineering and information systems (worth \$2bn), comprehensive security and management systems for the Russian regions (worth \$1.2 bn) and drive equipment (worth \$709m).

In 2010 the drive equipment market recovered from the slump of 2009, the growth was 20-30%. The sector's growth rates are directly dependent on the economic growth of the country. In 2010 the segment of low-voltage equipment rose by 40% up to \$225m, the segment of automated structures increased by 5-7% up to \$484m.

The Russian market of information devices for ground-based missile defense and missile warning systems has increased by 20% up to RUB 9.47bn.

Market growth prospects

In accordance with the arms program adopted by the Government the total defense spending will reach approximately \$700bn by 2020. It is expected that in 2011 the Government defense contracts will increase by more than one-third, up to \$51.7bn, while the arms and military equipment exports will be maintained at the minimum level of \$10bn.

The growth rate of the radio engineering and missile market is expected to remain at 10-15% in 2011.

The market of comprehensive security and management systems for the Russian regions is on the threshold of explosive post-crisis growth and is strictly controlled by the Russian Government. At present, this is one of the most promising and fastest-growing markets. The Russian Government has adopted a program "Informational society (2011-2020)". The key priorities of the strategy for development of informational society through the year 2020 were determined; among other things, attention was focused on the creation of comprehensive systems for informational and analytical support of the federal districts and the constituent entities of the Russian Federation. The financing to be allocated for the Program amounts to RUB 88bn.

Moscow Bank for Reconstruction and Development

Moscow Bank for Reconstruction and Development is a top 30 Russian universal commercial bank with branches located in 49 cities of the country. MBRD also owns Dalcombank in Khabarovsk and East-West United Bank in Luxemburg.

Chairman of the MBRD Management Board - A. Shlyakhovoy, Chairman of the Board of Directors - F. Evtushenkov.

Operating and financial results

In 2010, MBRD continued its progress towards becoming a universal bank. The international rating agency Moody's assigned to MBRD the long-term debt rating in national currency of B1, with outlook stable. Fitch Ratings upgraded its outlook for MBRD's long-term default ratings from stable to positive. At the same time the agency confirmed the long-term IDR⁸ of the bank of B+.

MBRD continued to maintain a diversified and balanced corporate loan portfolio with the aim to protect current and future profitability, while factoring in the risks. Moreover, as part of achieving the priority goals of the corporate block the Bank expanded its customer base by offering loans that meet both customer requirements and modern industry standards.

MBRD was active in the investment banking segment and was involved in 50 share offerings in 20 of which it had the status of co-manager, underwriter, co-underwriter; in 2 of the offerings it acted as the lead manager (Sitronics and Intourist). In 2010 MBRD was an active player in the reverse REPO market and became a top 20 operator in this segment.

In 2010, MBRD resumed its retail lending program including mortgage, credit card and emergency loans. MBRD adopted a new lending policy in this segment in 2010.

Key events

- The total investments of the Banking Group in securities (including investments in bank promissory notes) increased by \$82.7m and reached \$1.05bn as of the end of 2010.
- In 2010 MBRD issued additional shares worth RUB 471.215m and, consequently, tier 1 capital of the Bank reached RUB 10.5bn.
- In October 2010, Moody's affirmed MBRD's long-term national currency debt rating as B1, outlook stable. The assigned rating is consistent with the deposit rating of MBRD in national currency, which is based on E+ level of the lender's financial stability.

⁸ Issuer default rating

- In November 2010, Fitch Ratings revised its outlook for the long-term issuer default ratings of MBRD and Dalcombank from stable to positive. The outlook for these ratings was revised following the upgrade of ratings outlook for Sistema JSFC from stable to positive.

Key financial results of MBRD in 2010:

<i>(USD m)</i>	2010	2009	<i>YOY variance</i>
Revenue	613.7	720.4	<i>(14.8%)</i>
OIBDA	39.9	(63.5)	-
OIBDA margin	6.5%	(8.8%)	<i>15.3 pp</i>
Operating income (loss)	21.3	(77.1)	-
Net income (loss) attributable to the Group	10.1	(91.4)	-

Development strategy

MBRD's strategic objectives in the medium term are to diversify the client base and enhance business efficiency by modernizing banking technologies and streamlining business processes. The Banking Group intends to further grow lending to both individuals and organizations.

MBRD pays particular attention to developing partnerships with the companies of Sistema JSFC Group in retail. As part of strategic partnership with the companies of the Sistema JSFC Group, MBRD launched a pilot credit product line jointly with MTS in 2010. Further development of this project will be the key factor defining the prospects for the Bank to capture the leading positions in the banking industry.

Market

In 2010, the Russian banking sector showed clear signs of recovery from the crisis of 2008-2009. By the end of 3Q 2010, the Central Bank's loans to financial organizations were nearly repaid, with the main source of funding being replaced by client deposits and debt financing.

At the same time, the majority of Russian banks were able to absorb losses and maintain their capital adequacy ratios at an acceptable level, having accumulated substantial reserves. In 2010, banking assets (liabilities) increased by 14.9% year-on-year (compared with 5% growth in 2009), while the banking sector's share of GDP remained unchanged at 76%.

Negative trends being gradually overcome in most industries of the Russian economy, credit activity is rebounding. In 2010, the growth rates of corporate lending stood at 12.1% (compared to 0.3% in 2009). In 2010, retail lending increased by 14.3% year-on-year (compared to an 11% decline in 2009), while overdue loans to the non-financial sector decreased from 6.1% to 5.3% in the same period.

The share of retail deposits in banks' liabilities increased from 25.4% to 29% in 2010, while the volume of retail deposits was up by 31.2% year-on-year, reflecting the ongoing trend to save more following the crisis period.

In addition, there was further consolidation in the industry, while profit margins were falling as a result of the need to build reserves for bad debts and losses in open currency positions.

Market growth prospects

The recovery in the banking sector looks set to continue following the emergence of positive trends in the financial sector in 2010 and the efforts taken by the Bank of Russia to deal with the effects of the crisis. The potential drivers of continued recovery are retail lending, as well as development of a wide range of high-tech products to facilitate client access to high-quality banking services.

In 2011, credit portfolio is expected to grow at an average monthly rate of 1-2% per month.

Detsky Mir Group

The Detsky Mir Group is the leading Russian operator in children's goods retail. The group has a chain of 131 stores with the total floor space of about 215,000 sq meters in 68 cities. Detsky Mir is the largest Russian company in the children's retail sector by the number of stores, floorspace and turnover.

CEO of Detsky Mir - G. Kravchenko, Chairman of the Board of Directors - F. Evtushenkov.

Operating and financial results

In 2010, Detsky Mir was actively enhancing its competitiveness by promoting its own brandname, developing its retail network and own trademarks, upgrading its stores with new merchandising technologies, introducing loyalty programs and unique product offers.

In 2010, the Company continued implementing its expansion project in the cities of its presence: two stores were opened in Moscow and one in Omsk. In December 2010, Detsky Mir launched its online store.

Key events

- In 2010, Detsky Mir opened three new stores in Moscow and in Omsk
- Internet store launched - www.detmir.ru - with a wide range of children's goods and services
- Transaction with Sberbank of Russia was closed under the terms of which Sberbank acquired 25%+1 share of Detsky Mir Center. The transaction was worth about RUB 3.4bn. (about \$113 m)

Key financial results of Detsky Mir Center in 2010:

<i>(USD m)</i>	2010	2009	YOY variance
Revenue	659.9	583.1	13.2%
OIBDA	40.9	(47.4)	-
OIBDA margin	6.2%	(8.1%)	14.3 pp
Operating income (loss)	24.4	(65.1)	-
Net loss attributable to the Group	(3.1)	(99.1)	-
Debt	121.3	208.0	(41.7%)

Key operating results of Detsky Mir Center in 2010:

	2010	2009	YOY variance
Retail space, thousand sq meters	214.5	213.5	0.5%
Number of outlets	131	128	2.3%

Development strategy

Detsky Mir's strategy is focused on increasing its operating efficiency, implementing projects with short payback periods and strengthening its market position. The company is planning to continue developing the retail chain by opening stores in the most attractive cities and locations. The company aims to increase efficiency of the existing stores by streamlining business processes, cutting costs and developing the logistics function.

Detsky Mir's product offering is attractively priced and structured to make the most of the recovery in consumer purchasing power. The company is focused on developing products under its own brandnames, a highly profitable business segment which also improves customer loyalty. Implementation of the Supply Chain Management system, which makes the management of product flows within the chain more effective, will also help enhance business efficiency.

Market

In 2010, the Russian market for children's goods was worth RUB 392bn (approximately US\$ 1.3bn), up 13% year-on-year, returning to pre-crisis levels⁹. The rising birth rate of the Russian population was seen as the main driver for the growth of demand, especially for newly born baby goods and toys.

The key trend of the sector's development is a noticeable fall in the volume of unorganized retail sales of counterfeit and cheap, low-quality products which do not meet the health and safety standards. The government played an active role in combating the sales of counterfeit products by introducing new legislation.

The market is going to see toughened competition in the children's goods retail driven by the development of such modern retail formats as retail chains and large format stores, both at the federal and the regional levels.

Market growth prospects

Many experts forecast the children's goods market to grow up to \$2.5bn, which is 2.5 times higher than the current level¹⁰. The most promising segments are considered to be infant goods and toys. In Russia, consumer spending on toys still accounts for one quarter to one third of such spending in developed countries¹¹.

According to Detsky Mir Group, unorganized retail is going to contract from 21% in 2010 to 15% by 2015¹². In the future, the key distribution channels for children's goods should be multi-category stores, hyper- and supermarkets. By 2015 the share of online stores in sales will rise from 11% to 13% of the total volume of the children's goods market in Russia¹³.

Sistema Mass Media

SMM is one of the leading media holding companies in Russia, managing assets in pay TV, premium movie and TV content production, and advertising.

President of Sistema Mass-media - Andrey Smirnov, Chairman of the Board of Directors - Ron Sommer.

Operating and financial results

The rise in movie production was positive for the financial performance of SMM last year. The expansion of Russia's TV broadcasting market was an important revenue driver for the SMM group.

In 2010 STREAM launched four new TV channels and, as of today, the number of STREAM's proprietary channels has reached nine. In 2010 the total subscriber base of STREAM TV channels went up 7.4% year-on-year and reached about 5.8m of subscribers.

The Maxima communications group was restructured in 2010. By the middle of the year, however, Maxima won several large tenders and resumed its normal work. It continues to actively participate in tenders and attract new clients.

In 2010 Russian World Studios produced over 400 hours of TV series, up 33% year-on-year.

Key events

- National Ratings Agency raised its credit rating for Sistema Mass-media to A+ (high creditworthiness, first class).
- SRG-Appraisal carried out an audit of Russian World Studios (RWS) and valued its rights library at \$60 million.
- RWS managed to considerably expand its customer pool in 2010, with REN, Domashny and the main Ukrainian TV channel Inter all becoming new clients.

⁹ According to Detsky Mir Group

¹⁰ According to Detsky Mir Group analysts

¹¹ According to Detsky Mir Group analysts

¹² According to Detsky Mir Group analysts

¹³ According to Detsky Mir Group analysts

- Signed a letter of intent with Zee Zee Entertainment Enterprise Ltd regarding cooperation in distributing and broadcasting TV content in India, Russia and a number of other countries. Hunting and Fishing will be the first SMM channel to be broadcast in the Indian company's networks.

Key financial results of SMM in 2010:

<i>(USD m)</i>	2010	2009	<i>YOY variance</i>
Revenue	94.5	87.2	8.3%
OIBDA	40.5	(14.3)	384.4%
Operating loss	2.2	(72.1)	-
Net loss attributable to the Group	(11.5)	(51.7)	77.8%
Debt	16.3	50.5	(67.6%)

Key operating indicators of SMM in 2010:

	2010	2009	<i>YOY variance</i>
Stream TV subscriber base	5.8	5.4	7.4%
Russian World Studios production load ratio, Moscow, %	66.0%	36.0%	30 p.p.
Russian World Studios production load ratio, Saint-Petersburg, %	66.0%	48.0%	18 p.p.
Library, hours	1,210	790	53.1%

Development strategy

In the TV broadcasting segment, SMM plans to increase the subscriber base of its non-terrestrial TV channels by expanding across both MTS and external networks in 2010. In addition, to develop the car-TV business, the Company plans to widen coverage zones and improve service quality by converting to the MPEG-4 format.

In the TV and movie production segment, SMM plans to expand its TV series production and to maintain distribution through various platforms. It also intends to increase the volume of repeat sales, the rights to which will be released during the year.

The key initiatives in the Advertising segment are development of the buying function¹⁴, increasing the agency's headcount and active bidding in tenders, as well as launching a new sales house to sell advertising capacity.

In the mobile and internet content, SMM's strategy is to become a leader on the value-added services (VAS) and internet advertising markets, which would allow for the efficient monetization of content across mobile and internet-based platforms.

Market

The media sector continued to recover from the economic crisis in 2010. The key trend on the pay TV market was increased viewer interest in cable and satellite channels, which led to the emergence of numerous niche channels (Russian and foreign) and their widespread inclusion on the major operators' networks. Last year also saw the launch of several HD and 3D channels.

In 2010 the sector also experienced extensive restructuring, prompted by restrictions imposed by the Federal Antimonopoly Service. This resulted in the largest media companies opening their own sales houses.

Market growth prospects

In 2011, the penetration of pay TV is expected to reach 50% of all households. The pay TV market will be growing by 10-14%. The number of "premium" TV channels, including HD channels, will also increase.

¹⁴ Purchase of advertising capacity by media buyer at wholesale prices and its later resale

One of the key trends on the premium content market in 2011 will be greater competition from Internet portals, as well as the launch by content producers of new platforms and models to monetize their content.

The advertising market will continue its recovery this year. The next 12 months are likely to see a 20-25% rise in TV advertising prices, which will bring the market back to its pre-crisis level. One trend, which is gaining momentum, is more advertiser interest in new and innovative media.

Intourist

Intourist is the largest vertically integrated tourism holding in Russia, with tour operator services, a retail sales network and a hotel business.

President of Intourist - Alexander Arutiunov, Chairman of the Board of Directors - Felix Evtushenkov.

Operating and financial results

In 2010, Intourist's main focus was on growing sales and strengthening its leading market position.

It retained its position in the outbound travel market and increased its share of inbound tourism.

In 2010, the Company entered into an agreement for setting up a joint venture with Thomas Cook Plc, one of the leaders in the international tourism market. Under the terms of the agreement Intourist contributed its tourism businesses (tour operator and retail chain) to a joint venture with Thomas Cook in exchange for \$45m and a 49% stake in the JV.

Key events

- In March 2010, Intourist opened 3 new branches: in Kazan, Ufa and Nizhniy Novgorod.
- An agreement was signed to set up a joint venture with Thomas Cook (Intourist owns 49.9% in the authorized capital of the JV) by contributing to it its tour operating and retail businesses for \$45m.
- In July 2010, the 5-star Principe Hotel was opened in Forte dei Marmi, one of the best Italian resorts.
- In May 2010, the company took under its management the 5-star Maxim Resort Hotel located 1 km away from the center of Kemer (Turkey) and in January - the Amber SPA Boutique Hotel in Yurmala, Latvia.

Key financial results of Intourist in 2010:

<i>(USD m)</i>	2010	2009	<i>YOY variance</i>
Revenue	518.2	399.7	29.7%
OIBDA	6.9	7.8	(11.7%)
OIBDA margin	1.3%	1.9%	(0.6 pp)
Operating income (loss)	(4.0)	(1.1)	-
Net loss attributable to the Group	(15.5)	(8.8)	(75.9%)
Debt	166.0	121.8	36.3%

Key operating indicators of Intourist in 2010:

	2010	2009	<i>YOY variance</i>
Rooms owned (managed and rented)	3,054	3,362	(9.0%)
Tourists, thousand	781.7	667.4	17.7%

Development strategy

The strategic partnership of Intourist and Thomas Cook will make it possible to combine the extensive product and technology know-how of Thomas Cook and the local expertise of Intourist. This should enable the joint venture to expand its packages and destinations, as well as achieve substantial economies of scale.

To develop its hotel business, Intourist is considering attracting another strategic partner.

Market

In 2010, the demand for tourism services in Russia showed strong signs of recovery aided by an economic upturn and growth in disposable income. The tourist numbers in the Russian market are now above the pre-crisis 2008 levels. However, increased price competition and concentration of demand in the lower price segments of the market resulted in downward margin pressure, which, in its turn, prompted exits from the market and a number of bankruptcies among tour operators in the second half of 2010.

Market growth prospects

The following trends are forecast to dominate the tourism market in 2011:

- the existing demand structure will remain as regards distribution of price segments and concentration in the lower price segments;
- growth of average prices;
- increased share of regional markets;
- greater influence of global European players.

The tendency of demand shifting toward independent tourism will persist, the Internet will continue to serve as the communications and sales channel and its role will be increasing.

The hotel industry is going to see active expansion of foreign players in the regions and a slight increase in prices.

Medsi Group

The Medsi Group is Russia's leading national network of private clinics, providing healthcare services in Moscow and other Russian regions. Set up in 1996, the company has 31 clinics and 49 medical facilities across the country.

President of Medsi - Galyna Talanova, Chairman of the Board of Directors - Felix Evtushenkov.

Operating and financial results

In 2010 Medsi continued to expand and remained the number one provider of paid healthcare in Russia. In 2010, revenues increased due to the launch of new clinics. Net loss declined following the rise in the general number of patients, growth of the average bill and increased patient traffic.

Key events

- a new walk-in clinic in the Moscow regional town of Shchyolkovo was opened;
- the clinical diagnostic center near Moscow's Belorusskaya metro station was expanded.

Key financial results of Medsi in 2010:

<i>(USD m)</i>	2010	2009	<i>YOY variance</i>
Revenue	156.5	125.9	24.3%
OIBDA	17.1	6.2	174.7%
OIBDA margin	11	5	6.0 pp
Operating income (loss)	8.1	(0.4)	-
Net loss attributable to the Group	(2.5)	(7.3)	66.3%

Debt	71.9	62.1	15.8%
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Key operating indicators of Medsi in 2010.

	2010	2009	<i>YOY variance</i>
Client visits, thousand	3.436	3.107	10.6%
Services provided	6.011	5.312	13.1%
Average bill, \$	45.5	40.5	12.4%

Development strategy

Medsi's strategic aim is to grow its brandname recognition and increase customer loyalty. The Company plans to increase profitability by entering the high-tech aid segment, which is more profitable and less competitive than the outpatient care segment.

The Company intends to get accreditation with the internationally recognized Joint Commission International's (JCI) quality management system for medical services, and affiliation with Johns Hopkins Medicine. If these intentions are fulfilled, the high quality of the healthcare services will be confirmed and it will enable the company to provide services mostly to the customers of international insurance companies and strengthen the position of the American Medical Center in the VIP segment.

In 2011 the Company plans to implement a unified patient routing technology with access to all network resources from any point of entry and a common information space based on new IT systems. It will also begin introducing uniform medical and quality standards at all of its healthcare centers and launch a centralized management system.

To improve the profitability of the business the Company is going to focus its efforts on the development of direct sales to employers and individuals, in addition to working with insurance companies.

Market

The Russian market for private healthcare services continued to expand in 2010, growing by 15% to RUB 450bn according to BusinessStat estimates¹⁵. Medsi accounts for almost 4% of the commercial healthcare sector in Moscow.

Consolidation among the largest and most successful independent private players continued, while the economic crisis accelerated the departure of some smaller players. Insurance companies continue to raise requirements for clinics with which they enter into service provision agreements, which further strengthens the position of the larger players.

Market growth prospects

In 2011-2015 experts expect the value of healthcare services to grow faster than inflation.

Binnopharm

Binnopharm is a pharmaceuticals company managing the largest in Russia full-cycle facility for the manufacturing of bio-technology drugs in line with the GMP (Good Manufacturing Practice) international quality standards. The capacity of its production lines allows for annual production of up to 90m ampoules, 300m pills and capsules, 20m spray cans. The priority production areas of the company are the development and manufacturing of drugs for treatment of socially important diseases (oncology, hematology, infectious and respiratory diseases), as well as genetically engineered drugs, vaccines and cellular and tissue technology products for the regenerative medicine.

General Director of Binnopharm - I. Varlamov; Chairman of the Board of Directors - D. Zubov.

¹⁵ According to BusinessStat

Operating and financial results

In 2010 Binnopharm was involved in establishing the first Russian bio-pharmaceuticals R&D center in Zelenograd. The center will facilitate the development of the Russian pharmaceuticals industry as a whole, will serve the national interests and create jobs in line with the priority goals of the government.

In accordance with the government strategy on the import substitution Binnopharm is actively expanding production of import-substituting generics. Besides, the company is cooperating with international pharmaceuticals producers under the projects aimed at localizing manufacturing of drugs that are new to the Russian market.

In 2010, the company initiated a number of infrastructure projects aimed at strengthening marketing of B2G contracts and attracting partners with innovative research products, including the Lomonosov Moscow State University.

Key events

- An agreement was signed for setting up a consortium 'Moscow nano-biopharmaceutical cluster Biocity' by five Russian R&D centers: Binnopharm, Lomonosov Moscow State University, Mendeleev University of Chemical Technology, Biomak and the Consortium of the Russian Academy of Sciences institutes 'Orkhimed'.
- An agreement was signed for establishing a strategic alliance between Binnopharm and GlaksoSmitKlein. Under the cooperation agreement, GlaksoSmitKlein shall transfer the know-how and technologies and also train specialists and conduct an audit of production processes for Binnopharm. Implementation of this project will ensure localization of production of innovative vaccines for children in Russia.

Key financial results of Binnopharm in 2010:

<i>(USD m)</i>	2010	2009	<i>YOY variance</i>
Revenue	32.1	55.7	<i>(42.3%)</i>
OIBDA	(27.9)	10.8	-
OIBDA margin	(86.9%)	19.4	<i>(106.3%)</i>
Operating income	(34.1)	8.2	-
Net income attributable to the Group	(33.9)	3.9	-
Debt	2.7	8.5	<i>(68.2%)</i>

Development strategy

Binnopharm operates in the industries which are of strategic importance for the country: biotechnologies, innovations and pharmaceuticals. Substantial funding is allocated from the state budget for the public purchasing of pharmaceutical products. One of the key goals of the company is to become one of the leading Russian producers acting as a partner to the government in this industry.

To achieve the strategic goal of building a highly profitable portfolio of pharmaceutical products within the existing therapeutic areas, mostly of import-substituting nature, Binnopharm is planning to continue building alliances and partnerships with the leaders of the world pharmaceuticals industry in order to ensure transfer of technologies and development of the Russian R&D sector. The alliance struck by Binnopharm with GlaksoSmitKlein in 2010 is of special importance because it is designed to bring production of innovative vaccines to Russia.

Binnopharm intends to present to the Russian market a combined vaccine for simultaneous prevention of six infectious diseases under its own trademark in 2011.

Market

The year 2010 was very challenging both for Binnopharm and the pharmaceuticals industry as a whole. The Russian pharmaceutical market demonstrated a 6% growth in rubles compared to the 18% growth in 2009¹⁶. The pharmaceuticals industry is socially important; therefore the Russian Government allocates substantial funding for its development.

The Government pursues an import-substitution policy in the pharmaceutical industry by allocating grants to the Russian producers, so that they could develop innovative products, and also stimulates domestic manufacturing of those pharmaceutical products which account for the main share of consumer spending. The Government is the key consumer of medicines, and it allocates a lot of funding for public purchasing of pharma products (the public purchasing segment showed a 13% growth compared to 2009).

Market growth prospects

The Russian pharmaceuticals market is a promising industry, with the annual growth rates forecast at 15% over the next five years¹⁷. The Russian Federation's Government pays a lot of attention to the development of the Russian pharmaceutical products and, in the medium term, one can expect new lawmaking initiatives supporting the industry, and increased government spending on the development of this industry.

NIS

NIS is a federal operator of the GLONASS navigation system which in its purposes may be compared to GPS.

CEO of NIS - A. Gurko, Chairman of the Board of Directors - S. Shoigu. Sistema's stake in the company is 51%.

Operating and financial results

In 2010, NIS started implementing solutions based on GLONASS both in Russia and abroad, and also launched the development and implementation of the strategic program 'ERA GLONASS', and its alignment with a similar EU program eCall.

The main growth drivers for the company in 2010 were an active government policy aimed at supporting and developing systems and solutions based on GLONASS, improvement of the Russian legislation in the area of navigation, implementation of large-scale government, regional, municipal and industrial GLONASS programs; developing navigation technologies and devices based on GLONASS; as well as the interest of other countries in multi-system GPS/GLONASS solutions which could lessen their dependence on one navigation system.

Key events

- Implementation of some projects was started, for example, the Logistics and Transportation Center in Sochi (as part of preparations for the 2014 Olympic Games)
- As part of implementing the regional strategy of the company, agreements were signed for implementation of solutions based on GLONASS with 16 regions of Russia.

Development strategy

The strategic objective of NIS is to become a leader in navigation and information services based on GLONASS, and to become a top 5 company in the navigation and information services industry globally.

At the first stage it is planned to build the technological infrastructure of NIS and strengthen the status of the company as that of a federal operator by having large-scale projects for implementation of GLONASS solutions. At the second stage commercial operation of the infrastructure will be launched in the interests of mass consumers and operators of navigation and information services.

¹⁶ According to DSM Group

¹⁷ According to DSM Group

Market

In 2010, the Russian market for navigation and information services demonstrated substantial growth and exceeded RUB 7.5bn (approximately \$233m)¹⁸. This was achieved due to the active government policy on GLONASS commercialization.

In 2010, the main trends in the navigation and information services market were: significant growth in sales of multi-system GPS/GLONASS equipment, and the start of mass implementation of GPS/GLONASS technologies in the B2G segment.

Market growth prospects

According to the estimates of the European Commission, the volumes of the global navigation market (equipment and services) will go up from €58 bn in 2010 to €125 bn in 2016. The Russian market of GLONASS navigation services for transport is expected to grow significantly. This growth will be driven by a number of factors, among which one should emphasize the consistent policy of the Government aimed at implementation of GLONASS-based solutions, deployment of full orbit GLONASS satellite constellation, creation of new GLONASS-based solutions and products that meet international world requirements, increased global demand for multi-system (GLONASS/GPS) navigation solutions and products.

¹⁸ According to NIS

5. Description of core risk factors

Risks faced by the Corporation are diverse. They arise as a result of processes and factors, over which Sistema JSFC has no or limited influence. Hence, efficient assessment and management of risks remains an important component of the strategy of Sistema JSFC.

The Corporation has introduced an integrated enterprise risk management system (ERM) which is to provide a reasonable guarantee that the strategic goals will be achieved and the level of risk will be kept within the limits that are acceptable for the shareholders and the management of the Corporation. ERM at Sistema JSFC was built in conformity with the international standards, recommendations and best practices in risk management.

5.1. EXTERNAL RISKS

The external risks related to the operations of Sistema JSFC include: risks associated with the political situation in Russia and the countries of the Corporation's presence; risks related to the economic situation in Russia and the CIS countries; risks related to the situation on the stock exchange; risks related to changes in the legislation.

Political climate in Russia and the CIS

The risks related to the political situation in Russia and the CIS are material for Sistema JSFC because most of the Corporation's business is done on the territory of the Russian Federation and the CIS countries; besides, the Russian Government acts as a partner in several projects important for the Corporation.

Sistema JSFC estimates the political situation in Russia to be stable and believes that at the moment there are no risks of any negative changes. In 2010 the political situation in Russia remained stable which is characterized by the stability of the federal and regional branches of government.

At the same time, instability has intensified in a number of neighboring CIS countries, in particular, in Turkmenistan and the Republic of Belarus. Suspension of the MTS subsidiary's licenses by the Communications Ministry of Turkmenistan has already had an unfavorable impact on the Corporation's assets in Turkmenistan. Potential alterations in the laws of the countries, where the Group operates, following some changes in the political situation, pose certain risks for Sistema JSFC; especially so because the private companies in these countries remain dependent on the influence of various political forces.

Political climate in other countries

Since the companies of the High Technology and Industry business segment have partnerships with companies in South-East Asia, Africa and Central and Eastern Europe, in case of major political turmoil in these regions the operations of the business segment in the regions may be put on hold, which may lead to material losses. Besides, the operations of the Tourism business segment are also vulnerable to any major political risks.

Economic situation

Recovery of the Russian economy in 2010 was driven by the improved situation in the world economy, reviving external demand and rising prices for the commodities exported by Russia, the rebound of the stock exchanges and stronger current account balance. Along with the external demand, another positive contribution was made by the recovery of the domestic demand, both investment and consumer, that was stimulated by anti-crisis measures and restocking.

The regenerative growth that had started in the second half of 2009 continued in 2010. Although in the second half of 2010 there was a pause in the economic recovery due to the drought and the decline in agricultural output, GDP growth for the year in general was 4.0 % according to Rosstat.

Despite the successful recovery of the Russian economy the following factors may have a negative impact on the country's economy and the performance results of Sistema JSFC:

- Significant reduction of the gross domestic product

- Inflation rate
- Fluctuations of foreign exchange rates
- State budget deficit and high level of sovereign debt as compared to the gross domestic product
- Underdeveloped banking system which is capable of ensuring only limited liquidity of national enterprises
- High level of capital outflow
- High level of corruption in the economy
- High unemployment rate

Financial risks

The financial risks of Sistema JSFC include the following elements:

- Forex risk
- Interest rate risk
- Liquidity risk
- Inflation risks
- Covenant risk.

Forex risk

Alterations in the ruble, hryvna, Euro and US dollar exchange rates may significantly influence the financial results of Sistema JSFC. Besides, there is a risk that difficulties will be encountered in paying off or refinancing the debt denominated in various currencies.

Interest rate

In the current conditions the alteration of interest rates in the capital market will not lead to any considerable increase of our expenses because the predominant part of Sistema's borrowings has a fixed interest rate.

However, when raising funds in the future we may encounter the situation when borrowing becomes more expensive. This prospect depends, in the first place, on the level of the future credit rating of the Russian Federation, the interest rates in the capital markets and the level of liquidity both in the Russian Federation and the world financial system.

Liquidity risk

In order to service and refinance the current and future liabilities it may become necessary to permit considerable cash outflows. The ability to repay the debt may depend on many factors which are not always under our control. There is a risk of deepening of the world financial crisis (the risk of the so called "double dip" recession) which may lead to more severe borrowing rules and restricted access to liquidity. Undermined financial stability in a number of countries of the European Union may become another risk factor.

Inflation risks

Inflation may be another driver of the rise in expenses of Sistema JSFC. For quite a while the Russian economy has been showing high inflation rates.

In 2010, consumer market inflation amounted to 8.8%. Starting from August the inflation accelerated due to the drought and the harvest failure that caused growth of agricultural products and foods prices both in the global and in the domestic markets.

Covenant risk

Part of the Corporation's loan agreements contain certain restrictions (covenants) that include requirements to abide by certain financial coefficients, and restrictions related to the divestiture of some assets. Potential risk of breaching the covenants on loan agreement may result in the repayment of the debt under the respective agreement claimed before term.

Stock markets

There is a risk that the shares of Russian companies will be growing slower than those of their counterparts in other emerging markets. The main cause of that may be a substantial outflow of capital from the Russian market driven both by political and economic factors inside the country and the situation in the world stock markets.

Legal risks

The key material legal risks include:

- The risk that foreign currency regulations, customs control and duties may be changed; in particular, there is a risk of an increase in the volume of mandatory reserves for conducting some forex operations, a rise in export duties, tightened customs control rules.
- Risk of amendments being introduced to the tax legislation, in particular, increased tax burden, more complicated procedures for filing tax returns and other related documents, new interpretation of the existing tax laws
- Risk of changes in laws regulating operations of the companies which are the main contributors to the revenues of the Corporation (the companies of the telecom and the oil sector).
- Risk of changes in the legislation on the securities market and protection of investor rights, in particular, changes which may have a negative impact on the Group's capabilities in conducting operations with securities.
- Instability and insufficient development of the judicial and legal system of the Russian Federation which may lead to limitation of the Corporation's ability to defend the rights of its subsidiaries in the court of law.

5.2. RISKS RELATING TO THE CORE ACTIVITIES OF SISTEMA JSFC

Transformation of the organizational structure of Sistema JSFC

The Group has taken some major steps aimed at the transformation into becoming an investment holding. As a result of this transformation the human resources pool of Sistema JSFC has been reduced. There are risks of temporary deterioration of the efficiency and level of interaction between the Corporation's units, and between the units and the portfolio companies, which is typical for a transition period of this type. There are risks of untimely or incomplete transformation/adaptation of the organizational structure and the respective human resources, which may eventually affect the implementation of the Corporation's portfolio strategy.

Implementation of the adopted strategy

There are risks of inconsistency of the actual deadlines and parameters of M&A deals with the adopted portfolio strategy of the Corporation. The quality of the acquired assets may turn out to be lower than expected. There are also risks related to the change in the Corporation's geographical presence, which may cause further implementation of the current strategy to be ineffective.

Investment risks

Some of the investment risks faced by the Corporation in 2010 which were caused by a combination of unfavorable economic and market conditions and factors which hindered the development of some of the Corporation's assets. These risks include:

- Probability of stronger competition and inability of the Corporation to acquire the appropriate assets
- Potentially insufficient volume of new investments and, as a consequence, the portfolio companies' failure to achieve their set targets
- Risk of inaccurate asset valuation, incorrect pricing and timing for M&A deals
- Potential lack of funding required for using attractive investment opportunities. Potential deficit of financial resources for conducting specific M&A transactions, including the possible need for borrowings to be made on conditions unfavorable for the Corporation
- Excessive dependence on one particular sector, geography of the business

Operating risks

The key operating risks of Sistema JSFC and its subsidiaries are associated with potential events that may have an unfavorable impact on the ability of the subsidiaries to maintain ongoing and efficient operations and to achieve the expected operating and financial results. The operating risks include:

- Risk of incomplete or untimely integration of the newly acquired companies to achieve the expected synergies and keep the value of the acquired assets. There is a risk that the top management of Sistema JSFC may have to spend a lot of time before the acquired companies are fully integrated

- Risks related to the hiring and retention of qualified managers for the Corporate Center and portfolio companies. Lack of skilled personnel may affect the ability of the Corporation to efficiently find, assess and implement transactions that are required to meet the targets of the approved strategy.
- Risk of poor efficiency of the cross-functional interaction within the Corporation and among the companies of the Sistema Group, failure of the existing business processes or significant weakening of control over the functioning of business processes.
- Reputational risks related to the possible unjustified claims to the Corporation and the portfolio companies.
- Risk related to the high level of potential fraud and unfaithful business practices in some of the markets where the Corporation operates.

5.3. SECTOR RISKS

Core Assets

The Core Assets business unit includes the companies of the telecom and oil & energy sectors. The main risks confronted by the companies of the Core Assets business unit include:

Mobile communications

- Increased competition in all the segments of mobile communications in the markets where the Corporation operates including the growing competition with the discount operators
- Creation of the fourth federal mobile operator in Russia on the basis of Svyazinvest
- Growing competition in the wireless data sector in the regional markets of Russia from fixed line operators and the development of high-speed access technologies which are in competition with 3G – WiFi, WiMAX, CDMA-450, LTE, ADSL, FTTx
- Acquisition of one of the key competitor companies by a large mobile operator with access to the Western capital market
- Adoption of the law on mobile number portability in Russia
- High dependence of the business on the availability of licenses and the allocation of the frequency resources by the relevant authorities of the countries where the Sistema Group operates. Risk that the current licenses and/or spectrum may be recalled or suspended.
- Fierce competition in the Indian market where Sistema Shyam TeleServices Ltd operates.

Fixed communications

- Decline in the number of corporate subscribers, the switching of subscribers to lower tariffs, lower growth rates of the Broadband market
- Increase in the receivables caused by the decline in the purchasing powers of the population
- Consolidation of the existing fixed telephony market players
- Development of the high-speed access technologies which are in competition with ADSL – FTTx, WiFi, WiMAX, 3G, CDMA-450, LTE, as well as home networks and cable TV networks.

Oil & energy

- Risk of decline in production outputs
- Sharp fluctuations in the oil and power prices
- Risk of under-utilization of the refining capacities
- Risk of introduction of government regulation on wholesale prices for oil products
- Potential rise in tariffs for the services of natural monopolies (for example, transport)
- The risk of the environmental laws being significantly tightened
- The probability of stricter regulations being introduced as part of implementation of the government programs, revision of the Mineral Extraction Tax benefits, limits on presence in the regional markets, changes in import duties etc.

Developing Assets

The Developing Assets business unit includes companies of the consumer and high-tech sectors. The key risks faced by the companies of this Business Unit are:

- Risk of slow recovery of the Russian economy from the crisis of 2010 and, consequently, weakened demand for consumer goods and services, as well as the slow development of consumer lending
- Risk of the informational infrastructure in the regions being underdeveloped and, as a result, difficulties in developing the consumer sector companies in the regions
- Potential further consolidation of the companies of the consumer and banking sectors
- Risk of tightened legislation regulating the retail market (including the banking sector, tourism, healthcare and retail)
- Growing competition from the leading companies of the world
- Loss, termination or contraction of relations and contacts with suppliers and sellers
- Risk of higher prices for raw materials, spare parts and services
- Risk of fluctuations in demand due to the expected change in the generations of products or technological cycles
- Risk of decline in government orders due to the reduction of state budget spending on high-tech products

6. CORPORATE GOVERNANCE SYSTEM

Principles of Corporate Governance

It is one of the elements of Sistema JSFC strategy to maintain its corporate governance and informational transparency system at a highest international level. The corporate governance of Sistema is based on the following key principles:

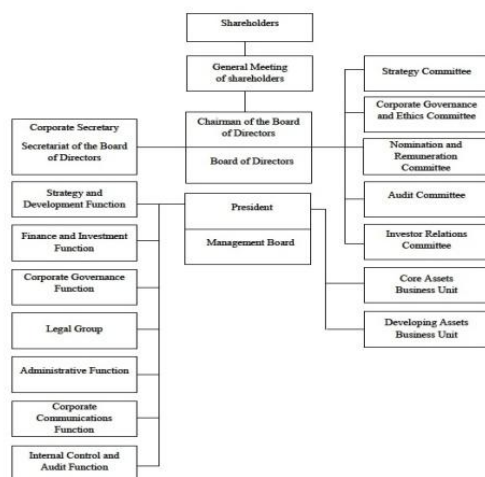
- transparency of all processes for investors and partners,
- a proactive and professional Board of Directors,
- consistency and collegiality in decision-making.

Sistema JSFC is guided by these principles in all of its activities, including strategic and financial management, corporate governance, reporting, control and audit, risk management, HR and social policy.

The principles and procedures of Sistema JSFC corporate governance are set out in its Charter and in a number of publicly available bylaws that, all together, determine the structure and the authority scope of the Corporation's governance and control bodies. The Corporate Code of Conduct and the Ethics Code contain additional commitments of Sistema JSFC in the area of transparency, social responsibility, and ethical principles of business.

Sistema JSFC takes all possible efforts to bring its corporate governance practices in line with the guidelines of the Corporate Governance Code recommended by the Directive of the Federal Commission for the securities markets of Russia, dated April 4, 2002¹⁹, and by the UK Combined Code on Corporate Governance²⁰. Analysis of the consistency of the corporate governance practices of Sistema JSFC with the regulations set out in the Corporate Governance Code and the UK Combined Code on Corporate Governance is given in the annex to this report. In those cases when the corporate governance practice of Sistema JSFC deviates from the norms recommended in the documents mentioned above, the company provides an explanation of the methods which it uses to ensure that the respective element of corporate governance is in place.

Corporate governance structure of Sistema JSFC



The Corporation's core governance bodies are: the General Meeting of shareholders, the Board of Directors, the President and the Management Board. The Board of Directors and the President have committees that work out recommendations on the forming of Sistema JSFC policy in the relevant areas. The organizational structure of Sistema JSFC includes 7 Functions and 2 Business Units (Core Assets and Developing Assets), which reflects the Corporation's migration to the 'financial holding' model.

As of December 31, 2010 the organizational structure of Sistema comprised nine functions and four industry-based business units.

6.1. General Meeting of shareholders

Key principles of operation

The General Meeting of shareholders is the main governance body of Sistema JSFC. Its operation is regulated by the laws of the Russian Federation on joint-stock companies, the provisions of its Charter, and the Corporation's bylaws. The procedure of conducting the General Meeting of shareholders aims to make sure that the rights of the shareholders are respected and all the requirements of the RF laws are observed. Information and materials for the

¹⁹ The text of the Corporate Code of Conduct is available at http://www.fcs.m.ru/ru/legislation/corp_management_study/corp_codex

²⁰ The text of the UK Combined Code is available at http://www.fsa.gov.uk/pubs/ukla/lr_comcode2003.pdf

meeting are available to the shareholders in advance, both in Russian and in English languages, and are published on the official Internet site of Sistema JSFC. Along with the notice of the forthcoming meeting, shareholders receive voting ballots. Venues of all the meetings of Sistema JSFC shareholders are conveniently located not far from the company's head office. The owners of global depository receipts of the company have an opportunity to vote on the agenda items of the general meetings of shareholders by proxy voting through the depository of the GDR program of Sistema JSFC, Deutsche Bank Trust Company Americas.

Observance of the shareholders' right to be involved in company governance

Sistema JSFC aims to ensure that the shareholders enjoy the maximum protection of their rights to participate in the running of the Company. The main right of the shareholder in this respect is the right to take part in the General Meeting of Shareholders and vote on the items of the agenda. For this right to be secured a notice of the General Meetings of Sistema JSFC is circulated to all the shareholders at least 30 days prior to the meeting, all materials are published on the website of the company in Russian and in English (www.sistema.ru). Besides the notice of the General Meeting, Sistema JSFC also sends a voting ballot to each shareholder. The ballot can be filled out by the shareholder in advance and mailed to the Company at the address specified in the ballot. Such a vote of the shareholder will be taken into account when counting the voting results.

Holders of the company's depository receipts have the opportunity to vote by means of proxy voting via Deutsche Bank Trust Company Americas, the depository of Sistema JSFC GDR program. The votes are collected by the depository, Deutsche Bank Trust Company Americas, via clearing systems and are included in the general voting ballot of the depository, with all votes cast for the proposed draft resolution, against it, or abstentions specified.

Each shareholder is also entitled to attend the shareholder meetings in person, given that the meeting is held in the format of joint presence of shareholders, and to vote on the agenda items in the meeting.²¹

An important shareholder's right to participate in the running of the Company is the right to access documents that the Company is obliged to keep in line with the provisions of the Federal Law "On Joint-Stock Companies". To exercise this right, a shareholder should send a written request to the Corporate Secretary of the Company asking for access to the documents that the shareholder is interested in seeing. After the time for providing the documents is agreed upon, the requested documents will be provided to the shareholder.

Holders of material blocks of shares are entitled to make proposals on the agenda of the General Meeting of shareholders, and to nominate candidates to the Company's governance and control bodies. The Company accepts proposals on the agenda of the Annual General Meeting of shareholders in written form, within 100 days after the end of the financial year. Proposals received from shareholders are considered by the Board of Directors of the Company and, if the proposals meet the legal requirements to the work of the General Meeting of shareholders, the proposed items are included in the agenda of the General Meeting.^{22,23}

General Meetings held in 2010 and their results

In 2010 *four* General Meetings of the Company's shareholders were held.

The Annual General Meeting of the shareholders of Sistema JSFC took place on 26 June 2010. The Annual General Meeting of shareholders approved the annual report, the annual accounts including the profits and loss account of Sistema JSFC for 2009, approved the amount, the procedure, the forms and the timelines for paying dividends on the shares of the Company, elected members of the Board of Directors and the Revision Commission,

²¹ Or through a representative

²² The shareholders owning 10 and more % of the Company's voting shares also have a right to demand that an EGM is convened.

²³ In case an EGM is called with the agenda containing an item on election of the Board of Directors, the shareholders owning sufficient number of shares are entitled to nominate the Board of Directors members. The written proposals should be forwarded to the Company no later than 30 days before the date of such meeting.

approved the auditors, and approved the new version of the Company's Charter and the new version of the Terms of Reference of the General Meeting of Shareholders of the Company.

Based on the amount of average dividend yield on Sistema JSFC shares and the amount of consolidated net income calculated in line with the US GAAP standards, the General Meeting of shareholders resolved to allot 530,750,000.00 rubles to pay the dividends, which equals 0.055 rubles per one ordinary share of the Company.

Auditors of Sistema JSFC elected for 2010:

- CJSC BDO - to hold the Russian accounting standards audit;
- CJSC Deloitte and Touche CIS - to hold the US GAAP audit.

The auditors were suggested following an open tender organized by the Audit Committee of the Board of Directors of Sistema JSFC.

The Annual General Meeting also approved the amendments to the Charter and the Terms of Reference of the General Meeting of Shareholders which were made following amendments to the Federal Law "On Joint-Stock Companies". Simultaneously some points of the section on the procedural matters of conducting General Meetings of shareholders and the scope of the Company's Board of Directors were made more specific to reduce the risk of corporate conflicts.

In 2010, *three Extraordinary General Meetings of shareholders* were also held in the form of a letter ballot:

08 February 2010	<p>The following agenda item was considered: "Approval of related party transactions: Sistema JSFC participation in the Investment Agreement and the Agreement on Joining the Investment Agreement and Amending the Investment Agreement dtd 19 December 2009 signed by and between Rostanotech State Corporation, Sistema JSFC, SITRONICS OJSC, Research Institute for Molecular Electronics and Micron OJSC, AMEKS CJSC, and SITRONICS-Nano LLC".</p> <p>These agreements regulate the procedure and the conditions of implementing the project of establishing commercial production of extra large-scale integrated circuits on the basis on 90 nm nanoelectronic technology in the Russian Federation. The goal of the project is to create an advanced microelectronic manufacturing facility which will strengthen the positions of the project participants in the Russian market of microelectronics and expand their domain.</p> <p>The General Meeting of shareholders approved the proposed transaction</p>
02 August 2010	<p>The following agenda item was considered: "Approval of a related party transaction of granting a surety to Svyazinvest OJSC under which Sistema JSFC undertakes to guarantee fulfillment of the obligations of Sistema-Invenchure CJSC under the Agreement of exchange of shares of MGTS OJSC for the shares of Sky Link CJSC entered into by Svyazinvest OJSC and Sistema-Invenchure CJSC".</p> <p>This agreement was proposed within the project of exchange of assets with the government performed in line with the assignment from the Prime Minister of the Russian Federation Mr. V. Putin dtd 10.09.2009 #VP-P13-5227.</p> <p>The project implies the following transactions:</p> <ol style="list-style-type: none">1) The Comstar Group sells 25%+1 share of Svyazinvest to Rostelekom and repays the debt of RUB 26bn to

Sberbank;

- 2) Sistema-Inventure CJSC (a 100% subsidiary of Sistema JSFC) exchanges 50% in Sky Link CJSC (effectively 100%) for 23.3% in the authorized capital of MGTS (28% of ordinary shares), and Sistema-Inventure pays the difference between the assets' prices;
- 3) Sistema JSFC restructures and sells the debt that the Sky Link Group owes to Sistema - in favor of the Svyazinvest Group.

The surety of Sistema JSFC on the obligations of its subsidiary Sistema-Inventure CJSC under the exchange agreement granted in favor of Svyazinvest OJSC is necessary to ensure (1) an optimum transaction structure, and (2) maximum protection of the interests of the parties to the project of exchanging assets with the government.

The General Meeting of shareholders approved the proposed transaction

21 December 2010

The following agenda item was considered: "Approval of a related party transaction: divestment of 99.9998 % in the charter capital of LLC Sistema Telecom".

The transaction provides for a transfer by Sistema-Telecom LLC that, at the point of granting approval on the transaction, owned the following assets: a 45% stake in the authorized capital of TS-Retail (the other 55% is owned by MTS); promissory notes worth RUB 2bn issued by MTS; rights to the trademarks of the 'umbrella brand of Sistema' with graphic symbols shaped in the form of eggs, including the trademarks of MTS, Comstar-UTS and MGTS, in favor of MTS.

Full consolidation of TS-Retail operations should make it possible for MTS to strengthen its positions in the distribution sector. MTS acquiring full control over its brand is in line with the current international practice when the user of a trademark owns the trademark. The transfer of the promissory notes reduces the current volume of borrowings within the Group.

The General Meeting of shareholders approved the proposed transaction

6.2. Board of Directors

The Board of Directors of Sistema JSFC is responsible for the strategic governance of Sistema JSFC. It determines the strategy of the Corporation's development, works out strategic and financial development plans, sets the principles for investing, appraises executive performance and assesses risks, approves principles for corporate governance procedures, approves transactions and controls the work of the Corporation in general. The authority scope of the Board of Directors is set out in the Charter of Sistema JSFC.

Board of Directors membership

The Board of Directors in place as of 31.12.2010 was elected by the General Meeting of shareholders on 26 June 2010. The Board of Directors has 11 members:

*BoD membership as elected on 26 June 2010**

1	Vladimir Evtushenkov	<i>Chairman</i>
2	Alexander Goncharuk	
3	Ron Sommer	
4	Dmitry Zubov	<i>Deputy Chairman</i>
5	Vyacheslav Kopiev	
6	Robert Kocharyan	
7	Roger Munnings	
8	Leonid Melamed	
9	Rajiv Mehrotra	
10	Evgeny Novitsky	
11	Sergey Cheremin	<i>Deputy Chairman</i>

The Board of Directors includes:

Executive directors	2 (18.2%)	R. Sommer, L. Melamed**
Non-executive directors	6 (54.5%)	V. Evtushenkov, A. Goncharuk, D. Zubov, V. Kopiev, R. Mehrotra, S. Cheremin
Independent directors	3 (27.3%)	R. Kocharyan, R. Munnings, E. Novitsky

** On 09 March 2011 Mr. L. Melamed was relieved of his duties as President and Chairman of the Management Board of Sistema JSFC and received the status of "Non-executive director" of the Board of Directors of Sistema JSFC.

Changes in the membership of the Board of Directors

In the beginning of 2010 the Board of Directors consisted of 13 members elected by the General Meeting of shareholders on 27 June 2009. When the new Board of Directors was elected on 26 June 2010, the number of its members was reduced most significantly since 2005. The new Board of Directors did not include A. Gorbatovsky, S. Newhouse and R. Skidelsky from the previous Board; at the same time, a new member, R. Munnings, who has significant experience in financial reporting and audit, was elected to the Board to strengthen the Board competencies in audit.

Board of Directors meetings

Meetings of the Board of Directors are pre-scheduled. If necessary, extraordinary meetings are convened to make decisions on urgent matters. The Corporation has an Annual Calendar Planning Cycle (from January 1 through December 31). This practice makes it possible for the new Board of Directors to maintain continuity and act on the basis of the previously approved plan.

Meetings of the BoD are planned in advance, proceeding from the logics of the strategic planning and reporting cycle of Sistema JSFC.

The unplanned issues which may arise in the course of the Corporation's operations and which had not been included in the work plan of the Board of Directors are put on the agendas of the meetings of the Board of Directors as necessary upon the decision of the Chairman of the Board.

In 2010 the Board of Directors held 16 sessions: eight scheduled meetings and eight extraordinary sessions in the form of a letter ballot on urgent matters. In 2010 the Board of Directors considered 115 items in total.

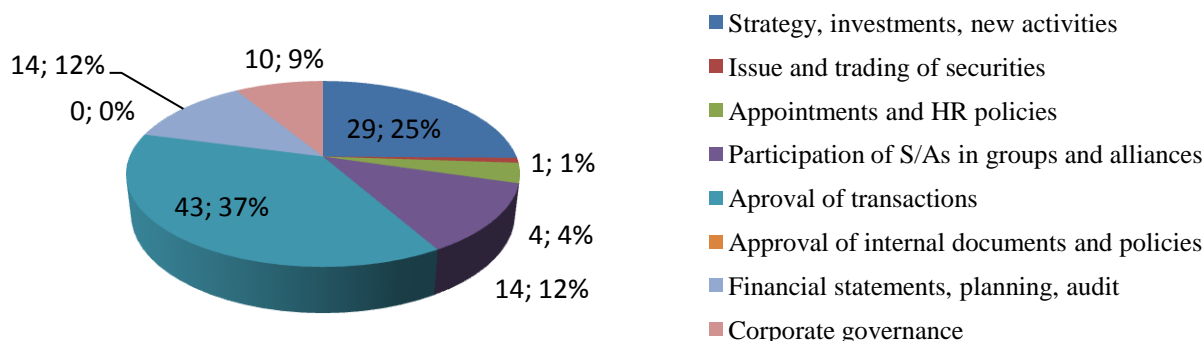
* Summary biographies and information on the shares held by the Board members in the authorized capital of Sistema JSFC are provided in the Annex.

	2010	2009
Number of meetings held	8	9
Number of letter ballots	8	4
Number of items on BoD work plan	46	46
Number of items considered by the BoD	115	124

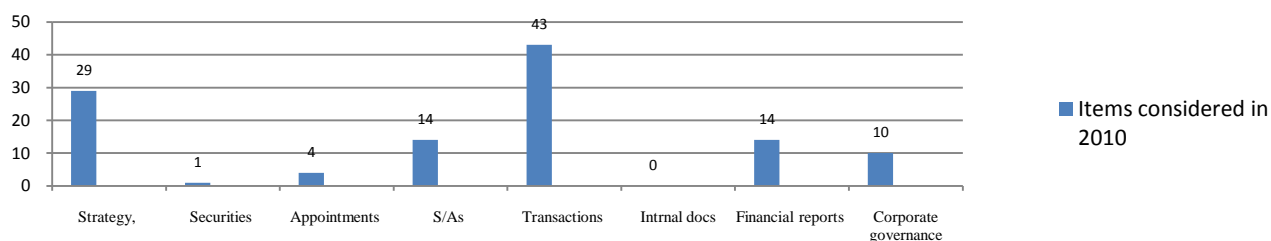
In 2010 the Board of Directors considered the following key items:

- status of Sistema JSFC strategy implementation in 2009-2010. Corporation's development strategy;
- development of the Sistema Group oil and energy assets;
- Sistema JSFC subsidiaries and affiliates governance strategy;
- development strategies of the core subsidiaries of Sistema JSFC: SITRONICS OJSC, the Banking Group, Binnopharm CJSC, Sistema Shyam TeleServices Ltd.;
- report from the Internal Control and Audit Function;
- results of MTS-Comstar integration;
- financial strategy of the Corporation;
- development of innovations and R&D activities of Sistema JSFC companies;
- development strategies of the Business Units of Sistema JSFC;
- approval of the consolidated budget of Sistema JSFC and Key Performance Indicators of the management for 2011;
- strategy of establishing the united Concern on the basis of high-tech assets of Sistema JSFC;
- public and investor relations activities;
- financial performance results;
- convening the Annual General Meeting of shareholders, reports from the Committees of the Board of Directors, report on the quality of corporate governance;
- approval of transactions.

Items considered by the Board of Directors in 2010



Items considered by the Board of Directors in 2010 (vs. 2008 and 2009)



In addition to the approval of transactions, most of the items considered by the Board of Directors in 2010 belong to the category of strategy, financial reporting and corporate governance. In 2010 the number of items on strategy, approval of transactions and shareholding in subsidiaries increased vs. 2009, which is a proof of intensified activity the area of updating the development strategy and non-organic business development solutions.

Preparation for sessions and quorum of the Board of Directors

Materials on the agenda items are provided to the Board members 10 days before the meeting, which makes it possible for the Board members to get acquainted with them in advance and to form their position for voting. The most important agenda items are normally pre-considered in the meetings of the committees of the Board. The members of the Board of Directors meet with the speakers and the management during a business dinner the evening before the session, where they can receive explanations on the materials of the Board of Directors and clarify voting positions of the parties in an informal environment.

Sessions of the Board of Directors are held with sufficiently high attendance of the Board members. No cases when a Board meeting had to be rescheduled due to the lack of quorum have been registered over the past few years.

Attendance of the Board members at the meetings of the Board of Directors and its committees in 2010

Board of Directors	Strategy Committee	Audit Committee	Nomination and Remuneration Committee	Corporate Governance and Ethics Committee	Investor Relations Committee
Attendance at meetings					
V. Evtushenkov	15/16	13/13			
A. Goncharuk	15/16		3/4		
R. Sommer	16/16	9/13			5/5
D. Zubov	16/16		4/4		
V. Kopiev	15/16		2/2	8/8	
R. Kocharyan	16/16		2/2		4/5
L. Melamed	16/16	12/13	4/4		
R. Mehrotra	13/16				3/5
E. Novitsky	14/16		10/11		
S. Cheremin	15/16	7/13	4/4		4/5
R. Munnings	11/11		4/4	1/3	
A. Gorbatovsky	4/5		7/7		
S. Newhouse	5/5		4/7	2/2	
R. Skidelsky	3/5			2/4	

Note. The first number denotes the number of meetings attended by the Board member, the second number stands for the total number of meetings the member could participate in.

Committees of the Board of Directors²⁴

Sistema JSFC has five Committees under the Board of Directors:

- Strategy Committee;
- Audit Committee,
- Nomination and Remuneration Committee,
- Corporate Governance and Ethics Committee,
- Investor Relations Committee.

The members of the Board of Directors manage the work of the committees, and constitute the majority of their membership. The role of the Committees is to preliminarily examine the items brought up for the consideration of the Board of Directors to formulate recommendations on voting, and to develop and supervise the functions assigned to them by the Board of Directors.

Strategy Committee

The Strategy Committee has nine members. The Chairman of the Committee is V. Evtushenkov. Committee Members: A. Abugov, S. Boyev, F. Evtushenkov, R. Sommer, A. Korsik, L. Melamed, S. Cheremin and M. Shamolin

The Committee considers and analyzes strategic development of Sistema JSFC and the core strategic projects of the company.

²⁴ All the information provided regarding the work of the committees is as of December 31, 2010.

In 2010, 13 meetings of the Committee were held where 31 items were considered, including: 23 items relating to business strategies, five - transactions and non-organic growth projects, three - functional strategies.

Audit Committee

The Audit Committee has three members. The Chairman of the Committee is R. Munnings.

Committee members: E. Novitsky and R. Mehrotra.

Secretary of the Committee: L. Gorbatova.

The Audit Committee supervises the preparation of financial reports and internal audit of Sistema JSFC and its subsidiaries, coordinates the work of internal control and audit services. Besides, the Committee oversees the work of the independent auditors, gives recommendations on their appointment and the amount of their fees, and acts as an intermediary in resolving disputable issues that may arise in the course of the audit.

In 2010, the Audit Committee held 11 meetings where 49 items were considered, 32 of which were on financial reporting and accounting, three items - on internal control and audit, eight items were of administrative nature (approval of the independent valuation companies, the procedure of approving the non-audit services etc).

Nomination and Remuneration Committee

The Nomination and Remuneration Committee has five members. The Committee Chairman is S. Cheremin.

Committee members: A. Goncharuk, D. Zubov, R. Kocharyan, L. Melamed.

Secretary of the Committee: G. Yermakov.

The Nomination and Remuneration Committee participates in the development of the company's human resources policy, gives recommendations to the Board of Directors on appointments to top management positions, and works out recommendations on remuneration and bonuses for the employees of Sistema JSFC.

In 2010 the Nomination and Remuneration Committee met four times. six items were considered at the meetings, five of which were related to HR policies and incentive policies, one item was on the approval of key appointments to Sistema's top management positions and the terms of the respective employment contracts.

Corporate Governance and Ethics Committee

The Corporate Governance and Ethics Committee has eight members. The Chairman of the Committee is V. Kopiev.

Committee Members: A. Goldin, I. Belikov, S. Drozdov, G. Yermakov, R. Munnings, I. Petrov and I. Potekhina.

Secretary of the Committee: I. Petrov.

The Corporate Governance and Ethics Committee works out the proposals on enhancing the standards of corporate conduct and improving the quality of corporate governance at subsidiaries and affiliates. Besides, it monitors compliance with the current laws, the Charter of the Corporation, and the business ethics standards. The Corporate Governance and Ethics Committee is responsible for preventing and settling corporate and ethical conflicts.

In 2010, the Corporate Governance and Ethics Committee held eight meetings and considered 26 items, 13 of which were on the matters of corporate governance in Sistema JSFC, seven items on corporate governance in the companies of the Sistema Group, and five items on corporate social responsibility and functional strategies.

Investor Relations Committee

As of December 31, 2010 the Committee had six members. The Chairman of the Committee is R. Kocharyan.

Committee members: A. Buyanov, R. Sommer, R. Mehrotra, I. Potekhina and S. Cheremin. Secretary of the Committee: I. Potekhina.

The core objective of the Committee is to work out the corporate policy in investor relations. The Committee presents recommendations on the topic to the Board of Directors.

In 2010, the Committee held five meetings at which 12 items were considered, including nine items on organization of IR work in the Corporation and the companies of the Sistema Group, two administrative matters and one item on preliminary approval of the Annual Report of Sistema JSFC.

6.3. President

The President of Sistema JSFC is the permanent sole executive body with the core objective of managing day-to-day activities aimed at ensuring profitability of the Corporation and securing the legitimate rights and interests of its shareholders. The President acts within his scope and reports to the Board of Directors and the General Meeting of the Company's shareholders.

The President of Sistema JSFC is Mikhail Shamolin who was appointed by the Board of Directors on 10 March 2011. As of 31.12.2010 the post of the President of Sistema JSFC was held by Leonid Melamed * elected on 29 May 2008 by the Board of Directors.

Mikhail Shamolin	Mikhail Shamolin was born in 1970.
Since March 2011 – President of Sistema JSFC. Chairman of the Sistema JSFC Management Board.	<p>In 1992 he graduated from the Moscow Automobile and Road Technical Institute.</p> <p>In 1993 Mikhail received his second diploma from the Russian Academy of Public Administration under the President of the Russian Federation.</p> <p>In 1996-97 he completed the finance and management course for top managers at the Wharton Business School.</p> <p>In 1998-2004 he worked at the international consulting company McKinsey&Co.</p> <p>In 2004-05 Mikhail held the position as the Managing Director for the Ferroalloys Division at Interpipe Corp (Ukraine).</p> <p>From 2005 Mr. Shamolin was Vice President for Sales and Customer Service and Head of the MTS Russia business unit. From 2008 to March 2011 he held the position as the President of MTS.</p> <p>On 10 March 2011 Mikhail Shamolin was appointed President of Sistema JSFC.</p>
Leonid Melamed	Leonid Melamed was born in 1967 in Moscow.
President of Sistema JSFC Chairman of the Management Board of Sistema JSFC	<p>In 1992 graduated from the Moscow Medical Academy n.a. I. Sechenov with a degree in General Medicine. Doctor of Medicine.</p> <p>02.1992-09.1997 – ROSNO JSC, Director of Medical Insurance Center, Deputy Chairman of the Management Board, 1st Deputy Chairman of the Management Board. 09.1997-09.2003 – ROSNO OJSC, 1st Deputy CEO. 09.2003-04.2006 – ROSNO OJSC, CEO. 04.2006-05.2008 – Mobile TeleSystems OJSC, President. 05.2008- 03.2010 – Sistema JSFC, President, Chairman of the Management Board.</p> <p>Member of the Boards of Directors of ANK Bashneft OJSC, Chairman of the Board of Directors of NK Russneft OJSC, member of the Strategy Committee of Sistema JSFC, member of the Board of Trustees of the Sistema Charitable Foundation.</p>

6.4. Management Board

The Management Board of Sistema JSFC is responsible for the day-to-day management of Sistema JSFC. It determines the methods for implementing the development strategy of the Corporation, works out development plans, sets investment procedures and controls their observance, appraises the performance of the personnel, and pre-considers items submitted to the Board of Directors. Meetings of the Management Board are normally held once a week.

Members of the Management Board:

1	M. Shamolin	<i>Chairman of the Management Board, President of Sistema JSFC</i>
2	A. Abugov	
3	R. Almakayev	
4	A. Buyanov	
5	A. Goldin	
6	S. Drozdov	
7	F. Evtushenkov	
8	A. Terebenin	

Membership of the Management Board as of 31.12.2010: *

1	L. Melamed**	<i>Chairman of the Management Board, President of Sistema JSFC</i>
2	A. Abugov	
3	R. Almakayev	
4	S. Boyev	
5	A. Buyanov	
6	A. Goldin	
7	S. Drozdov	
8	F. Evtushenkov	
9	R. Sommer	
10	A. Korsik	
11	I. Potekhina	

In 2010, the Management Board of the Company held 54 meetings and considered 188 agenda items dealing with all the areas of business activity of the Corporation. In 2010 the Management Board reviewed the following key items:

- preliminary consideration of items put forward to the Board of Directors; the strategies of the Corporate Center and the Business Units were reviewed first as top priority.
- financial activities, forecasts and performance on the quarterly, half-year and annual budgets of Sistema JSFC Group; risk management and risk map; internal control; financial and economic model of Corporation's development; procedures for investment projects management;
- priority activities aimed at migration to the financial holding model as applied to each Business Unit and Function of Sistema JSFC;
- analysis of the organizational maturity status of subsidiaries and affiliates;
- HR and social policies; training and development of the employees of Sistema JSFC Group; charity work;
- consideration and preliminary approval of transactions;
- analytical reviews on the media's and investment community's perception of the performance results of the Corporation.

Changes in the top management in 2010

There were a number of changes in the top management of the Company in 2010:

* brief biographies of the President and members of the Management Board of Sistema JSFC are provided in the Annex

** On 9 March 2011, pursuant to the decision taken by the Board of Directors of Sistema JSFC Leonid Melamed was relieved of his duties as President of Sistema JSFC. Mikhail Shamolin was appointed President of Sistema on 10 March 2011

D. Frolov was relieved of his duties as Head of Internal Control and Audit Function of Sistema JSFC on 29.07.2010.

N. Demeshkina was appointed Head of Internal Control and Audit Function of Sistema JSFC on 30.07.2010.

6.5. Specifics of the risk management, internal control and audit system

The risk management system of Sistema JSFC is based on the ERM (COSO) principles which include the following key elements:

- identification of risks at all levels of the company management (from the top to line management), which includes finding the risk owner and making a risk passport;
- assessment and analysis of the identified risks of the company (based on VaR methodology), ranging the risks at the management level;
- development of risk mitigation plans and further monitoring of their implementation;
- risk monitoring, quarterly reports on the risks of the company.

The risk management procedures of Sistema JSFC are applied by a dedicated unit - Risk Management of Sistema JSFC.

Regular monitoring of the company risks is performed at the level of the Management Board and the Risk Management Sub-Committee of Sistema JSFC by reviewing the effects of the mitigation and response measures taken and reassessing the already identified and/or new risks.

The President of Sistema JSFC presents a quarterly report on risk management in the Corporation to the Audit Committee of the Board of Directors of Sistema JSFC. Such report and a risk map are also presented to the members of the Board of Directors on a quarterly basis.

The internal control and audit of the Corporation is performed by the Internal Control and Audit Function of Sistema JSFC reporting to the President and the Audit Committee of the Board of Directors of Sistema JSFC. Responsibilities of the Function include:

- assessment of risk management efficiency;
- assessment of the internal control quality and efficiency in preventing misconduct and fraud risks;
- audit and assessment of fairness of the accounting and tax reporting, compliance with the financial and tax accounting rules;
- monitoring compliance with the requirements of bylaws and applicable legislation by the employees.

The key working tools of the Internal Control and Audit Function are audits and analysis of the obtained findings. The performance results of the internal control and audit services are reported to the President of Sistema JSFC and the Audit Committee of the Board of Directors to ensure that decisions are taken to eliminate the identified deficiencies.

The Internal Control and Audit Function performs regular monitoring of the removal of the deficiencies identified by the internal audits, inspections of the revision commissions for the Annual General Meeting of shareholders and external audit. The findings of monitoring are reported to the President of Sistema JSFC and the Audit Committee of the Board of Directors to ensure that the necessary management decisions are taken.

The Internal Control and Audit Function submits a quarterly report on the work done and the deficiencies identified to the Board of Directors of Sistema JSFC. The Board of Directors makes an annual assessment of the performance of the Internal Control and Audit unit and approves an audit plan for the year.

Pursuant to the decision of the Audit Committee of Sistema JSFC the following procedures have been developed for purchasing external audit services for the purposes of audit of the financial accounting and reporting of Sistema JSFC. The Audit Committee performs annual assessment of the quality of audit services. If the quality of services provided by the current auditor is recognized to be insufficiently high, the Audit Committee arranges a tender for selection of a new auditor. In case the quality of services of the current auditor is recognized as satisfactory, negotiations are conducted on the price of audit services for the next period. In the meantime, to ensure impartiality

and objectivity of the auditor, the Audit Committee of Sistema JSFC made the decision that a tender for the audit of the RAS and US GAAP financial statements shall be conducted, at any rate, at least once in every five years.

6.6. Specifics of the corporate governance system development in 2010

In 2010 the Corporation took a number of measures to further develop its corporate governance system.

In June 2010, the new independent director, Roger Munnings, was elected to the Board of Directors. Roger Munnings, one of the most reputable specialists in financial reporting and audit, being an independent director on the Board of Sistema, will enhance the level of the Board of Director's competency in financial reporting, internal control and audit.

Sistema JSFC continued its practice of internal corporate governance ratings of the group's companies. The findings of expert examinations were used to work out plans for further development of the corporate governance systems of the subsidiaries.

A number of new bylaws of Sistema JSFC were approved in 2010: the Information Policy, the new version of the Charter and the Terms of Reference of the General Meeting of Shareholders.

The new version of the information policy includes a revised description of the principles for the Corporation's interaction with all potential recipients of information, and an extended list of information to be disclosed by the Corporation. The document balances the interests of the company's transparency and compliance with the legal requirements in control over the use of insider information.

Amendments were made to the Charter and the Terms of Reference of the General Meeting of Shareholders following amendments to the Federal Law "On Joint-Stock Companies". Simultaneously, some points of the section on the procedural matters of conducting General Meetings of shareholders and the authority scope of the Company's Board of Directors were made more specific to reduce the risk of corporate conflicts.

7. SOCIAL RESPONSIBILITY

Corporate social responsibility is a comprehensive system encompassing all the activities of Sistema JSFC. While adhering to the fundamental documents and standards in CSR, like GRI, the UN Global Compact and the Social Charter of the Russian Business, the Corporation also focuses on four key areas:

1. Responsibility of the corporate citizen as contribution to the development of the society and the state in general.
2. Responsibility of the employer towards the employees and their families, ensuring good working conditions for building high quality of life.
3. Responsibility of a business partner implying adherence to the business ethics, application of best practice in corporate governance and information disclosure, which makes it possible to provide sufficient protection and respect for the rights of partners and shareholders, including the minority shareholders.
4. Responsibility of a party to social relations which allocates funding for science and education, culture and sports, as well as support of social initiatives and projects.

The agenda item on corporate social responsibility was discussed at the Board of Directors meeting of the Corporation and the Corporate Governance and Ethics Committee meeting in 2010. Importantly, the core CSR principles approved at the Corporation's level are being implemented and applied at all of its subsidiaries and affiliates. The Corporation has designed a system for cascading the CSR function that includes forming standards, building the management structure, training the personnel, and controlling implementation via a system of indicators.

Below, there is a brief description of the CSR performance results and achievements of Sistema JSFC for the last year:

Responsibility of a corporate citizen.

Being the 7th largest Russian company by revenues, Sistema JSFC is one of the country's largest taxpayers.

The companies of Sistema JSFC have a significant influence upon the development of the national intellectual potential and growth in areas related to innovations and state-of-the-art technologies. For instance, investment of Sitronics in the microchip manufacturing facility alone amounted to 6.5 billion rubles.

Being a participant to the GLONASS target program and other large-scale federal projects, the Corporation plays a key role in developing the high-tech industry, as it creates jobs, develops the entrepreneurial environment, and participates in forming the national intellectual elite.

As participants of the hydrocarbon market, our companies invest significant funds into environmental measures. For instance, in 2010 Bashneft spent 1.5 billion rubles on these purposes. Achievements of our companies in resource and energy efficiency should also be noted, as they have demonstrated results above the industry average: associated gas utilization rate at BashTEK companies is 85% (vs. the industry average of 73%); refining depth is at 86.3% (vs. the industry average of 71.8%). Our companies have received a number of awards to mark their achievements in the area of ecology. For example, Bashneft has become a laureate of the 6th National Ecology Awards in the 'Science for Ecology' nomination.

Responsibility of an employer

Sistema JSFC, together with its subsidiaries and affiliates, is also one of the largest employers in Russia. In 2010, the headcount of the subsidiaries and affiliates of the Corporation exceeded 135,000 people. Given the family members of the employees, the Corporation is responsible for the welfare of around half a million citizens of the Russian Federation. Provision of good working conditions necessary for building high quality of life is an unquestionable priority and the corner-stone of the Company's CSR policy.

We believe that the quality of the workplace comprises a number of components, such as compensation level, motivation system, working conditions, social guarantees, professional development and growth opportunities.

For instance, employees' salaries are differentiated in line with a grade system designed by Hay Group, a leading international consultancy; on the basis of monitoring salaries across various reference groups in the labor market. The total annual compensation of the employees is aligned with the advanced motivation system adopted in the Corporation.

In addition to the social guarantees stipulated in the Labor Code of the Russian Federation, each of the Corporation's companies offers additional guarantees and benefits to its employees in line with its Social Policy fixed in the bylaws. In particular, the employees of Sistema JSFC and its subsidiaries can use the services of one of the best private healthcare networks, Medsi, at a discount or free of charge.

The Corporation pays special attention to the development of each employee's intellectual potential. The Group cooperates with eight major Russian higher educational establishments and finances its own Corporate University. About 72 thousand employees of the Sistema JSFC companies are trained annually. The Corporation also creates all the necessary conditions for professional and career development. As a result of these efforts, 39 managers of the Group are on the Top-1000 Best Managers of Russia rating.

In 2010 the Corporation became one of Russia's Top-10 most attractive employers, rated No3 in the 'Financial and Industrial Groups and Diversified Holdings' category.

Responsibility of a business partner

In its Corporate Code of Ethics the Corporation has set a number of principles that reflect responsibility in business relations, and it follows them rigorously.

These principles include: sound business practice, adherence to professional, legal and ethical standards of doing business, adherence to corporate governance standards, and respect for the rights of the minority shareholders, transparency and quality of disclosure.

Sistema JSFC was one of the first companies in Russia to join the UN Global Compact, and it has recently confirmed its membership as it submitted a report that was approved by a special UN commission. In 2010 Sistema JSFC was elected a member of the Steering Committee of the Global Compact Network Russia.

The Corporation and its subsidiaries have adopted an Ethics Code and a Corporate Conduct Code.

Sistema JSFC plays an active role in fighting corruption, which is reflected in its procedures and bylaws. Sistema JSFC and its subsidiaries use transparent mechanisms, as well as purchasing and tender procedures.

The business practices of Sistema JSFC are highly appreciated by the market. The Corporation was ranked No16 in the Standard&Poor's Russian companies transparency research in 2010 (No19 in 2009). S&P Corporate Governance Score of MTS has been set as 7 on the international scale and 7.3 on the national scale. RID-Expert RA Consortium confirmed the Corporate Governance rating of Sistema JSFC at NCGR 7+ "Developed corporate governance practice" on the national scale.

The Corporation does not only adhere to the international corporate governance standards but also sets standards of its own, thus forming a civilized business environment around itself.

Responsibility of a party to social relations.

The Corporation is one of the major philanthropists and investors in the Russian social sphere. Such investments totaled 1,708.8 million rubles in 2010. Social investments were mostly made in the following areas:

- Science and education.
- Culture.
- Sports.
- Direct support to social initiatives and projects.

Being aware of the importance of supporting education and science, Sistema JSFC is a patron of the Higher School of Management of the Saint-Petersburg State University, the European University, the Russian Geographical Society, and many other educational and scientific institutions and projects. The most gifted students of a number of technical higher educational establishments are covered by a scholarship program.

Sistema JSFC is a major sponsor of numerous Russian cultural events. Since 2003 the Corporation has been the main sponsor of the State Russian Museum, a sponsor of the Mariinsky Theatre festivals, the annual Musical Kremlin concerts, and the international ballet contest Benois de la Danse. Sistema JSFC also sponsors the Sovremennik Theater.

The Corporation traditionally provides support for the Russian sports: the Russian Olympians Foundation, the Russian Rugby Union, the Federation of Cycling Sport of Russia, the Sports Federation of the Russian Ministry of the Interior, and a number of junior sport schools.

Projects in the social sphere are an important component of our charitable activities: Sistema JSFC finances a number of orphanages and shelters, and is in close cooperation with several charitable foundations that support the disabled and veterans. In 2010 the Corporation implemented a nation-wide project on restoring houses and buildings at the Verkhnyaya Vereya settlement in the Nizhny Novgorod Region that was damaged by the devastating summer wildfires.

The projects are implemented via the Sistema Charitable Foundation that was established in 2003 to ensure effective management of the Corporation and its subsidiaries' social investments.

Sistema JSFC was ranked No2 on the annual Russian Corporate Social Responsibility and Philanthropy Ranking by PriceWaterhouseCoopers and the Vedomosti.

8. CRITERIA AND AMOUNTS OF REMUNERATION FOR THE MEMBERS OF THE BOARD OF DIRECTORS AND TOP EXECUTIVES OF THE COMPANY

The remuneration for the members of Sistema JSFC Board of Directors is calculated on the basis of the "Policy on remuneration and compensations payable to the members of the Board of Directors of the Company", approved with a resolution of the General Meeting of shareholders of Sistema JSFC on 30 June 2006 (Minutes No1-06) as amended with the resolution of the General Meeting of the shareholders of Sistema JSFC on 16 February 2009 (Minutes No1-09). The Policy provides for payment of the following to the Board of Directors members:

- fixed amounts for participation in meetings of the Board of Directors and its committees;
- fixed amounts for acting in the capacity of the Chairman or the Deputy Chairman of the Board of Directors, and for chairmanship of the committees under the Board;
- based on the results of a year, members of the Board of Directors get additional performance-related remuneration in the form of a fixed amount, half of which is payable in shares (US\$ 250,000 - 325,000);
- also, given the capitalization of the Corporation has grown over the year, members of the Board of Directors get additional remuneration amounting to 0.1% of the incremental capitalization.

The short-term (up to one year) incentive scheme for the top managers of Sistema JSFC in 2010 consisted of the following elements:

- monthly fixed salary determined in line with the internal system of job categories (grades);
- four quarterly bonuses and one annual bonus paid for achievement of
 - a) financial key performance indicators set for the Corporation as a whole and its Business Units for a respective reporting period;
 - b) functional key performance indicators set individually for each of the top managers of Sistema JSFC for the respective reporting period;
- additional remuneration paid for achievement of investment targets of the Corporation for the year;
- additional bonus which may be paid only following a decision of the Board of Directors.

In 2010, the Board of Directors of Sistema JSFC approved a number of changes in the 3-year long-term incentive program for the management of the Corporation. The remuneration of the program participants depends on the capitalization growth of Sistema JSFC and may be paid both in cash bonuses and in ordinary shares of the Corporation transferred to the ownership of the program participants on its expiration in 2012.

No remuneration is paid for the executive work of the managers sitting on the Management Board of Sistema JSFC.

The top managers of the Corporation were paid the total of RUB 2,461,336,607 in remuneration for the calendar year 2010. Remuneration paid to the Board of Directors members of Sistema JSFC in 2010 totaled RUB 290,139,550.

9. ANNEX

9.1. SUMMARY BIOGRAPHIES OF THE MEMBERS OF THE BOARD OF DIRECTORS AND THEIR SHAREHOLDINGS IN SISTEMA JSFC

<i>Full name, Title</i>	<i>Brief Professional Background</i>
<p>Vladimir Evtushenkov</p> <p>Chairman of the Board of Directors, non-executive director, Chairman of the Strategy Committee of the Board of directors of Sistema JSFC.</p>	<p>Was born in 1948 in the Smolensk Region.</p> <p>In 1973 graduated from the Moscow Mendeleev Chemical-Engineering Institute, in 1980 – the Economic Faculty of the Moscow State University. Doctor of Science in Economics.</p> <p>In 1975-1982 worked as a Machine Shop Manager, Deputy Director, Chief Engineer of the Karacharovo Factory of Plastics, from 1982 to 1987 – Chief Engineer, First Deputy Director General of Polymer Scientific and Production Association. In 1987 was appointed Head of Technical Department, in 1988 – Head of the Main Department of Science and Technology of the Moscow City Executive Committee, in 1990 – the Chairman of the Moscow Municipal Committee for Science and Technology.</p> <p>In 1993 together with a group of like-minded individuals formed the Sistema Joint-Stock Financial Corporation. At present is the principal shareholder, the Chairman of the Sistema JSFC Board of Directors and Chairman of the Strategy Committee of the Board of Directors.</p> <p>Active member of a number of government commissions for the improvement of competitiveness of the Russian industry, development of high technologies and innovations, science and culture; a member of the National Council on corporate governance, member of the management boards of the main associations of entrepreneurs in Russia - the Russian Union of Industrialists and Entrepreneurs, the Russian Chamber of Industry and Commerce, Chairman of the Russian side of the Russian-Arab Business Council.</p> <p>In 2004 was elected Chairman of the Board of Trustees of the State Russian Museum Development Fund “Friends of the Russian Museum”. Head of the Board of Trustees of Sistema Charitable Foundation.</p> <p>Share in the authorized capital of Sistema JSFC - 64.18%.</p>
<p>Alexander Goncharuk</p> <p>Non-executive director of the Board of Directors of Sistema JSFC</p>	<p>Was born in 1956 in Sebastopol.</p> <p>In 1978 graduated from the Sevastopol Higher Navy and Engineering School, and in 1987 — the Grechko Navy Academy.</p> <p>From 1987 to 1991 was serving in the Navy Headquarters in a position of the senior officer. Then was the Head of Leader Joint-Stock Insurance Company.</p> <p>From 1995 to 1998 – Vice-President of Sistema JSFC, from March 2006 to May 2008 – President of the Corporation. While working in the Corporation he was the Chairman of the Board of Directors of MTS (in 1998 and from 2002 to 2003), Sistema Telecom (1998 - 2003) and Sitronics Concern (2003 - 2006).</p> <p>At present is a member of the Sistema JSFC Board of Directors, member of the Nomination and Remuneration Committee and Sistema Charitable Foundation Board of</p>

Trustees, and also Chairman of the Board of Directors of ANK BashNeft, Chairman of the Board of Directors of Polief, member of the Presidential Council of the Republic of Bashkortostan.

Share in the authorized capital of Sistema JSFC - 1.89%.

Ron Sommer	Ron Sommer was born in 1949.
Executive director, member of the Strategy Committee and the IR Committee of Sistema JSFC Board of Directors.	<p>In 1971 graduated from the Vienna University and received a Doctor's Degree in mathematics.</p> <p>In 1980 was appointed Managing Director in the German branch of the Sony Group and in 1990 was appointed President and Chief Operating Officer of Sony Corporation USA. In 1993 held the same position in Sony Europe. From May 1995 to July 2002 – Deutsche Telekom AG, Chairman of the Management Board.</p> <p>In 2003 was elected Chairman of the International Advisory Board of Sistema JSFC. In 2005 became independent director on the Board of Sistema JSFC where he also performed the duties of the Chairman of the IR Committee.</p> <p>From May 2009 - First Vice President of Sistema JSFC, Head of Telecom Assets Business Unit, member of the Board of Directors of Sistema JSFC, Chairman of the Board of Directors of MTS, Chairman of the Board of Directors of SMM, Chairman of the Board of Directors of Sistema Shyam Teleservices Ltd. (SSTL), member of the Strategy Committee, member of the Investor Relations Committee of Sistema JSFC.</p> <p>Ron Sommer serves on the Boards of Directors of Tata Consultancy Services and Munich Reinsurance, and he is also a member of the International Consultative Council of Blackstone Group.</p>
	Share in the authorized capital of Sistema JSFC - 0.0042%.

Dmitry Zubov	Was born in 1954 in the Gorkiy Region.
Deputy Chairman of the Board of Directors, non-executive director, member of the Nomination and Remuneration Committee of Sistema JSFC.	<p>In 1977 he graduated from the Moscow Automobile and Road Technical Institute. Doctor of Science in Economics.</p> <p>In 1978-79 worked as a foreman at the Lukhovitsy Engineering Plant, in 1979-1983 — Secretary of the Young Communist League's Committee. From 1983 to 1988 worked in the Department of Working Youth of the Central Committee of the Young Communist League, in 1988-1989 was the Head of the All-Union Centre of Housing Cooperatives for Youth. In 1989-1991 worked in the capacity of the Deputy Director General of the All-Union Centre of Cinema and Television for Children and Youth. In 1992-1996 was the Director General of Alon Close-Type Joint-Stock Company, and then held governing positions in MosEximBank, IBN Sistema and PromChemVest.</p> <p>In 1999 was elected member of the Board of Directors of Sistema JSFC, from 2000 - Deputy Chairman of the Board of Directors; member of the Board of Trustees of the Charitable Foundation of Sistema JSFC, member of the Nomination and Remuneration Committee.</p>
	Share in the authorized capital of Sistema JSFC - 0.88%.

Vyacheslav Kopiev	Was born in 1954 in Moscow.
	In 1977 graduated from the Faculty of Cybernetics of the Moscow Engineering and

Non-executive director, Chairman of the Corporate Governance and Ethics Committee of the Sistema JSFC Board of Directors.

Physical Institute, in 1993 - the Faculty of Jurisprudence of the Russian Academy of Management, and in 1994 – the Economic Faculty of the International Academy of Marketing and Management.

PhD in Technical Sciences. PhD in Legal Sciences. Author of more than 70 scientific works.

From 1977 to 1990 - Komsomol and public work, Secretary of the Krasnogvardeiskiy District Committee of the Young Communist League, First Secretary of the Moscow City Committee of the Young Communist League, Second Secretary of the Central Committee of the Young Communist League.

From 1989-1997– member of the Board of Management of the Union of Scientific and Engineering Societies, Director for International Relations and Innovation Activities of this Union. From 1990 to 1997 – Chairman of the Board of Directors of Sputnik JC, since 1995 – Deputy Chairman of the Executive Committee of the Russian-British Chamber of Commerce and Industry.

In 1997 was appointed Vice-President of Sistema JSFC, from 2000 to 2003 – Senior Vice-President, Head of the External Business Environment Complex. From 2003 December to 2010 - Deputy Chairman of the Sistema JSFC Board of Directors. Chairman of the Charitable Foundation of Sistema JSFC, Chairman of the Corporate Governance and Ethics Committee of Sistema JSFC.

Member of the Presidential Council of the Russian Federation for development of physical education and sports, professional sports, preparations for the XXII Olympic Games and XI Paralympic Games of 2014 in Sochi, President of the Russian Rugby Union.

Member of the Sistema JSFC Board of Directors since 1997.

Share in the authorized capital of Sistema JSFC - 0.054%.

Robert Kocharyan

Was born in 1954 in Stepanakert, Nagorno-Karabakh Autonomous Oblast. In 1982 graduated from the Yerevan Polytechnic Institute.

Non-executive director, member of the IR Committee and the Nomination and Remuneration Committee of Sistema JSFC Board of Directors.

From 1972 to 1981 served in the Soviet Army, worked at the Stepanakert Electrotechnical Plant as an assembly fitter, and then – a mechanical engineer. In 1981-1990 held various positions in the Komsomol and Communist Party bodies of Nagorny Karabakh.

From February 1988 he was one of the leaders of the movement for separation of Nagorny Karabakh autonomous district from the Soviet Republic of Azerbaijan and its further annexation to Armenia. In 1989 and 1990 was elected a deputy of Armenia's Supreme Council and member of the Presidium of the Supreme Council of the Armenian SSR.

In 1991-1994 - deputy of the first Supreme Council of the Nagorny-Karabakh Republic (NKR), Chairman of the State Defense Committee of NKR and Prime Minister of NKR. From 1994 to 1997 - President of NKR.

In 1997-1998 - the Prime Minister of the Republic of Armenia, in 1998–2008 - the President of the Republic of Armenia.

Member of the Sistema JSFC Board of Directors since 2009. Chairman of the IR Committee and the Nomination and Remuneration Committee of the Board of Directors.

Share in the authorized capital of Sistema JSFC - 0.00096%.

Roger Munnings

Independent director; Chairman of the Audit Committee and the Corporate Governance and Ethics Committee of the Board of Directors, Sistema JSFC

Was born in 1950 in the United Kingdom.

Graduated from the Oxford University with a degree of Master of Arts in politics, philosophy, and economics.

At present he is a member of the UK Government's working group on trade and investments between Great Britain and Russia, as well as the Chairman of the Institute of Audit Committees in Russia.

Roger Munnings has had a long and successful career (from 1974) with the international auditor KPMG, especially during his time in the office of President and Managing Partner of KPMG in Russia and the CIS (1996-2008), as well as the Chairman of the world energy and natural resources committee of KPMG (1993-2008). Presently serving as the deputy Chairman of the management board of the Association of European Business (AEB) and member of the Institute of certified accountants of England and Wales.

Roger Munnings is actively involved in public activities in Russia being a member of the Russian National Council on Corporate Governance, the Russian Union of Industrials and Entrepreneurs, the Russian institute of directors, the management board of the American-Russian business council, the management board of the Russian-British chamber of commerce etc.

Member of the Board of Directors of Sistema JSFC from 2010. Chairman of the Audit Committee, member of the Corporate Governance and Ethics Committee of the Board of Directors.

Has no shareholding in the authorized capital of Sistema JSFC.

Leonid Melamed

Executive Director*, member of the Strategy Committee of the Board of Directors of Sistema JSFC.

Was born in 1967 in Moscow.

In 1992 graduated from the Moscow Medical Academy n.a. I. Sechenov. Doctor of Medicine.

From 1991 to 2006 worked with the ROSNO insurance company, in 2003 was appointed CEO and Chairman of the Management Board.

In 2004-2006 headed the Expert Council on insurance legislation of the Duma Committee of the Federal Assembly of the Russian Federation on credit organizations and financial markets.

*from 9 March 2011 - non-executive director

In 2006-2008 - President, Chairman of the Management Board, member of the Board of Directors of MTS.

From May 2008 to March 2011 - President, Chairman of the Management Board of Sistema JSFC. From 2009 – member of the Board of Directors of Sistema JSFC.

At present Leonid Melamed sits on the Boards of Directors of Sistema JSFC and Bashneft, is Chairman of the Board of Directors of Russneft, member of the Strategy Committee of the Sistema JSFC Board of Directors.

Share in the authorized capital of Sistema JSFC - 0.00094%.

Rajiv Mehrotra

Non-executive director, member of

Was born in 1954.

In 1973 graduated from the university in Harayana State, India, with a degree in radio and TV.

the Audit Committee and the IR Committee of Sistema JSFC Board of Directors.

Veteran of the Indian telecom industry. Founder and Chairman of the Shyam Group of companies.

In 1974 initiated manufacturing of low-budget satellite TV equipment which provided access to cable TV for many millions of Indian villagers. Was engaged in installation of telephone services in rural districts.

Created the flagship of Shyam Group - Shyam Telecom, one of the leading developers of mobile systems. In 1990s he launched Xecacom (now Bharti Hexacom) to provide GSM services in Rajasthan.

The founder of Shyam Telelink Limited (now Sistema Shyam Teleservices Ltd.) - one of the first operators in the world to deploy CDMA technology for fixed wireless services. His efforts also established Essel Shyam as the leading name in VSAT satellite communications.

Member of the Sistema JSFC Board of Directors since 2009. Member of the Audit Committee and the IR Committee of the Board of Directors.

Share in the authorized capital of Sistema JSFC – 0.00096%.

Evgeny Novitsky

Independent director. Member of the Audit Committee of the Board of Directors of Sistema JSFC.

Was born in 1957 in the Tomsk Region.

In 1985 graduated from the Moscow Bauman Higher Technical School. In 1989-90 studied management at the Moscow State University of International Relations and the University of Manchester, UK. Candidate of Technical Sciences.

In 1985-1987 worked as an engineer and mathematician at the Moscow Bauman Higher Technical School, and in 1987-1990 studied there at the post-graduate course. In 1991-95 was in charge of developing and producing a series of Russian-made computers as well as of organizing IBM computers assemblage at Quantum Factory (in Zelenograd), was the Chairman of the Board of Directors of the Russian IT company IVK (Information and Innovation Company). Author of a monograph and of a number of publications, member of the Board of Trustees of the Moscow Bauman Higher Technical School.

Since 1995 has been working at Sistema JSFC as the President of the Company, and from January 2005 to February 2006 was the Chairman of the Corporation's Board of Directors. Since 2006 – non-executive director and since 2010 – independent director of the Sistema JSFC Board of Directors.

At present – independent director of the Sistema JSFC Board of Directors, member of the Audit Committee, member of the Sistema Charity Fund Board of Trustees.

Share in the authorized capital of Sistema JSFC – 1.99%.

Sergey Cheremin

Deputy Chairman of the Board of Directors, non-executive director.

Chairman of the Nomination and Remuneration Committee, member of the Strategy Committee and IR Committee of Sistema JSFC.

Was born in 1963 in Kislovodsk.

In 1989 graduated from the Moscow State Institute of International Relations with a degree in International Journalism, and in 2003 finished the post-graduate course of the Faculty of International Economic Relations at the Lomonosov Moscow State University with a degree in World Economy. In 1992 took an internship at the University of New York in the sphere of Investments and International Settlements, and in 1993 completed the program for banking specialists at the Fairfield University (USA). Candidate of Economic Sciences.

In 1991-1992 – First Deputy Chairman of the Management Board of PrintBank Commercial Bank, 1992-1998 – Chairman of the Management Board of the Moscow Export and Import Bank, 1998-2000 – Vice President of the Ural Trust Bank, 2000-2003 – Adviser to the President, and then the President of North-Eastern Alliance Commercial Bank.

In 2004 was appointed Chairman of the Management Board of the MBRD bank, in

2005-09 held the position of Vice President, Senior Vice President and Head of the External Communications Function of Sistema JSFC. In 2008 was elected a member of the Sistema JSFC Board of Directors, in 2009 – Deputy Chairman of the Sistema JSFC Board of Directors. Chairman of the Nomination and Remuneration Committee, member of the Strategy and IR Committees of the Board of Directors. Also a member of the NIS and SSTL Ltd. Boards of Directors.

Since November 2010 – Head of the Department of the External Economic and International Relations of Moscow Government. Minister at the Moscow government.

Share in the authorized capital of Sistema JSFC – 0.0026%.

9.2. INFORMATION ON TRANSACTIONS PERFORMED BY THE MEMBERS OF THE BOARD OF DIRECTORS OF SISTEMA JSFC WITH THE SHARES THEY HOLD IN THE COMPANY OVER THE PERIOD 1 JANUARY - 31 DECEMBER 2010

<i>Board member</i>	<i>Date of the transaction</i>	<i>Transaction content</i>	<i>Transaction subject</i>
V. Evtushenkov	15.07.2010	Crediting securities to the holder's account	89,139 ordinary registered shares
D. Zubov	15.07.2010	Crediting securities to the holder's account	89,139 ordinary registered shares
V. Kopiev	15.07.2010	Crediting securities to the holder's account	89,139 ordinary registered shares
	26.11.2010	Debiting securities from the holder's account, crediting securities to the account of a nominal holder – DCC	1,930,000 ordinary registered shares
A. Goncharuk	15.07.2010	Crediting securities to the holder's account	89,139 ordinary registered shares
	22.12.2010	Debiting securities from the holder's account, crediting securities to the account of a nominal holder – DCC	37,644,644 ordinary registered shares
E. Novitsky	15.07.2010	Crediting securities to the holder's account	89,139 ordinary registered shares
	03.11.2010	Debiting securities from the holder's account, crediting securities to the account of a nominal holder – DCC	13,167,000 ordinary registered shares
R. Sommer		No operations on this account during the above mentioned period	
R. Kocharyan	15.07.2010	Crediting securities to the holder's account	93,237 ordinary registered shares
L. Melamed	15.07.2010	Crediting securities to the holder's account	89,139 ordinary registered shares
R. Mehrotra	15.07.2010	Crediting securities to the holder's account	93,237 ordinary registered shares
S. Cheremin	15.07.2010	Crediting securities to the holder's account	89,139 ordinary registered shares

9.3. SUMMARY BIOGRAPHIES OF THE PRESIDENT OF SISTEMA JSFC AND THE MEMBERS OF THE MANAGEMENT BOARD

Mikhail Shamolin

Was born in 1970.

Since March 2011 –
President of Sistema JSFC.
Chairman of the Sistema
JSFC Management Board.

In 1992 he graduated from the Moscow Automobile and Road Technical Institute.

In 1993 Mikhail received his second diploma from the Russian Academy of Public Administration under the President of the Russian Federation.

In 1996-97 he completed the finance and management course for top managers at the Wharton Business School.

In 1998-2004 worked at the international consulting company McKinsey&Co.

In 2004-05 Mikhail held a position of the Managing Director for the Ferroalloys Division at Interpipe Corp (Ukraine).

From 2005 – Vice President for Sales and Customer Service and Head of the MTS Russia business unit. From 2008 to March 2011 he worked as President of MTS.

On 10 March 2011 Mikhail Shamolin was appointed President of Sistema JSFC.

Leonid Melamed

Was born in 1967 in Moscow.

President of Sistema JSFC
till March 2011.
Chairman of the Sistema
JSFC Management Board.

In 1992 graduated from the Moscow Medical Academy n.a. I. Sechenov. Doctor of Medicine.

From 1991 to 2006 worked with the ROSNO insurance company, in 2003 was appointed CEO and Chairman of the Management Board.

In 2004-2006 headed the Expert Council on insurance legislation of the Duma Committee of the Federal Assembly of the Russian Federation on credit organizations and financial markets.

In 2006-2008 - President, Chairman of the Management Board, member of the Board of Directors of MTS.

From May 2008 to March 2011 – President, Chairman of the Management Board of Sistema JSFC. From 2009 – member of the Board of Directors of Sistema JSFC.

At present Leonid Melamed sits on the Boards of Directors of Sistema JSFC and Bashneft, is Chairman of the Board of Directors of Russneft, member of the Strategy Committee of the Sistema JSFC Board of Directors.

Share in the authorized capital of Sistema JSFC - 0.00094%.

Members of the Management Board:

Anton Abugov

Was born in 1976 in Mytishchi, the Moscow Region.

First Vice President, Head of the Sistema JSFC Strategy and Development Function.
Member of the Sistema JSFC Management Board.

In 1998 graduated from the Academy of the National Economy under the Government of the Russian Federation with a degree in management.

1995-99 – Closed-Type Joint-Stock Company United Financial Group, Deputy Executive Officer of the Department of Transactions with Securities, Trader.
1999-2002 – Closed Joint-Stock Company United Financial Group, Head of the Corporate Finance Department.
2003-06 – ROSBANK, Managing Director, Head of the Corporate Finance Division.
Since August 2006 – Sistema JSFC, First Vice President, Head of the Strategy and Development Function.

Alexander Korsik

Was born in 1956 in Minsk.

Senior Vice President, Head of Oil and Energy Business Unit.
Member of the Sistema JSFC Management Board up to April 2011.

In 1979 graduated from the Moscow Bauman Higher Technical School (University) with a degree in Automated Control Systems.

1982-1995 – public service.
1995-1997 – KomiTEK-Moscow, Deputy Director General.
1999-2005 – SibNeft, Head of the Department, from May 1999 – First Vice President.
1999-2005 – Renaissance Capital-Financial Consultant, Managing Director
2006-2007 – ITERA HGK, Executive Director.
2007-2009 – RussNeft NK, Chairman of the Board of Directors.
May 2009-April 2011 – Sistema JSFC, Senior Vice President, Head of Oil and Energy Group Business Unit.

Since April 2011 – President of Bashneft.

Ron Sommer

Was born in 1949 in Israel.

In 1971 graduated from the Vienna University.

First Vice President, Head of the BU Telecommunication Assets of Sistema JSFC.
Member of the Sistema JSFC Management Board up to April 2011.

1980 – Sony Deutschland, Managing Director.
1986 – Sony Deutschland, Chairman of the Management Board.
1990 – Sony Corporation, USA, President and COO.
1993 – Sony Europe, President and COO.
1995-2000 – Deutsche Telekom AG, Chairman of the Management Board.
2003 – International Advisory Council of Sistema JSFC, Chairman.
2005 – Independent Director of the Sistema JSFC Board of Directors, Chairman of the IR Committee.
Since September 2009 – Sistema JSFC, First Vice President, Head of Telecommunication Assets Business Unit.

Alexei Buyanov

Was born in 1969 in Moscow.

Senior Vice President, Head of Finance and Investment Function of Sistema JSFC
Member of the Sistema JSFC Management Board.

In 1992 graduated from the Moscow Physics and Technology Institute with a degree in Applied Mathematics and Physics, Engineering Physicist.

1992-1994 – Trainee Researcher at the Institute of Problems of Mechanics, the Russian Academy of Sciences.

1994-1995 – Sistema JSFC, Chief Specialist, Lead Specialist, Executive Director.

1995-1998 – Sistema Invest, Head of Division, Vice President, First Vice President.

1998-2002 – Mobile TeleSystems, Vice President for Investments and Securities.

2002-2002 – Sistema JSFC, Vice President, Head of the Financial Restructuring Department.

2002-2005 – Sistema JSFC, First Vice President.

From April 2005 – Sistema JSFC, Senior Vice President, Head of Finance and Investment Function

Sergey Drozdov

Was born in 1970 in Arkhangelsk.

Senior Vice President, Head of Property Function of Sistema JSFC.
Member of the Sistema JSFC Management Board.

In 1993 graduated from the Ordzhonikidze State Academy of Management with a degree in Engineering and Economy.
Candidate of Economic Sciences.

1993- 1994 – Yugorskiy Joint-Stock Bank, Economist in the Division of Trust Operations and Funds, Deputy Head of the Division of Securities and Trust Operations, Head of the Securities Department.

1994-1995 – Moscow Property Fund, Head of the Financial Innovations and Marketing Department.

1995-1998 – Sistema JSFC, Executive Director, Deputy Head of the Department of Development and Investments.

1998-2002 – Sistema Invest, Head of Division, Vice President, First Vice President.

2002 – Sistema JSFC, Head of the Corporate Property Department, Acting First Vice President.

2002-2005 – Sistema JSFC, First Vice President.

Since April 2005 – Sistema JSFC, Senior Vice President, Head of the Property Function.

Ruslan Almakaev

Was born in 1963 in Kharkov.

Head of Property Function of Sistema JSFC.
Member of the Sistema JSFC Management Board.

In 1994 graduated from the Kharkov State Pedagogical University with a diploma of the Teacher of Mathematics, Informatics and Computer Technology.

In 2003 graduated from the Krasnodar State University as a Systematizer of Macroeconomic Processes.

1993-1995 – Eurasia Trading and Industrial Company, Deputy Director General.
1995-2002 – Russian AviaFund, Regional Public Fund for Protection of Air Force Servicemen and Employees of the Aviation Industry, Deputy Director General.

2002-2003 – Sistema JSFC, Vice President, Head of the Department of Non-

corporate restructuring.
2003-04 – System Project, Director General.
2004-2005 – Sistema JSFC, Vice President for Regional and Venture projects.
Since April 2005 – Sistema JSFC, Vice President, Head of the Administrative Function.

Anna Goldin

Was born in 1963 in Leningrad.

Vice President, Head of the Sistema JSFC Legal Function.

Graduated from the University of California in Berkeley, Boalt Hall.
Doctor of Law.

Member of the Sistema JSFC Management Board.

1988 – Baker & McKenzie, Lawyer/Trainee.
1989 – Gibson, Dunn & Crutcher, Lawyer/Trainee.
1989 – Morrison & Foerster, Lawyer/Trainee.
1990-1998 – Latham & Watkins, Lawyer.
1999-2007 – Latham & Watkins, Partner, Managing Partner.
Since June 2007 – Sistema JSFC, Vice President, Head of the Legal Group.

Sergey Boyev

Was born in 1953 in Moscow.

Vice President, Head of High Tech and Industry Business Unit of Sistema JSFC.

In 1978 graduated from All-Union Correspondence Law Institute with a degree in law.

Member of the Sistema JSFC Management Board up to April 2011.

In 1984 – the Moscow Ordzhonikidze Institute of Management with a degree in Economy and Management in Industry.
Doctor of Economic Sciences, Professor.

1984-1999 – the Mints Radio Engineering Institute, Deputy Chief Accountant, Chief Accountant, Deputy Director, Deputy Director General for Economy, Director General.

1999-2000 – High-Tech and Strategic Systems, Director General.
2000-2008 – Radio-Engineering and Information Systems Concern, Director General.

February 2008-April 2011 – Sistema JSFC, Vice President, Head of High Tech and Industry Business Unit.

Felix Evtushenkov

Was born in 1978 in Moscow.

Vice President, Head of Consumer Assets Business Unit of Sistema JSFC.

In 2000 graduated from the Griboyedov Institute of International Law and Economy with a degree in law.

Member of the Sistema JSFC Management Board.

1999-2000 – Sistema Invest, Assistant to the President.
2000-2000 – Sistema JSFC, Executive Director of the Department of Industry.
2000-2006 – Sistema-Hals, Deputy Director General, Director General.
2006-2008 – Sistema Hals, President.
Since July 2008 – Sistema JSFC, Vice President, Head of the Consumer Assets Business Unit.

Since April 2011 – Sistema JSFC, First Vice President, Head of the Core Assets Business Unit.

Andrei Terebenin

Was born in 1962.

Vice-President, Head of the Corporate Communications Function of Sistema JSFC.

Member of the Sistema JSFC Management Board since April 2011.

In 1985 graduated from the Moscow State Institute of International Relations with a degree in international relations and Arabic. Held a number of management positions with the Publishing House Economicheskaya Gazeta, Dun&Bradstreet CIS and AIG Russia. In 1999 became a partner at the Triangle Porter Novelli Communications Agency, since 2003 to January 2006 was Director General and Partner at the R.I.M. Porter Novelli Communications Holding.

January 2006 - April 2011 – Vice President for Corporate Communications of MTS.

Since April 2011 – Executive Vice President, Head of the Sistema JSFC Corporate Communications Function.

Irina Potekhina

Executive Vice-President of Sistema JSFC.

Member of the Sistema JSFC Management Board until April 2011.

Was born in 1960 in the Cossack Village of Maryanskaya, in the Krasnodar Territory.

In 1982 graduated from the Leningrad Institute of Textile and Light Industry. In 2003 graduated from the North-West Academy of Public Service, Saint-Petersburg with a degree in Public Relations.

1990-1994 – Correspondent for Komsomolskaya Pravda.

1994-2001 – Director General of the Komsomolskaya Pravda in Saint-Petersburg.

2001-2003 – Vice Governor, member of the Saint-Petersburg Government.

2004-2005 – Prof-Media Print, Director General.

2005-2008 – Sistema JSFC, Head of the Public Relations Department, Director of the Department of Relations with the Government and Social Organizations.

Since September 2008 – Sistema JSFC, Executive Vice President, Head of the Corporate Communications Function.

9.4. INFORMATION ON THE NUMBER OF SHARES OF SISTEMA JSFC HELD BY THE PRESIDENT AND THE MANAGEMENT BOARD MEMBERS

<i>Management Board member</i>	<i>Number of shares held</i>
Mikhail Shamolin	-
Leonid Melamed	89,139 shares of Sistema JSFC
Anton Abugov	-
Ruslan Almakaev	-
Sergey Boyev	-
Alexei Buyanov	1,930,000 shares of Sistema JSFC
Anna Goldin	8,386,000 shares of Sistema JSFC
Sergey Drozdov	19,440,732 shares of Sistema JSFC
Felix Evtushenkov	-
Ron Sommer	409,195 shares of Sistema JSFC
Alexander Korsik	-
Irina Potekhina	-

9.5. LIST OF TRANSACTIONS CARRIED OUT BY THE COMPANY IN THE REPORTING YEAR THAT ARE RECOGNIZED AS MAJOR TRANSACTIONS UNDER THE FEDERAL LAW "ON JOINT-STOCK COMPANIES", AND OTHER TRANSACTIONS COVERED BY THE MAJOR TRANSACTIONS APPROVAL PROCEDURE PURSUANT TO THE COMPANY'S CHARTER

During 2010 Sistema JSFC did not perform any transactions that in accordance with the Federal Law "On Joint-Stock Companies" are recognized as major transactions, or other transactions which in accordance with the Company's Charter are covered by the procedure for approval of major transactions.

9.6. LIST OF TRANSACTIONS CARRIED OUT BY THE COMPANY IN THE REPORTING YEAR THAT UNDER THE FEDERAL LAW "ON JOINT-STOCK COMPANIES" ARE RECOGNIZED AS RELATED PARTY TRANSACTIONS

Minutes of the body that approved the transaction and date	No. of the transaction and date	Transaction subject	Transaction counterparties	Amount of the transaction	Persons that are considered as related parties to the transaction
Minutes of the Board of Directors No. 01-10 dtd 06.02.2009 Item 3.2		Agreement on provision of paid information and consultation services by Region	Region	RUB 75,496,086.00	R. Almakayev S. Drozdov
Minutes of the Board of Directors No. 01-10 dtd 06.02.2009 Item 3.2		Agreement on paid provision of personnel by OJSC Region	Region	RUB 47,087,004.00	R. Almakayev S. Drozdov
Minutes of the Board of Directors No. 02-10 dtd 20.03.2009 Item 6.2		Surety on the liabilities of Sistema Shyam TeleServices Limited to ICICI Bank Limited	ICICI Bank Limited	\$98,590,619.00 at the exchange rate set on 10 March 2010 of 45.41 Indian rupees for 1 US dollar.	R. Sommer R. Mehrotra S. Cheremin A. Goldin S. Drozdov
Minutes of the Board of Directors No. 02-10 dtd 20.03.2009 Item 6.2		Surety agreement for Sistema Shyam TeleServices Limited	Sistema Shyam TeleServices Ltd.	3% per annum accrued to the part of main sum of guarantees issued by the Bank in the amount of 74% from the total sum of prolonged guarantees secured by the Surety	R. Sommer R. Mehrotra S. Cheremin A. Goldin S. Drozdov
Minutes of the Board of Directors No. 02-10 dtd 20.03.2009 Item 6.3		Surety on the loan liabilities of Sistema Shyam TeleServices Limited to ICICI Bank Limited	Central Bank of India	\$110,107,905.75 at the exchange rate set on 10 March 2010 of 45.41 Indian rupees for 1 US dollar.	R. Sommer R. Mehrotra S. Cheremin A. Goldin S. Drozdov

Minutes of the body that approved the transaction and date	No. of the transaction and date	Transaction subject	Transaction counterparties	Amount of the transaction	Persons that are considered as related parties to the transaction
Minutes of the Board of Directors No. 02-10 dtd 20.03.2009 Item 6.3		Surety agreement for Sistema Shyam TeleServices Limited	Sistema Shyam TeleServices Ltd.	3% per annum accrued to the part of the main sum of the issued guarantees that are accrued to the remaining part of the main debt under the Loan Agreement starting from the date of signing the Surety Agreement between the Guarantor and the Bank till the end date of this Agreement	R. Sommer R. Mehrotra S. Cheremin A. Goldin S. Drozdov
Minutes of the Board of Directors No. 02-10 dtd 20.03.2009 Item 6.4		Increasing the limit of financing for Sistema Shyam TeleServices through the letter of credit issued by Bank RBS London Branch	Bank RBS, London Branch	RUB 1,100,000,000.00	R. Sommer S. Cheremin A. Goldin S. Drozdov
Minutes of the Board of Directors No. 02-10 dtd 20.03.2009 Item 6.5		Converting promissory notes of Sky Link into new promissory notes due to expiration of the due date	Sky Link	RUB 1,004,468,740.15	R. Sommer A. Abugov
Minutes of the Board of Directors No. 04-10 dtd 17.04.2010 Item 5.5		Granting a loan to Sistema Telecom for payment of the income tax under the transaction of selling COMSTAR-UTS shares	Sistema Telecom	RUB 700,000,000.00	V. Evtushenkov
Minutes of the Board of Directors No. 04-10 dtd 17.04.2010 Item 5.6		Approval of acquiring the share in the authorized capital of M2M Telematics; provisional Purchase and Sale Agreement on 100% of shares	A. Gurko, I. Grushelevsky, NPO Kosmicheskogo Priborostroeniya	-	A. Gurko
Minutes of the Board of Directors No. 04-10 dtd 17.04.2010 Item 5.6		Purchase and Sale Agreement on the 51% share in M2M Telematics	A. Gurko, I. Grushelevsky, NPO Kosmicheskogo Priborostroeniya	\$20,000,000.00	A. Gurko
Minutes of the Board of Directors No. 04-10 dtd 17.04.2010 Item 5.7		Guarantee on the loan of MSS to Sberbank	Sberbank of Russia	RUB 200,000,000.00	Sistema Finance Investments

Minutes No. of the body that approved the transaction and date	Transaction subject	Transaction counterparties	Amount of the transaction	Persons that are considered as related parties to the transaction
Minutes of the Board of Directors No. 05-10 dtd 22.05.2010 Item 5.4	Amendment of the Surety Agreement with EBRD on liabilities of Detsky Mir - Center	Detsky Mir - Center European Bank of Reconstruction and Development	\$50,000,000.00	V. Evtushenkov F. Evtushenkov R. Sommer L. Melamed S. Cheremin
Minutes of the Board of Directors No. 05-10 dtd 22.05.2010 Item 5.5	Signing the agreement on voluntary health insurance	Insurance Company ROSNO	RUB 11,724,117.00	V. Evtushenkov R. Sommer D. Zubov V. Kopiev L. Melamed S. Cheremin Presentation for the Management Board of Sistema JSFC
Minutes of the Board of Directors No. 05-10 dtd 22.05.2010 Item 5.5	Sistema JSFC Property Insurance Agreement (Policy)	Insurance Company ROSNO	RUB 1,963,255.34	L. Melamed
Minutes of the Board of Directors No. 05-10 dtd 22.05.2010 Item 5.6	Providing guarantees for Ludaberg Investments Limited and Merrill Lynch International	Ludarberg Investments Limited and Merrill Lynch International	RUB 9,377,278,000.00	R. Sommer R. Mehrotra S. Cheremin A. Goldin S. Drozdov
Minutes of the Board of Directors No. 06-10 dtd 26.06.2010 Item 7.3	Providing a short term loan for the RTI-Systems Concern	RTI Systems Concern	RUB 235,000,000.00	S. Boyev
Minutes of the Board of Directors No. 06-10 dtd 26.06.2010 Item 7.4	Changes in the interests of Sistema JSFC in the equity of MBRD	MBRD	RUB 5,149,999,018.29	V. Evtushenkov S. Cheremin A. Buyanov F. Evtushenkov
Minutes of the Board of Directors No. 06-10 dtd 26.06.2010 Item 7.5	Amending the surety on liabilities of Medsi signed with UniCredit Bank; Signing Annex 4 to the Surety Agreement No. 001/1569Z/08 of 30 May 2008	UniCredit Bank	\$11,700,000.00	V. Evtushenkov F. Evtushenkov
Minutes of the Board of Directors No. 06-10 dtd 26.06.2010 Item 7.5	Signing Annex 4 to the Surety Agreement No. 001/1568Z/08 of 30 May 2008	UniCredit Bank	\$18,000,000.00	V. Evtushenkov F. Evtushenkov

Minutes No. of the body that approved the transaction and date	Transaction subject	Transaction counterparties	Amount of the transaction	Persons that are considered as related parties to the transaction
Minutes of the Board of Directors No. 06-10 dtd 26.06.2010 Item 7.7	Granting a loan to the KAPALI OVERSEAS CORP.	KAPALI OVERSEAS CORP.	\$60,000,000.00	V. Evtushenkov
Minutes of the Board of Directors No. 06-10 dtd 26.06.2010 Item 7.9	Divestment of 15% of TS-Retail shares in favor of MTS	MTS	RUB 30	V. Evtushenkov F. Evtushenkov R. Sommer A. Buyanov S. Drozdov
General Meeting of Shareholders Minutes No 3-10 dtd 02.08.2010	Preparation for the transaction on exchanging shares of MGTS for shares of Sky Link; Surety agreement on the liabilities of Sistema Invenchur under the Agreement on exchange of shares of MGTS to shares of Sky Link.	Svyazinvest	RUB 9,750,000,000.00	S. Drozdov Sistema Finance Investments
Minutes of the Board of Directors No. 06-10 dtd 26.06.2010 Item 7.10	Granting a loan to Sistema-Invenchur	Sistema-Invenchur	RUB 1,100,000,000.00	S. Drozdov Sistema Finance Investments
Minutes of the Board of Directors No. 06-10 dtd 26.06.2010 Item 7.10	Selling promissory notes of Sky Link to Astarta	Astarta	RUB 11,095.00	Sistema Finance Investments
Minutes of the Board of Directors No. 06-10 dtd 26.06.2010 Item 7.10	Agreement on the exchange of promissory notes signed between Sistema JSFC and COMSTRAR-UTS	COMSTAR-UTS	RUB 126,839,070.18	A. Goncharuk Sistema Finance Investments
Minutes of the Board of Directors No. 06-10 dtd 26.06.2010 Item 7.10	Acquiring promissory notes of Sky Link from Sistema Telecom	Sistema Telecom	RUB 440,954,022.58	Sistema Finance Investments
Minutes of the Board of Directors No. 06-10 dtd 26.06.2010 Item 7.10	Acquiring promissory notes of Uralvestcom, APEX, Kaliningrad Mobile Systems and Saratov Cellular Communications System from Sistema Telecom	Sistema Telecom	RUB 1,235,373,884.31	Sistema Finance Investments
Minutes of the Board of Directors No. 06-10 dtd 26.06.2010 Item 7.10	Agreement on the novation of Sky Link debt to Sistema JSFC under the loan into Sky Link promissory notes	Sky Link	RUB 523,603,668.00	R. Sommer A. Abugov Sistema Finance Investments

Minutes No. of the body that approved the transaction and date	Transaction subject	Transaction counterparties	Amount of the transaction	Persons that are considered as related parties to the transaction
Minutes of the Board of Directors No. 06-10 dtd 26.06.2010 Item 7.10	Agreement on the novation of Sky Link debt to Sistema JSFC under the loan into Sky Link promissory notes	Sky Link	RUB 494,155,285.00	R. Sommer A. Abugov Sistema Finance Investments
Minutes of the Board of Directors No. 06-10 dtd 26.06.2010 Item 7.10	Selling promissory notes of Sky Link to Sky Link	Sky Link	RUB 26,510.00	R. Sommer A. Abugov Sistema Finance Investments
Minutes of the Board of Directors No. 06-10 dtd 26.06.2010 Item 7.10	Selling promissory notes of Sky Link to Delta Telecom	Delta Telecom	RUB 11,020.00	Sistema Finance Investments
Minutes of the Board of Directors No. 07-10 dtd 26.07.2010 Item 1	Surety agreement for Sistema Shyam TeleServices Limited	Sistema Shyam TeleServices Ltd.	Equivalent of \$282,000,000.00	R. Sommer R. Mehrotra S. Cheremin A. Goldin S. Drozdov
Minutes of the Board of Directors No. 08-10 dtd 10.09.2010 Item 1	Agreement on the exchange of promissory notes of SSS for promissory notes of Sky Link	Sky Link (as part of the transaction with Svyazinvest to exchange the shares of Sky Link and MGTS)	RUB 269,718,448.00	R. Sommer A. Abugov Sistema Finance Investments
Minutes of the Board of Directors No. 08-10 dtd 10.09.2010 Item 1	Exchange of promissory notes of Sky Link for promissory notes of Sky Link	Sky Link (as part of the transaction with Svyazinvest to exchange the shares of Sky Link and MGTS)	RUB 18,440,662,572.10	R. Sommer A. Abugov Sistema Finance Investments
Minutes of the Board of Directors No. 09-10 dtd 18.09.2010 Item 5.5	Sale of Sistema JSFC stake in the authorized capital of Bashneft Plus	Bashneft	RUB 10,000.00	A. Goncharuk L. Melamed A. Abugov R. Almakayev A. Buyanov A. Goldin S. Drozdov A. Korsik
Minutes of the Board of Directors No. 09-10 dtd 18.09.2010 Item 5.8	Shareholding of Sistema JSFC in Navigation and Information Systems	RTI Systems Concern	RUB 242,000,000.00	S. Boyev
Minutes of the Board of Directors No. 09-10 dtd 18.09.2010 Item 5.8	Shareholding of Sistema JSFC in Navigation and Information Systems	SITRONICS	RUB 242,000,000.00	S. Boyev S. Cheremin

Minutes No. of the body that approved the transaction and date	Transaction subject	Transaction counterparties	Amount of the transaction	Persons that are considered as related parties to the transaction
Minutes of the Board of Directors No. 09-10 dtd 18.09.2010 Item 5.9	Concluding the agreement on guaranteeing the liabilities of Kapali Overseas Corp.	Unicredit Global Leasing Export GmbH, Kapali Overseas Corp.	\$29,150,000.00	Sistema JSFC
Minutes of the Board of Directors No. 09-10 dtd 18.09.2010 Item 5.10	Concluding the agreement on opening a letter of credit and covering the letter of credit (deposit) for securing the loan liabilities of Sistema Shyam TeleServices Limited	ING Bank N.V., Sistema Shyam TeleServices Limited	RUB 5,302,535,000.00 (security (cover) of the letter of credit)	R. Sommer R. Mehrotra S. Cheremin A. Goldin S. Drozdov
Minutes of the Board of Directors No. 09-10 dtd 18.09.2010 Item 5.11	Agreement on opening a letter of credit with guarantees of Sistema for securing the loan liabilities	ING Bank N.V., ING Bank Vysya Limited, Sistema Shyam TeleServices Limited	Equivalent of \$149,000,000.00	R. Sommer R. Mehrotra S. Cheremin A. Goldin S. Drozdov
Minutes of the Board of Directors No. 09-10 dtd 18.09.2010 Item 5.12	Surety agreement on liabilities of Sistema Shyam TeleServices Limited	State Bank of India, Sistema Shyam TeleServices Limited	Equivalent of \$279,000,000.00	R. Sommer R. Mehrotra S. Cheremin A. Goldin S. Drozdov
Minutes of the Board of Directors No. 10-10 dtd 29.09.2010 Item 1	Agreement on the exchange of promissory notes of Kaliningrad Mobile Systems	Kaliningrad Mobile Systems (as part of the transaction with Svyazinvest to exchange the shares of Sky Link and MGTS)	RUB 374,869,865.36	Sistema Finance Investments
Minutes of the Board of Directors No. 10-10 dtd 29.09.2010 Item 2	Agreement on the exchange of promissory notes of Uralvestcom	Uralvestcom (as part of the transaction with Svyazinvest to exchange the shares of Sky Link and MGTS)	RUB 1,127,616,179.08	Sistema Finance Investments
Minutes of the Board of Directors No. 11-10 dtd 22.10.2010 Item 5.2	Agreement between Sberbank of Russia and Sistema Finance S.A. Agreement on an option and transfer of shares of Detsky Mir - Center	Sberbank of Russia Sistema Finance S.A. Detsky Mir - Center	Within the Option Agreement, Investment Agreement and the Guarantee Act, basic price of the transaction does not exceed RUB 3,400,000,000.00	Sistema Finance Investments
Minutes of the Board of Directors No. 11-10 dtd 22.10.2010 Item 5.3	Granting a loan to Hurdsfield Corporation	Hurdsfield Corporation	RUB 530,000,000.00	Sistema Finance Investments

Minutes No. of the body that approved the transaction and date	Transaction subject	Transaction counterparties	Amount of the transaction	Persons that are considered as related parties to the transaction
Minutes of the Board of Directors No. 12-10 dtd 10.11.2010 Item 1	Additional Agreement No.9 to the Securities (Shares) Pledge Agreement No.3559/1 dtd 15.12.2005 between Sberbank of Russia and Sistema JSFC	Sberbank of Russia Milanfo Mlada IK Nadezhnost Shaddock Trading Ltd. (Cyprus)	RUB 2,947,069,995.00	L. Melamed S. Drozdov A. Abugov
General Meeting of Shareholders Minutes No 4-10 dtd 21.12.2010	Termination of shareholding in the authorized capital of Sistema Telecom by divesting the 99.99% stake	Sistema-Invenchur Tovarniye Znaki Mobile TeleSystems Bermuda Limited	Equivalent of \$379,073,601.57	Sistema Finance Investments
Minutes of the Board of Directors No. 14-10 dtd 24.11.2010 Item 1	Providing guarantees to Thomas Cook Group on liabilities of Intourist and other entities	Intourist	\$8,000,000.00	V. Evtushenkov A. Buyanov F. Evtushenkov
Minutes of the Board of Directors No. 15-10 dtd 07.12.2010 Item 1	Surety agreement on the liabilities of Sistema Shyam TeleServices Limited to ICICI Bank Limited	ICICI Bank Limited	Equivalent of 187,638,458.00	R. Sommer R. Mehrotra S. Cheremin A. Goldin S. Drozdov
Minutes of the Board of Directors No. 16-10 dtd 18.12.2010 Item 5.8.2	Signing by Sistema JSFC of an Individual Agreement (policy) for insurance of the liability of Directors, Officials and the Corporation	ROSNO	\$210,000.00	
Minutes of the Board of Directors No. 16-10 dtd 18.12.2010 Item 5.8.3	Signing by Sistema JSFC together with Sitronics of a Collective Agreement (policy) for insurance of the liability of Directors, Officials and the Corporation for 2011.	ROSNO SITRONICS	\$230,000.00	
Minutes of the Board of Directors No. 16-10 dtd 18.12.2010 Item 5.9	The transaction to indemnify the member of the Management Board of Sistema JSFC for possible legal and other expenses or losses associated with potential actions or claims brought against him for acts committed in his official capacity.	Ecu Gest Holding S.A. Roger Munnings	Equivalent of \$26,000,000.00	R. Munnings
General Meeting of Shareholders Minutes No 1-10 dtd 08.02.2010	Investment Agreement, Agreement on Joining the Investment Agreement and Amending the Investment Agreement dtd 19 December 2009 Regulating the procedure and conditions of implementing the project of establishing commercial production of 90 nm extra large-scale integrated	State Corporation Russian Corporation of Nanotechnology SITRONICS Research Institute of Molecular Electronics and Micron Factory Amex	up to RUB 12,966,483,515.00	Abugov, A. S. Boyev A. Buyanov

Minutes of the approved transaction and date	No. of the body that approved the transaction and date	Transaction subject	Transaction counterparties	Amount of the transaction	Persons that are considered as related parties to the transaction
		circuits on the basis of a new engineering company in the format of a limited liability company (SITRONICS-Nano LLC)	SITRONICS-Nano		

9.7. INFORMATION ABOUT THE COMPANY'S COMPLIANCE WITH REQUIREMENTS OF THE CODE OF CORPORATE CONDUCT OF THE FEDERAL SERVICE FOR FINANCIAL MARKETS

<i>Provisions of the Corporate Conduct Code</i>	<i>Observed / not observed</i>	<i>Comment</i>
General Meeting of Shareholders		
1 Notice of the forthcoming General Meeting of Shareholders should be made not later than 30 days before the day of the Meeting unless a longer term is provided for by legislation.	Observed	This norm has been introduced to the Company's Charter.
2 Procedure of announcement of convening the General Meeting of Shareholders should provide shareholders with a possibility to properly prepare for participation in the meeting.	Observed	Notice of the meeting is sent to shareholders by mail and is published on the Company's website.
3 Shareholders can familiarize themselves with the list of persons who have the right to attend the General Meeting of Shareholders starting from the date of announcement of holding the General Meeting of Shareholders and till the closure of the General Meeting of Shareholders, and in case of holding the meeting in the form of a letter ballot – to the deadline for acceptance of ballot papers.	Observed	Shareholders have the right to familiarize themselves with the list of persons who have the right to attend the General Meeting of Shareholders, addressing their request to the Company's Corporate Secretary. Such possibility is provided for by the Terms of Reference of the General Meeting of Shareholders
4 Shareholders can familiarize themselves with the information (materials) which is subject to presentation when preparing for the General Meeting of Shareholders, through electronic means of communication	Observed	The Company publishes such information on the Company's website on the Internet
5 Shareholders can introduce an agenda item to the General Meeting of Shareholders or demand convocation of the General Meeting of Shareholders without presenting an extract from the Register of Shareholders if his/her rights and shares are accounted in the system of keeping the Register of Shareholders, and in the event when his/her rights to shares are registered in the depo account, it is enough to provide an extract from the depo account to exercise the above rights	Observed	There is no requirement that shareholders should prove their right with specific documents, with the exception of the extract from the depo account. Provided for by the Terms of Reference of the General Meeting of Sistema JSFC Shareholders (approved by the General Meeting of Sistema JSFC Shareholders, Minutes of Meeting No. 2-10 of 30.06.2010).
6 The Joint-Stock Company's internal documents describe the procedures of registering participants of the General Meeting of Shareholders	Observed	Regulated by the Terms of Reference of the General Meeting of Shareholders
Work of the Board of Directors		
1 The Joint-Stock Company's Charter defines the authority of the Board of Directors regarding annual approval of the Joint-Stock Company's financial and business plan.	Observed	In accordance with the Company's Charter, the competence of the Board of Directors includes: "determining the priority directions of the Company's activities, determining the strategy of the Company's development, approving the Company's annual budgets (financial plans), considering the main directions of subsidiaries' activities and the development strategy"

2	The procedure for risk management is approved by the Board of Directors in the Joint-Stock Company.	Observed	Appendix 3 to the Minutes of the Meeting of the Board of Directors No. 03-09 of 22.04.2009. Decision of the Board of Directors dtd 5 March 2011, Minutes No.03-11.
3	The Board of Directors has the right to determine the requirements of qualification and remuneration for the Director General and heads of the Joint-Stock Company's main structural units.	Observed	The competence of the Board of Directors includes: appointment of the President of the Company; determining the quantitative composition of the Management Board, election of its members; approving the terms of agreement with the President and with members of the Company's Management Board; early termination of the authority of the President of the Company and members of the Company's Management Board, approval of the principles for assessing the work and the system of rewards as well as carrying out the control over activities of the Company's top officials who are directly reporting to the Company's President.
4	The Joint-Stock Company's Charter defines the right of the Board of Directors to approve the terms of agreements with the Director General and members of the Management Board.	Observed	In accordance with the Company's Charter, the terms of agreements with the President and members of the Company's Management Board shall be approved by the Board of Directors
5	The Joint-Stock Company's Board of Directors consists of not less than three Independent Directors who meet requirements of the Code of Corporate Conduct.	Observed	As of the end of 2009, the Board of Directors includes four members of the Board of Directors who meet criteria of the Code of Corporate Conduct for Independent Directors
6	No members of the Joint-Stock Company's Board of Directors have criminal record for economic crimes or crimes against the state, interests of public services and local governments or on whom administrative penalties were imposed for offenses in the area of entrepreneurial activity or finances, taxes and receipts or equity market.	Observed	The Company has reviewed this issue and does not dispose of information about such offenses committed by members of its Board of Directors
7	In the Board of Directors there are no individuals who are shareholders, general directors (heads), members of governing bodies or employees of legal entities which compete with the Company	Observed	In accordance with the information available for Sistema JSFC, in the composition of the Board of Directors of Sistema JSFC there are no individuals who are shareholders, general directors (heads), members of the governing body or employees of legal entities which compete with Sistema JSFC.
8	The Joint-Stock Company's internal documents include a requirement on holding the Board of Directors meetings not less than once in six weeks	Observed	The Terms of Reference of the Board of Directors determines that its meetings, as a rule, shall be held not less often than once a month. There were 16 meetings of the Board of Directors held in 2010.
9	Meetings of the Joint-Stock Company's Board of Directors during the year of the Annual Report should be held not less often than once in six weeks	Observed	In 2010 16 meetings of the Board of Directors were held
10	The Joint-Stock Company's internal documents describe the procedure for holding meetings of the Board of Directors	Observed	The procedure to hold meetings of the Board of Directors is determined by the Working Procedures of the Sistema JSFC Board of Directors

11	The Joint-Stock Company's internal documents stipulate the right of members of the Board of Directors to receive all necessary information for implementation of their functions from executive bodies and heads of the Joint-Stock Company's main structural units	Observed	Right of members of the Board of Directors to receive any information on the activity of Sistema JSFC is stipulated by the Terms of Reference of the Board of Directors
12	A committee of the Board of Directors for strategic planning should be in place	Observed	The Company has established the Strategy Committee of the Board of Directors
13	A committee of the Board of Directors that recommends the auditor to the Board of Directors and interacts with the latter and with the Joint-Stock Company's Revision Commission should be in place	Observed	The Company has established the Audit Committee of the Board of Directors
14	Establishment of a committee of the Board of Directors whose function is to determine the criteria for the Board of Directors and to develop the Joint-Stock Company's remuneration policy	Observed	The Company has established the Nomination and Remuneration Committee of the Board of Directors. The Committee's functions are determined in the Terms of Reference of the Nomination and Remuneration Committee
15	The Nomination and Remuneration Committee is chaired by an Independent Director	Not observed	The Committee is chaired by the non-executive director S. Cheremin.
16	Availability of the internal documents approved by the Board of Directors that stipulate the procedure of setting up and work of committees of the Board of Directors	Observed	The Company has approved the Terms of Reference of Committees of the Board of Directors, which determine the Committees' competence and procedure for their establishment and activities
17	The Joint-Stock Company's Charter describes the procedure for determining the quorum of the Board of Directors that makes it possible to ensure the mandatory participation of Independent Directors in meetings of the Board of Directors	Not observed	The quorum of the Board of Directors is determined according to the number of members of the Board of Directors attending the meeting regardless of their status of an independent, non-executive or executive director
18	The issuer's internal documents should provide for obligations of the members of the Board of Directors, the members of the collective executive governing body, the individual who carries out the functions of the sole executive body, including the governing organization and its officials, to disclose information on the possession of the issuer's securities as well as the sale and (or) purchase of the issuer's securities	Observed	This requirement is included into the Corporate Conduct Code of Sistema JSFC, Terms of Reference of the Sistema JSFC Board of Directors and Sistema JSFC Management Board.

Executive bodies

1	The Joint-Stock Company's collective executive body (Management Board) should be in place	Observed	The Company has formed a collective executive body – the Company's Management Board (provided for by the Charter)
2	The Joint-Stock Company's internal documents describe procedures for the approval of transactions which are beyond the Joint-Stock Company's financial and business plan	Observed	Procedures for the approval of transactions that are not included in the budget are set out in the Corporation's budget policy, regulation on contracts approval and regulation on mergers and acquisitions. All such transactions are preliminary reviewed by the Finance and Investment Committee. When necessary, resolution of the Board of Directors introduces amendments to the Budget

3	Executive bodies do not include individuals who are shareholders, general directors (heads), members of governing bodies or employees of legal entities which competes with the Joint-Stock Company	Observed	In accordance with the information available for Sistema JSFC, in the composition of the executive bodies of Sistema JSFC there are no individuals who are shareholders, general directors (heads), members of governing bodies or employees of legal entities which compete with the Joint-Stock Company .
4	The Joint-Stock Company's executive bodies shall not include individuals with a criminal record for economic crimes or crimes against the state, interests of public services and local governments or on whom administrative penalties were imposed for offenses in the area of entrepreneurial activity or finances, taxes and receipts or equity market	Observed	In accordance with the information available for Sistema JSFC, in the composition of the executive bodies of Sistema JSFC there are no individuals with such criminal records .
5	The Joint-Stock Company's Charter or internal documents prohibit the management organization (for the manager) from performing similar functions in a competing company as well as to be in any other property relations with the Joint-Stock Company apart from the provision of services of the management organization (manager)	Observed	Provided for by the Charter of Sistema JSFC
6	The Joint-Stock Company's internal documents define the obligations of the executive bodies to refrain from actions which lead or may lead to a conflict between their interests and interests of the Joint-Stock Company, and in case of emergence of such conflict the executive bodies have an obligation to inform the Board of Directors of that fact.	Observed	Such requirements are contained in the Terms of Reference of the Board of Directors, Terms of Reference of the Management Board, Terms of Reference of the President and in the agreement with the President and members of the Company's Management Board
7	The Joint-Stock Company's Charter or internal documents include criteria for the selection of the management organization (manager)	Not observed	It is not necessary because there is no management organization and no plans to engage the same to perform functions of the Company's sole executive body
8	Presentation by the Joint-Stock Company's executive bodies of monthly reports on their work to the Board of Directors	Observed	The Board of Directors quarterly considers the financial results of the Company's activity. The Company's management weekly compiles a report on the most important events and submits it to Board members
9	Determining in the agreements concluded by the Joint-Stock Company with the Director General (management organization, manager) a liability for failure to comply with regulations of the use of confidential and insider information	Observed	There is a requirement regarding the observation of confidential information in the Agreements with the President and members of the Company's Management Board

Company Secretary

1. Availability in the Joint-Stock Company of a special official (secretary of the Company) whose duty is to ensure compliance of the Joint-Stock Company's bodies and officials with procedural requirements, which guarantee implementation of rights and legal interests of the Company's shareholders	Observed	The Company has appointed a Corporate Secretary
2. Availability in the Joint-Stock Company's Charter or internal documents of a procedure to appoint (elect) the secretary of the Company and availability of the Company secretary's responsibilities	Observed	The Board of Directors has approved the Terms of Reference of the Corporate Secretary which stipulates responsibilities of the Corporate Secretary and procedure of his/her appointment
3. Availability in the Joint-Stock Company's Charter of requirements to the candidate for the position of the Company's secretary	Partially observed	These requirements are included in the Terms of Reference of the Corporate Secretary.

Material transactions

1. The Joint-Stock Company's Charter or internal documents include a requirement to approve large transactions prior to conducting them	Partially observed	Regardless of absence of this norm in the Charter, this requirement is always observed in practice
2. Mandatory engagement of an independent appraiser to assess the market value of the property which is a subject of a large transaction	Observed	In the specified cases, the Board of Directors of Sistema JSFC shall involve an independent appraiser.
3. Availability in the Joint-Stock Company's Charter of a prohibition to undertake any actions during the acquisition of large holdings of the Joint-Stock Company's shares (takeover) which are directed at the protection of rights of the executive bodies (members of such bodies) and members of the Board of Directors of the Joint-Stock Company and also aggravate the shareholders' position compared with the current one (in particular, of a prohibition for the Board of Directors to adopt a resolution before completion of the assumed time of shares acquisition to issue additional shares, securities, convertible shares or securities which give the right to acquire the Company's shares, even if the right to adopt such resolution is given to the Board of Directors by the Charter)	Not observed	Such actions are hardly probable because the Company has a controlling shareholder
4. Availability in the Joint-Stock Company's Charter or internal documents of a requirement of the mandatory engagement of an independent appraiser to determine the ratio of shares conversion during reorganization	Not observed	In the specified cases, the Board of Directors of Sistema JSFC shall involve an independent appraiser.

Disclosure of information

1. Availability of an internal document, which is approved by the Board of Directors and which determines the Joint-Stock Company's regulations for and approaches to disclosure of information (Regulation for the Information Policy)	Observed	The Board of Directors has approval of the Regulation for the Information Policy
2. Availability in the Joint-Stock Company's internal documents of a list of information, documents and materials, which should be provided to the shareholders for reviewing the agenda items presented to the General Meeting of Shareholders	Observed	The list of additionally provided information is contained in the Code of Corporate Conduct, the Regulation on the Information Policy and the Terms of Reference of the General Meeting of shareholders of Sistema JSFC.
3. Disclosure of financial information concerning the Joint-Stock Company's activities	Observed	RAS financial statements are disclosed annually. GAAP financial statements are disclosed every quarter.

4	The use of additional forms and methods of information disclosure	Observed	The Company has established the IR Department. It regularly holds meetings with investors and organizes road shows. The Department maintains the corporate website in the Internet with extensive information about the Company's activities
5	The issuer should disclose information concerning the remuneration received by members of the Board of Directors, members of the collective executive body and by the person who performs functions of the sole executive body, including the management organization and the manager.	Observed	The said information is disclosed within the Issuer's Annual Report, Quarterly Report and Prospectus of Issuance of the Company's Securities. The Company has adopted and published the Policy on Remuneration and Compensations paid to Members of the Company's Board of Directors.
6	The Joint-Stock Company's has a website on the Internet and regularly discloses there information on its activity there.	Observed	The Internet address: www.sistema.ru / www.sistema.com
7	The Joint-Stock Company's internal documents include the requirement for the disclosure of information on the Joint-Stock Company's transactions with individuals who in accordance with the Charter are considered Joint-Stock Company's top officials as well as concerning the Joint-Stock Company's transactions with organizations where the Joint-Stock Company's top officials directly or indirectly own 20 and more percent of the Joint-Stock Company's authorized capital or on which such persons may otherwise exert substantial influence	Partially observed	Observed according to the legal requirements to related party transactions.
8	The Joint-Stock Company's internal documents including the requirement for disclosure of information on all transactions which may influence the market value of the Joint-Stock Company's shares	Observed	Observed within the requirement of the Resolution of the Federal Service for Financial Markets of the Russian Federation on disclosure of information. There is a corresponding Section in the Regulation for the Information Policy of Sistema JSFC.
9	There is an internal document in place which is approved by the Board of Directors that regulates the use of material information on the Joint-Stock Company's activities, shares and other securities of the Company and transactions with them when such information is not commonly available and disclosure of which may substantially influence the market value of the Joint-Stock Company's shares and other securities	Observed	There is a corresponding Section in the Regulation for the Information Policy of Sistema JSFC
Control of financial and business activities			
1	Procedures approved by the Board of Directors for internal control of the Joint-Stock Company's financial and business activities are in place	Observed	The Company has approved the Terms of Reference of the Internal Control and Audit Function
2	There is a special division of the Joint-Stock Company which ensures compliance with procedures of internal control (control and audit service)	Observed	The Company has established the Internal Control and Audit Function

3	The Joint-Stock Company's internal documents include a requirement for the Board of Directors to determine the structure and composition of the Joint-Stock Company's control and audit service	Observed	In accordance with the Company's Charter and Terms of Reference of the Internal Control and Audit Function, the Head of the Internal Control and Audit Department is to be approved by the Company's Board of Directors
4	The Joint-Stock Company's control and revision services do not include individuals with a criminal record for economic crimes or crimes against the state, interests of the state and local governments or on whom administrative penalties were imposed for offenses in the area of entrepreneurial activity or finances, taxes and receipts or equity market	Observed	The Company reviewed this issue and does not dispose of information about such offenses committed by employees of its control and audit services
5	Control and revision services do not include individuals who are shareholders, general directors (heads), members of governing bodies or employees of legal entities that compete with the Joint-Stock Company	Observed	There are no such individuals in the composition of the Audit Committee of Sistema JSFC who have a criminal record.
6	The Joint-Stock Company's internal documents stipulate the deadline for presentation to the control and audit service of documents and materials for assessing the financial and business transactions, as well as a liability of the Joint-Stock Company's officials and employees for their failure to present the same by the deadline	Observed	The Internal Control and Audit Functional Division has constant access to the current information about the financial and business transactions and has the right to independently determine the deadline for presentation of such information.
7	The Joint-Stock Company's internal documents include an obligation of the control and audit service to inform the Audit Committee, and if the latter is not available – the Joint-Stock Company's Board of Directors, about revealed irregularities	Observed	In accordance with the Terms of Reference of the Audit Committee and Terms of Reference of the Internal Control and Audit Functional Division, the Department files reports to the Audit Committee on the audit results
8	The control and audit service is to carry out the preliminary assessment of the reasonability to perform transactions which are not included in the Joint-Stock Company's financial and business plans	Observed	The control and audit service examines all transactions of the Company before they are made
9	An internal document is in place which is approved by the Board of Directors and determines a procedure for the audit commission to carry out audits of the Joint-Stock Company's financial and business activities	Observed	The Company has approved the Regulation concerning the Procedures of Internal Control for Sistema JSFC Financial and Business Activities
10	Assessment by the Audit Committee of the audit opinion prior to its presentation to the shareholders at the General Meeting	Observed	In accordance with the Terms of Reference of the Audit Committee, on 15 April 2011 the Audit Committee has assessed the audit opinion on results of 2009
Dividends			
1	Availability of the internal document approved by the Board of Directors by which the Board of Directors is guided in making recommendations on the amount of dividends (the Regulation for the Dividend Policy)	Observed	The Company has approved the Regulation for the Dividend Policy

2 Publishing the information concerning the Joint-Stock Company's dividend policy and amendments to it on the Joint-Stock Company's website on the Internet and in a periodical. Such periodical is provided for by the Joint-Stock Company's Charter for publishing notices of holding General Meetings of Shareholders	Observed	The Regulation for the Dividend Policy is published on the Company's website in the Internet
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9.8. INFORMATION ON THE COMPANY'S COMPLIANCE WITH THE REQUIREMENTS OF THE UK COMBINED CORPORATE GOVERNANCE CODE

<i>Provisions of the Code</i>	<i>Observed / not observed</i>	<i>Comment</i>
A. DIRECTORS		
A.1 Board of Directors		
A.1.1. The work of the Board of Directors should be organized efficiently. The board should meet sufficiently regularly to discharge its duties effectively.	Observed	The Board of Directors meets at least eight times a year, and this allows to review and make decisions on issues reserved for the final decision of the Sistema JSFC Board of Directors (hereinafter – the "Company").
There should be a formal schedule of matters specifically reserved for the decision of the Board of Directors.	Observed	The scope of the Board of Directors is set out in the Charter of Sistema JSFC (p.32).
The annual report should include a statement of how the board operates, including a statement of which types of decisions and on which issues were taken by the board and the board of directors.	Observed	The 2010 Annual Report of the Company includes a statement on how the Board operates, including the report on key issues, issues on which decisions were taken by the Board of Directors and the Management Board (pp. 6.2, 6.4).
A.1.2 The annual report should identify the chairman, the deputy chairman, the chief executive, the senior independent director and the chairmen and members of the board committees.	Observed	The 2010 Annual Report of the Company includes information on the election of V. Evtushenkov, the Chairman of the Board of Directors of the Company and concerning the election of Deputy Chairmen of the Board of Directors (p. 6.2) The 2010 Annual Report of the Company also includes information on the President of the Company, Chairmen and members of all Board Committees, including the Nomination and Remuneration Committee and the Audit Committee. (p. 6.2.) Company's statutory documents does not provide for the position of a senior independent director.
The annual report should set out the number of meetings of the board and its committees and individual attendance by directors.	Observed	The 2010 Annual Report of the Company includes information on the number of meetings of the Board of Directors and Board Committees, as well as their attendance by members. (p. 6.2.)
A.1.3. The chairman should hold meetings with the non-executive directors without the executives present.	Partially observed	Formal meetings of the Board of Directors without the executives present are not held, but there are regular informal meetings of the Chairman of the Company's Board of Directors with independent directors.
Led by the senior independent director, the non-executive directors should meet without the chairman present at least once a year to appraise the chairman's performance and on such other occasions as are deemed appropriate.	Partially observed	Company's statutory documents does not provide for the position of a senior independent director. Prior to every meeting of the Board of Directors independent members of the Board hold an informal meeting in the form of a business dinner, which is also attended by the management of the corporation, for discussing urgent questions of governing the Company and organizing the work of the Board of Directors.
A.1.4. Where directors have special opinions about decisions taken by the board, they should ensure that their opinions are recorded in the minutes of the meeting.	Observed	The whole course of the meeting of the Board of Directors is recorded in writing in the form of statements from participants and is subsequently analyzed to ensure that all elements of decisions that were made are reflected in the Minutes.

		<p>According to the Working Procedures of the Board of Directors of the Company (approved by the Board 27.10.2007), directors have an opportunity to express their special opinion within 24 hours after the meeting.</p> <p>All Board members are provided with a copy of minutes of every Board meeting.</p>
<p>If Board members have comments or specific proposals regarding efficiency of running the company, they should send a letter with such comments and proposals to the Chairman of the Board of Directors. Other Board members should have access to the information contained in such letter.</p>	Observed	<p>Members of the Company's Board of Directors regularly send to the Board Chairman letters with their comments and proposals on different aspects of running the company and organization of the work of the Company's Board of Directors.</p>
<p>A.1.5. The company should arrange appropriate insurance cover in respect of legal action against its directors.</p>	Observed	<p>According to p. 2.4.5. of the Terms of Reference of the Board of Directors, the Company insures liability of the Board members that may be incurred to him/them as a result of legal actions or claims from third parties or shareholders of the Company in relation to business decisions or other actions, taken in connection with the performance of his/their functions as a member of the Board of Director of the Company or its affiliates (D&O Policy).</p> <p>Besides there are indemnification agreements made with members of the Board of Directors.</p>
<p>A.2. Chairman of the Board of Directors and President</p>		
<p>A.2.1 The roles of chairman and chief executive should not be exercised by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in internal documents of the Company.</p>	Observed	<p>According to the legislation of the Russian Federation and the Company's Charter, the person carrying out the functions of the Company's sole executive body cannot at the same time serve as the Chairman of the Board of Directors. The division of responsibilities between the Board Chairman, Board members and the President are clearly set out in the Charter of the Company.</p>
<p>A.2.2 The chairman should on appointment meet the independence criteria. A chief executive should not be chairman of the same company. If exceptionally a board decides that a chief executive should become chairman, the board should consult major shareholders in advance and should set out sufficient reasons to shareholders and include this information in the next annual report.</p>	Partially observed	<p>According to the legislation of the Russian Federation and the Company's Charter, the person carrying out functions of the Company's sole executive body cannot at the same time serve as a Chairman of the Board of Directors.</p> <p>Chairman of the Board of Directors of the Company is a non-executive member of the Board, but does not meet the independence criteria. At the same time he does not holds positions in executive governance bodies of the Company.</p>
<p>A.3 Board balance. Independence of directors.</p>		
<p>A.3.1 The board should identify in its annual report each non-executive director the board considers to be independent.</p>	Observed	<p>Information on every non-executive director that meets the independence criteria is included in the 2010 Annual Report (p.6.2.)</p> <p>There are three directors among members of the Board of Directors that meet independence criteria: R. Kocharyan, R. Munnings, E. Novitsky</p>
<p>The board should determine regarding all the</p>	Observed	<p>According to p. 2.5.6. of the Terms of Reference</p>

directors whether the director is independent.		of the Board of Directors on the first meeting of the Board after the General Meeting of shareholders, during which the members were selected, the Board identifies the status of every director (independent, non-executive, executive). Status of every member of the Board of Directors was defined by the Board of Directors decision (Minutes of 26.06.2010).
A.3.2 In large companies (according to FTSE 350 list) at least half the board, excluding the chairman, should comprise of non-executive directors determined by the board as independent.	Partially observed	More than half of the Board members are non-executive directors. three members of the Board of Directors out of 11 meet the independence criteria, and this is proportional to the number of the publicly traded GDRs of the Company.
A.3.3. The board should appoint one of the independent non-executive directors to be the senior independent director. The senior independent director should be available to the shareholders if they have concerns which contact through the normal channels of chairman, chief executive or finance director has failed to resolve.	Partially observed	Statutory documents of the Company do not provide for the position of a senior independent director, but the information about independent directors is available on the Company's website. Shareholders may contact any of them if they have relevant questions.
A.4 Appointments to the Board		
A.4.1 There should be a nomination committee which should lead the process for the board appointments and make recommendations to the board.	Partially observed	The Nomination and Remuneration Committee was successfully created and is active. The Terms of Reference of the Nomination and Remuneration Committee defines the sphere of competence of the Committee. One of the key functions of the Committee is a provisional review of candidates presented to the Board of Directors for appointment to top positions in the Company. But the Committee does not review appointments to the Board, as it is in the sphere of competence of shareholders.
A majority of members of the nomination committee should be independent non-executive directors.	Not observed	A majority of the Nomination and Remuneration Committee are non-executive directors, but only one member of the Committee is an independent director – R. Kocharyan.
The chairman or an independent non-executive director should chair the committee, but the chairman should not chair the nomination committee when it is dealing with the appointment of a successor to the chairmanship.	Not applicable	S. Cheremin, non-executive member of the Board, chairs the Nomination and Remuneration Committee. The Nomination and Remuneration Committee is not responsible for appointments to the Board of Directors. This is in the sphere of competence of the shareholders.
The nomination committee should make available its terms of reference, explaining its role and the authority delegated to it by the board. (The requirement to make the information available should be met by satisfying requests of any interested person and by including the information on a website of the company).	Observed	The Terms of Reference of the Nomination and Remuneration Committee is posted on the Company's website (www.sistema.ru / www.sistema.com) and is available on demand from the shareholders.
A.4.2. The nomination committee should evaluate the balance of skills, knowledge and experience on the board and, in the light of this	Partially observed	Candidates for members of the Board of Directors are proposed by the Company's shareholders according to pp. 23 and 28 of the

evaluation, prepare a description of the role and capabilities required for a particular appointment.		<p>Charter.</p> <p>Capabilities required from the Company's Board members are set out in the Terms of Reference of the Company's Board of Directors. A candidate should have substantial professional experience, should not be previously convicted of economic crimes, should not have been under a ban from taking any managerial positions. The candidate should not be a member of governance and control bodies of the companies that are competitors of the Company or be an affiliated person of such companies.</p> <p>The Nomination and Remuneration Committee does not develop formal requirements for candidates to the Board of Directors, as a candidate proposed to the Board Membership by shareholders must be included in the voting list according the legislation of the Russian Federation.</p>
A.4.3 For the appointment of a chairman, the nomination committee should prepare a job specification, including an assessment of the time commitment expected.	Observed	<p>Type of work and tasks of the Board Chairman are set out in the Terms of Reference of the Board of Directors.</p> <p>Chairman of the Board of Directors is selected by the decision of all member of the Board at the first meeting after the Annual General Meeting of shareholders.</p>
<p>A chairman's other significant commitments should be disclosed to the board before appointment and included in the annual report. Changes to such commitments should be reported to the board as they arise, and their impact explained in the next annual report.</p> <p>A full time executive director should not take on more than one chairmanship in a FTSE 100 company.</p>	Observed	<p>Information on all positions held by the Chairman of the Company's Board of Directors is disclosed and included into the 2010 Annual Report (p. 9.1). Chairman of the Company's Board of Directors V. Evtushenkov does not hold a position of a chairman of any other significant companies except Sistema JSFC.</p>
A.4.4. The terms and conditions of appointment of non-executive directors should be made available for inspection to any interested parties at the company's office and during the General Meeting of shareholders.	Observed	<p>Terms and conditions of the appointment of non-executive directors of the Board of Directors is available on the Company's website (www.sistema.ru / www.sistema.com), at the Company's office and during the General Meeting of shareholders to its participants.</p> <p>According to the Russian legislation all Board members are elected for one year and are eligible for re-election unlimited number of times.</p>
The letter of appointment should set out the expected time commitment. Elected Board members should undertake that they will have sufficient time to meet what is expected of them.	Partially observed	<p>Before the candidates are proposed for appointment they familiarize themselves with the working plan of the Board of Directors for the upcoming year, rights and obligations of the Board members and provisional membership in the Board committees.</p> <p>During the induction, a Corporate Secretary explains to every new member of the Board its procedures and preliminary time commitments for their fulfillment. Before the election all candidates sign a document confirming their agreement with the proposal that includes, among other issues, an agreement to follow all norms of internal documents of the Company applicable to</p>

		<p>the Board members.</p> <p>Attendance of meetings and involvement of the Board members in discussion of agenda items during meetings is recorded and analyzed by the secretariat of the Board of Directors and is subsequently included into the Company's report on the quality of corporate governance.</p>
<p>Their other significant commitments should be disclosed to the board and included in the annual report. Changes to such commitments should be reported to the board as they arise.</p>	Observed	<p>Biographies of the candidates to the Company's Board, including information on positions held in other organizations, are presented at the Annual General Meeting of shareholders, and information on acting Board members is included in the Annual Report.</p> <p>All candidates to the Board of Directors fill in the questionnaire for candidates for providing the Company with the necessary information.</p> <p>The obligation to disclose any changes to the information provided by members of the Board of Directors is set out in the Terms of Reference of the Company's Board of Directors (p. 2.3).</p>
<p>A.4.5 An executive director should not take on more than one directorship in a FTSE 100 company.</p>	Observed	<p>There are 11 members of the Board of Directors, two out which are executive directors (R. Sommer, L. Melamed).</p> <p>L. Melamed is the President of the Company, Board member of Bashneft and Chairman of the Board of Russneft.</p> <p>R. Sommer is the First Vice President of the Company, member of the Company's Board, Chairman of the Board at MTS, SMM and SSTL (companies of the Group), Board member of TATA Consultancy Ltd. and member of the Supervisory Board of Munich Reinsurance.</p> <p>Membership in the Board of the companies of the group is one of the duties of executive directors, that is why this does not create conflict of interest for work at the Company.</p> <p>According to the opinion of the Company's Board of Directors, membership of R. Sommer in Boards of TATA Consultancy Ltd. and Munich Reinsurance does not take enough time to hinder the discharge of his liabilities at executive governance bodies of the Company and is not a reason for potential or obvious conflict of interests.</p>
<p>A.4.6. A separate section of the annual report should describe the work, sphere of competence, procedures and key issues of the nomination committee, including the process it has used in relation to board appointments.</p> <p>An explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of a chairman or a non-executive director.</p>	Partially observed	<p>The 2010 Annual Report of the Company (p.6.2) includes information on the powers and competence of the Nomination and Remuneration Committee of the Company's Board of Directors and the key issues reviewed by the Committee.</p> <p>At the same time, the Nomination and Remuneration Committee does not have powers to directly propose candidates to the Company's Board of Directors, as this is the sphere of competence of shareholders.</p>
<p>A.5 Information and professional development</p>		
<p>A.5.1. The chairman should ensure that new directors receive a full induction on joining the board.</p>	Observed	<p>Every candidate to the Board of Directors before the election meets with the Board Chairman, Board members and the management and</p>

		<p>receives information on the work of the Board of Directors, his role in the Board of Directors and the Company's business.</p> <p>The Corporate Secretary gives consultation to new members of the Board on procedures and organization of the work of the Board and its committees and gives out necessary statutory documents, documents describing the company's strategy, business, markets of presence and financial reports.</p> <p>This induction procedure for the new Board members is not formalized.</p>
As part of this, the company should offer to major shareholders the opportunity to meet the new non-executive director.	Observed	<p>The majority shareholder of the Company always meets a candidate to the Board of Directors before the election.</p> <p>This procedure is not formalized.</p>
A.5.2 The board should ensure that directors have access to independent professional advice at the company's expense where they judge it necessary for discharge of their responsibilities as directors.	Observed	<p>The Terms of Reference of the Board of Directors (p.2.2.1) gives Board members the right to engage external independent experts for providing expertise on materials and decisions on any agenda items.</p> <p>When needed, independent expertise is organized by the secretariat of the Board of Directors.</p>
Board committees should be provided with sufficient resources to undertake their duties, including organizational, human and financial resources.	Observed	<p>Board Committees have access to necessary human, financial and organizational resources of the Company.</p>
A.5.3 All directors should have access to the advice and services of the company secretary, who is responsible to the board for ensuring that board procedures are complied with.	Observed	<p>According to the Terms of Reference on the Company's Corporate Secretary, the last version of which was approved by the Board of Directors (Minutes of 14.02.2004), one of the functions of the Corporate Secretary is facilitation of work of the Board of Directors, including: providing Board members with requested information and documents regarding Company's work, distribution among Board members of materials for meetings of the Board, facilitation of the work of the Board Committees.</p>
Both the appointment and removal of the company secretary should be a matter for the board as a whole.	Observed	<p>The appointment and removal of the Corporate Secretary is in the sphere of competence of the Board of Directors according to the Charter (p.32).</p>
A.6 Performance evaluation		
A.6.1 The board should state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted.	Observed	<p>The process of the performance evaluation of the Board of Directors work is set out in p.6.5 of the 2009 Annual Report. Since 2009 there is a process of self-evaluation of the Board of Directors work. Board members fill in questionnaires giving their opinion on organization of work of the Board of Directors: membership and structure of the Board of Directors, process and organization of work, work of committees of the Board of Directors, quality of decisions of the Board of Directors in relevant areas. Board Secretariat annually surveys all members of the Board, analyses results and provides final analysis to the Corporate</p>

		Governance and Ethics Committee, Board Chairman and members of the Board of Directors.
The non-executive directors, led by the senior independent director, should be responsible for the performance evaluation of the chairman, taking into account the views of executive directors.	Not applicable	Performance evaluation of the Board of Directors Chairman is carried out during evaluation of work of the Board of Directors in total.
A.7 Re-election		
A.7.1 All directors should be subject to an election by the shareholders at the first annual general meeting after their appointment, and to re-election thereafter at intervals of no more than three years.	Observed	According to the Russian legislation all Board members are elected for one year and can be re-elected for an unlimited number of times.
The names of directors submitted for election or re-election should be accompanied by sufficient biographical details and any other relevant information to enable shareholders to take an informed decision on their election.	Observed	Information on candidates to the Board of Directors including their biographical details is provided among other materials for the Annual General Meeting of shareholders which elects members of the Board of Directors of the Company.
A.7.2 Non-executive directors should be appointed for specified terms subject to re-election and to Companies Acts provisions relating to the removal of a director.	Observed	According to the Russian legislation, Board members are elected at the General Meeting of shareholders for one year (till the next General Meeting) and can be re-elected for an unlimited number of times.
The board should set out to shareholders in the papers accompanying a resolution to elect a non-executive director why they believe an individual should be elected.	Partially observed	Shareholders are provided with biographical details of directors submitted for election and this allows them to make a conclusion on their competence and advisability to be elected to the Board.
The chairman should confirm to shareholders when proposing re-election that, following formal performance evaluation, the individual's performance continues to be effective.	Partially observed	Every year when new membership of the Board is appointed, information on the work of the Board of Directors in the previous year is disclosed, including attendance of meetings by the Board members and the work of Committees where Board members participated. Shareholders take independent decisions on the quality of work of the Board of Directors and their members.
Any term beyond six years for a non-executive director should be subject to particularly rigorous review, and the need for progressive refreshing of the board should be taken into account.	Not applicable	According to the Russian legislation, Board members are elected at the General Meeting of shareholders for one year (till the next General Meeting) and are eligible for re-election unlimited number of times. Every year when new membership of the Board is appointed, information on the work of the Board of Directors in the previous year is disclosed, including attendance of meetings by the Board members and the work of Committees where Board members participated and shareholders take independent decisions on the quality of work of the Board of Directors and their members.
If an executive director serves more than nine years, his status should not be defined by the	Observed	According to the Russian legislation, Board members are elected at the General Meeting of

Board of Directors as independent.		shareholders for one year (till the next General Meeting) and are eligible for re-election unlimited number of times. The Terms of Reference of the Board of Directors (p.2.5.5) defines independence criteria for members of the Board of Directors, according to which a person who is a Board member for longer than nine years cannot be considered independent.
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B. REMUNERATION

B.1 Level and make-up of remuneration

B.1.1. The performance-related elements of remuneration should form a significant proportion of the total remuneration package of executive directors to give the keen incentives to perform at the highest levels.	Observed	The performance-related remuneration in the amount of \$250-325K annually is paid to Board Members if the Company secures the annual profit. 50% of this remuneration consists of cash and 50% – of the Company's shares. If the Company's capitalization grows, Board members are paid additional remuneration equaling 0.1% from the amount of the capitalization growth which was achieved between two annual general meetings. Special remuneration is paid for participation in the Board meetings and meetings of the Board Committees. These mechanisms allow aligning the size of remuneration of the Board members with fulfillment of shareholder goals of the company.
The Nomination and Remuneration Committee should participate in developing the system of remuneration for the Board members.	Observed	The Policy on remuneration and compensations for the Company's Board members sets out a clear formula for calculating their remuneration. Currently there are no amendments to the above mentioned Policy under consideration. If it is necessary to make changes to the above Policy, the Nomination and Remuneration Committee of the Board of Directors plays a key role in developing of such changes.
B.1.2 If share options are provided for by the existing remuneration system, they should not be offered at a discount rate.	Observed	Board members are not provided with share options at a discount rate. However part of the yearly remuneration of the Board members is paid out in the form of shares of the Company.
B.1.3 Levels of remuneration for non-executive directors should reflect the time commitment and responsibilities of the role. Remuneration for non-executive directors should not include share options. If, exceptionally, options are granted, the shareholder approval should be sought in advance and any shares acquired by exercise of the options should be held until at least one year after the non-executive director leaves the board. Holding of share options could be relevant to the determination of a non-executive director's independence	Observed	Levels of remuneration for non-executive directors reflect the time commitment and responsibilities of the role. Board members receive additional remuneration for serving as the Chairman of the Board of Directors, Deputy Chairman and Chairman of the Board Committee. Special remuneration is paid for participation in the Board meetings and meetings of the Board Committees. Part of the yearly remuneration of the Board members is paid out in the form of shares of the Company.
B.1.4 Where a company releases an executive director to serve as a non-executive director elsewhere, the remuneration report should include a statement on his earnings in such company.	Partially observed	Members of the Management Board who are members of the Boards of Directors of subsidiaries do not receive additional remuneration for work in such Boards of Directors. Members of the Management Board

		(executive directors) who are members of Boards of Directors in other companies receive remuneration for work in Boards of Directors of such companies according to respective regulations. Information on the size of remuneration of members of the Management Board received from other companies for participation in their Boards of Directors is not disclosed.
B.1.5 The remuneration committee should consider what compensation commitments their directors' terms of appointment would entail in the event of early termination. The remuneration should be paid on a pro rata basis.	Observed	According to p.1.6 of the Policy on remuneration and compensations for the Board members of the Company, in the event of early termination of the director's appointment, remuneration is calculated on a pro rata basis.
B.1.6 Notice or contract periods should be set at one year or less. If it is necessary to offer directors longer notice or contract periods, such periods should reduce to one year or less after the initial period.	Observed	According to the Russian legislation, Board members are elected at the General Meeting of shareholders for one year (till the next General Meeting) and can be re-elected for an unlimited number of times.
B.2 Procedure		
B.2.1 The board should establish a remuneration committee of at least three (for large companies), independent non-executive directors.	Partially observed	The Nomination and Remuneration Committee of the Company was successfully created and is active. The committee consists of five directors, majority of which (four out of five) - S. Cheremin, A. Goncharuk, D. Zubov, R. Kocharyan, L. Melamed - are non-executive and one is independent.
The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board. (The requirement to make the information available should be met by satisfying requests of any interested person and by including the information on a website of the company).	Observed	The sphere of competence of the committee is set out in the Terms of Reference of the Nomination and Remuneration Committee, the last version of which was approved by the decision of the Board of Directors (Minutes of 26.072008). The Terms of Reference of the Nomination and Remuneration Committee is posted on the Company's website (www.sistema.ru / www.sistema.com) and is available on demand from shareholders.
Where remuneration consultants are appointed, a statement should be made available of whether they have any other connection with the company.	Not applicable	In 2010 no external remuneration consultants were engaged in the work of the Company's Board of Directors.
B.2.2 The remuneration committee should have delegated responsibility for setting remuneration for all executive directors and the chairman.	Observed	Amount and procedure for paying out remuneration and compensation to the Company's Board member are set out in the Policy on remuneration and compensations, the last version of which was approved by the General Meeting of shareholders (Minutes of 30.06.2006). If changes should be made to the above Policy, they are developed by the Nomination and Remuneration Committee.
The committee should also recommend and monitor the level and structure of remuneration	Observed	One of the key functions of the Nomination and Remuneration Committee according to the

for senior management. The definition of 'senior management' for this purpose should be determined by the board but should normally include the first layer of management below board level.		respective Terms of Reference is preliminary review of terms of labor contracts of the President and Board members presented for consideration of the Company's Board of Directors, evaluation of performance of the Company's top management and defining the size of their remuneration.
B.2.3 The board itself or, where required by the Articles of Association, the shareholders should determine the remuneration of the non-executive directors within the limits set in the Articles of Association. Where permitted by the Articles, the board may however delegate this responsibility to the remuneration committee.	Observed	The Policy on remuneration and compensations for the Company's Board members, the last version of which was approved by decision of the general meeting of shareholders (Minutes of 30.06.2006), sets out a clear formula for calculating the remuneration of the Board members. A special decision of the Nomination and Remuneration Committee for such payments is not required.
B.2.4 Shareholders should be invited specifically to approve all new long-term incentive schemes and significant changes to existing schemes.	Observed	Long-term incentive schemes are approved by the Board of Directors and, when needed, by the General Meeting of shareholders, and shareholders discuss such matters both at the level of the Board of Directors and the level of the General Meeting of Shareholders.
C. ACCOUNTABILITY AND AUDIT		
C.1 Financial reporting		
C.1.1 The annual report should include financial reports and the auditor's opinion.	Observed	Financial reports of the Company are disclosed annually and include the auditor's opinion.
C.1.2 Board members should prepare a report on results of the development of the company over the year.	Observed	Report of the Board of Directors on development of the Company is included in the text of the Company's Annual Report.
C.2 Internal control		
C.2.1 The board should, at least annually, conduct a review of the effectiveness of the group's system of internal controls and should report to shareholders that they have done so. The review should cover all material controls, including financial, operational and compliance controls and risk management systems.	Observed	The Board of Directors annually reviews the report from the department of Internal Control and Audit on results of the year, as well as the analysis of detected deficiencies and existing control systems. A report from the Revision Commission is attached to materials of every Annual General Meeting.
C.3 The Audit Committee and Auditors		
C.3.1 The board should establish an audit committee of at least three (for large companies) independent non-executive directors. At least one member of the audit committee has relevant financial experience.	Partially observed	The Audit Committee of Sistema JSFC was successfully created and is active. The Audit Committee consists of three Board members, two of whom are independent directors – R. Munnings and E. Novitsky, one is a non-executive director – R. Mekhrotra. Position of the Chairman of the Audit Committee is taken by the member of the Board of Directors R. Munnings who meets independence criteria and has vast experience in financial audit.
C.3.2 The main role of the audit committee should be set out in terms of reference.	Observed	The sphere of competence of the Audit Committee is set out in the Terms of Reference of the Audit Committee of the Board of Directors, the last version of which was approved by the Board of Directors (Minutes of 21.01.2006).

C.3.3 The terms of reference of the audit committee, including the authority delegated to it by the board, should be made available. (The requirement to make the information available should be met by satisfying requests of any interested person and by including the information on a website of the company).	Observed	The terms of reference of the audit committee is posted on the Company's website (www.sistema.ru / www.sistema.com) and is available on demand from shareholders.
A separate section of the annual report should describe the work of the committee.	Observed	The report on the work of the Audit Committee is included in the Company's 2010 Annual Report (p. 6.2).
C.3.4 The audit committee should make sure that staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.	Observed	The Audit Committee reviews the information received through 'hot line' and is used confidentially by the Company's employees and other interested parties for raising concerns about possible improprieties in the financial sphere and other violations.
C.3.5 The audit committee should monitor and review the effectiveness of the internal audit activities. Where there is no internal audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the board.	Observed	According to the Terms of Reference of the Audit Committee of the Board of Directors, one of the key functions of the Audit Committee is supervision of the internal audit system of the Company. The Internal Control and Audit Function carries out internal control. The Audit Committee together with the head of the above mentioned Function and the Company's management analyzes implemented activities aimed at removing deficiencies of internal business processes.
C.3.6 The audit committee should have primary responsibility for making a recommendation on the appointment of the external auditors.	Observed	According to the Terms of Reference of the Audit Committee of the Company's Board of Directors, the Audit Committee analyzes the work of external auditors and makes recommendations for the Board of Directors on appointment, re-appointment and removal of external auditors.
C.3.7 The annual report should include information on independence criteria for auditors and explain to shareholders how, if the auditor provides non-audit services, auditor independence is safeguarded.	Observed	The 2010 Annual Report of the Company includes statement on the policy of safeguarding objectivity and independence of the Company's auditor.
D. RELATIONS WITH SHAREHOLDERS		
D.1 Dialogue with main shareholders		
D.1.1 The chairman should ensure that the views of shareholders on the development of the company are communicated to the board. The chairman should regularly discuss strategy with major shareholders. Non-executive directors should be offered the opportunity to attend meetings with major shareholders and should expect to attend them if requested by major shareholders.	Observed	Representatives of the majority of large shareholders are members of the Board of Directors of the Company. The IR department of the Company works with largest institutional investors. Results of their work, including views of main institutional investors of the Company on strategy and development outcomes of the Company, are regularly reviewed by the Board of Directors within the IR strategy of the Company. It is mandatory for all members of the Board of Directors, including non-executive directors, to attend the Annual General Meeting.
The senior independent director should hold sufficient meetings with shareholders to discuss	Not applicable	Company's statutory documents does not provide for the position of a senior independent director.

development of the company.		Prior to every meeting of the Board of Directors independent members of the Board hold an informal meeting in the form of a business dinner which is also attended by the management of the corporation. Information on independent members of the Board of Directors is available to shareholders via the Company's website. Shareholders may contact any of them if they have relevant questions.
D.1.2 The annual report should state how the members of the board develop an understanding of the views of major shareholders about development of the company.	Observed	Representatives of the majority of large shareholders are members of the Company's Board of Directors. The IR department of the Company works with largest institutional investors. Results of their work, including views of main institutional investors of the Company on development of the Company, are regularly reviewed by the Board of Directors within the IR strategy of the Company. It is mandatory for all members of the Board of Directors, including non-executive directors, to attend the Annual General Meeting.
D.2 Constructive use of the AGM		
D.2.1 The company should ensure that votes of all persons that participated in the general meeting are properly recorded. The minutes of the meeting should include the number of persons that participated in the voting on every agenda item and the number of votes "for", "against" and "abstained".	Observed	All votes of shareholders are registered by the Teller Committee and this information is included in the Minutes of the General Meeting of Shareholders. All "for", "against" and "abstained" votes on every agenda item are recorded separately, voting results for every item are not disclosed.
D.2. At any general meeting, the company should propose a separate draft resolution on each separate issue.	Observed	According to the Russian legislation and the Company's Charter, every agenda item at the general meeting is accompanied by a separate draft resolution with voting options "for", "against" and "abstained".
D.2.3 All members of the Board of Directors are to attend the general meeting. Committee Chairmen should be available for answering questions of shareholders.	Observed	According to p. 2.3. of the Terms of Reference of the Board of Directors, all members of the Board of Directors are to attend the General Meeting and be able to answer questions from the participants of the meeting. Shareholders that participate in the general meeting may put questions to any member of the Board of Directors attending the meeting.
D.2.4 The company should arrange for the Notice of the AGM and related papers to be sent to shareholders at least 20 working days before the meeting.	Observed	According to its Charter, the Company sends the Notice of the AGM and publishes related materials 30 days before the meeting.