

Corporate social responsibility

The introduction of and compliance with the Code of Corporate Social Responsibility (CSR) is the underlying principle of all business endeavors conducted by Sistema-Hals. All areas of business pursued by the Company have great social importance. The Company's social initiatives are aimed at charity, environmental protection and monitoring of the quality of construction, enhancing the quality of life of its employees, development of special programs for the employees, etc.

The Company has the following priority CSR areas:

- Compliance with all construction rules and requirements relating to environmental protection;
- Provision of high level of security and quality of life;
- Development of socially important cultural and historical landmarks;
- Development of special programs for the Company's employees;
- Participation in public projects and charity events.

Social Programs for Employees

The employees of Sistema-Hals constitute its intellectual value. The Company's personnel policy is aimed at attraction, development and retention of highly skilled and efficient professionals capable of enhancing the value of business through high quality of asset management.

The Company's employees are covered by health insurance, including outpatient services and dental plan, house call doctor services, coverage of medical expenses and health-related transportation services outside of the CIS countries. The employees have up to five days of fully paid sick leave based on average salary. Annually, the employees get vaccinated at the expense of the employer, and the employees also receive a one-time financial allowance for the delivery of a child or death in the family.

The Company provides additional discounts for the services and goods by subsidiaries of AFK Sistema, as well as easy-term bank loans.

The Company pays a great deal of attention to athletic activities among its employees. The Sistema-Hals' employees take part in various athletic competitions defending the honor of the Company, and hold intra-Company athletic events.

AFK Sistema regularly conducts a Spartakiade with the participation of employees from 20 major organizations across 16 athletic activities, including futsal, volleyball, streetball, floorball, kettlebell tournaments, tug of war, chess, carting, mini-golf, tennis, field-and-track events (running), as well as the family, special, and relay races. They also hold separate competitions in swimming, mountain skiing, bowling, billiards, etc. on a monthly basis.

Sistema-Hals provides special support to its soccer team: three times a year the Sistema-Hals team participates in the championships and at least ten times a year in various cup tournaments, including industry-wide contests.

Employee Motivation

The employee motivation used at Sistema-Hals is aimed at the following:

- Making sure that the personnel stays focused on high performance results helping the Company to reach its business goals;
- Building conditions for long-term mutually beneficial cooperation between the Company and its personnel.

The Company provides both material and non-material motivation techniques.

The Company has developed and introduced a grade system for all positions. Sistema-Hals conducts regular moni-

toring of salaries across the corresponding groups of positions on the labor market and provides the minimum base salary for successful employees no lower than the average market level for a corresponding group of positions using the annual salary adjustment system.

The Company matches up the size of the target bonus of an employee with the grade of his/her position. In order to correlate the size of the target bonus of employees of different categories and functional blocks with the market offers, the Company also conducts regular monitoring of salaries across corresponding reference groups. Sistema-Hals pays bonuses to its employees only for the results of their performance that can be quantified and qualified.

The Company has a three-year stock option program for the top managers, which is called to stimulate them in attainment of the shareholders' objectives. The level of participation of each particular employee is determined by their job level and functions.

In addition to that, the Company provides its employees with a certain number of fringe benefits, such as voluntary health insurance, pre-paid cell phones, paid on-the-job training, etc. The Company determines the volume and contents of such benefits at its own discretion. The social package is revised on a yearly basis.

The Company continually develops its non-material motivation system in order to show its appreciation of the most successful employees and units for the corresponding period under review. The line executives make active use of such non-material motivation techniques as delegation of authority, involvement of employees in making managerial decisions, and informal communication with the subordinates.

Acting on the basis of actual external conditions, Sistema-Hals approved changes and additions to personnel moti-

vation system in December 2008 by switching from yearly bonuses to quarterly/yearly payments. The main reason behind such a change is the need for switching to a short-term system of planning and encouragement for work achievements.

Certainly, the crisis made certain adjustments to the contents of social programs, but the Company does its best to provide the best social protection to its employees during the crisis.

The Company uses the following methods of non-material motivation of its employees:

- Letters of appreciation and honorary mentions signed by the President;
- Badges of honor issued within AFK Sistema (Golden Badge, Silver Badge);
- Publication in a corporate magazine.

Corporate Culture

Key principles underlying the formation of corporate culture:

- Formation and translation of corporate values;
- Regular and open communications with the personnel.

The management of Sistema-Hals forms and translates corporate values, which underlie the culture of the organization using various channels of communication with the personnel (corporate site, corporate publication, regulatory documents, employee's guidebook, and adaptation training).

The Company's management strives to maintain regular and open communications with the personnel. The Group develops a system of internal communications, which is designed to inform all employees about the current and future tasks, results achieved and expectations of the

management regarding the employees. The employees can have their opinion heard by the senior management and put their questions directly to them.

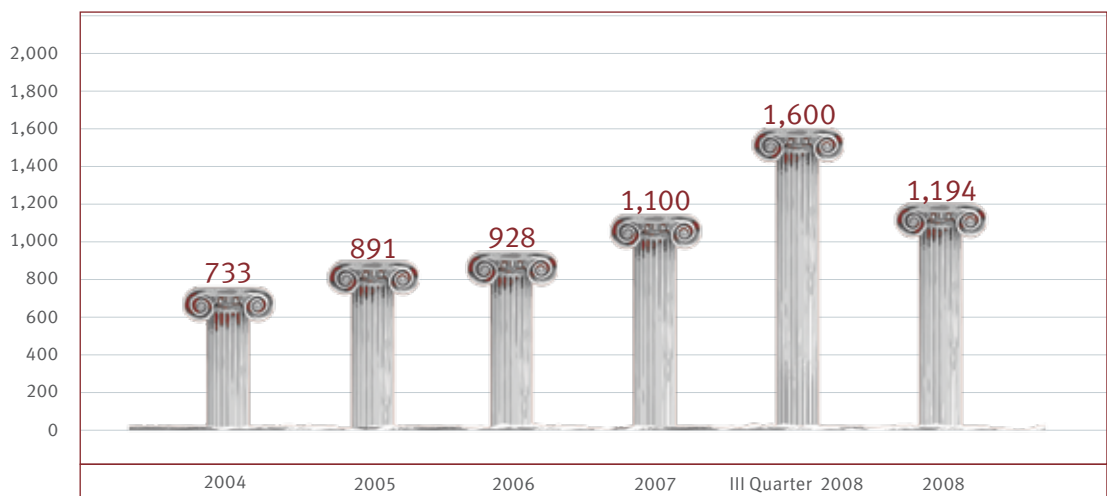
The Company has taken the following actions in 2008 in order to strengthen its corporate culture:

- The corporate website was regularly updated with fresh news and Company-related publications in the mass media;
- A forum was opened on the corporate website;
- Corporate celebrations of the New Year, Women's Day on March 8, and the Company's Birthday were organized and conducted;

- A new printed corporate publication entitled «THE ESSENTIALS» was issued;
- The annual Summer and Winter Spartakiades were held in the form of an athletic event;
- Athletic teams were established and the following tournaments conducted: soccer, futsal, bowling, carting, and swimming.

During the last 5 years till the end of the III quarter 2008 the Group's headcounts increased due to business expansion. After implementation of the cost reduction program and retirement of some subsidiaries and retirement of some subsidiaries in IV quarter 2008 the headcounts decreased by 25% and amounted to 1,194 employees as of the end of 2008.

THE GROUP'S HEADCOUNTS AS OF THE END OF THE PERIOD, 2004-2008



(employees)

Health Promotion, Environmental Protection and Occupational Safety

All employees of the Company from senior management to rank-and-file workers see the goals in the area of health promotion, environmental protection, and occupational safety as a priority. In construction industry, they have more stringent requirements regarding the establishment and maintenance of healthy and safe labor conditions due to specifics of the production:

- Sparse location of the construction facilities, which are often remotely located from places with developed infrastructure;
- Variety of machines, mechanisms, and devices, most of which are outfitted with electric drives;
- Open-air operations in adverse weather conditions often: snow, rain, mud, etc.

The Company focuses its efforts on solving the following tasks of health promotion, environmental protection, and occupational safety:

- Manage construction work in accordance with the international standards in the construction business using cutting-edge safe labor technologies for reducing environmental impact;
- Strictly comply with the environmental law and legal regulations regarding labor and health protection, as well as other requirements related to the Company's activities and products;
- Prevent environmental contamination;
- Reduce risks of causing harm to the health of employees and other individuals;
- Make rational use of the natural resources, which are involved in production or located in the areas adjacent to the facilities under construction;
- Enhance the industrial and environmental safety of the construction sites and construction/assembly work through supervision over the equipment reliability and securing its safe and accident-free operation;
- Continually improve professional skills of each employee in the area of health promotion, environmental protection, and occupational safety;

- Enhance the prestige of the organization as the leading construction company, which successfully implements the environmentally safe developer projects in every possible way.

The following measures and initiatives were implemented in 2008 as part of compliance with legal requirements and with the view to improve prevention of occupational injuries and morbidity and to secure safe labor conditions:

- The Sistema-Hals Policy for Health Promotion, Environmental Protection, and Occupational Safety was developed and adopted;
- Scheduled control over compliance with the government standards for labor safety, safety regulations and production standards at the Company's construction facilities was maintained;
- A labor safety, safety regulations and production standards training was conducted;
- The list of legislative and other regulatory legal acts containing government regulatory labor safety standards (on the Company's website) was developed and continually updated;
- The first phase of certification of 135 workplaces for their working conditions was completed, which was used as a basis to develop and approve the program for improving working conditions and labor safety;
- On-the-job Labor Safety training for the Company's workers was organized and conducted, corresponding certificates were issued, and persons in charge of labor safety from executives and employees of structural units at Sistema-Hals were appointed.

In 2009, they plan to establish an expert Commission at Sistema-Hals, which would analyze the Company's projects for compliance with the requirements for labor safety, safety regulations and production standards.

There was not a single injury during the construction and assembly work across all the construction facilities of the Company during the period under review.

The Company pays a great attention to environmental issues and preservation of greenery around the newly

built structures and facilities, while sticking to the principle of identifying and preventing potential adverse consequences for the environment.

The improvement of the environmental monitoring systems helps to improve the environment and directly affects each human being, and is also one of the tools that help to reduce the risks of penalties and preserve the Company's revenue. The environmentally friendly production techniques and on-going quality control mitigate the risks of occupational diseases among the employees. The improvement of the labor safety management system, introduction and certification of the labor and health safety management system greatly reduce the risks of occupational injuries and enhance the quality of the facilities under construction. All of the construction works done by the Company's subcontractors are performed in compliance with the most stringent technical requirements and labor safety rules.

For instance, the projects provide for building treatment facilities and catching and diverting the surface run-off into a storm water drain in the Khoroshevsky Serebryany Bor in order to preserve the environment and improve the ecology of the buildings undergoing renovation, which are located in the Serebryany Bor specially protected area. Honeycomb lawn panels were used, flower beds were built, garden benches and place trash cans were installed in order to preserve the grass layer. Areas were assigned for placing garbage containers. The waste is removed for further recycling (disposal) to industrial landfills. All surfaces are built with curbs. The parking lots are designed in accordance with the sanitary rules and regulations and approved in accordance with the established procedure.

Special openings along the entire length of the fencing for unobstructed migration of hedgehogs and other small animals were made. Feeding spots for bird and squirrel were made. More soil is added to exposed tree roots on as needed basis. The fertile soil damaged by the water has been restored. They have installed drain-

age channels in the areas of water catchment. The foot-worn trails have been fixed. They have restored the road surface and curbs. The trees and shrubs are recycled according to sanitary rules established by applicable legislation.

On May 11, 2008, in conjunction with the Federal Environmental Control Authority, prefecture of the Northwestern District of Moscow, Serebryany Bor GUP, and Sistema-Hals Group they have organized and held a festive event to landscape the area of the Khoroshevsky Serebryany Bor on occasion of the Victory Day. In the course of the event, they have planted three-to-five year-old coniferous valuable trees. Deputy Administrator of the Federal Environmental Control Authority Oleg Mitvol, as well as the Russian pop stars Lev Leschenko and Oleg Gazmanov, took active part in this event.

Quality Control

Work is under way to certify the Company in accordance with the ISO 14000 (environmental management standards) and OHSAS 18000 «Personnel Health and Safety Management Systems. Requirements».

Socially Important Projects

The Company pays great attention to culture supporting in Russia and the CIS countries by way of participating in such socially important projects as financing renovation of the historical downtown in Yalta, Ukraine. The renovation work began in 2008 pursuant to the agreement signed with the Yalta Municipal Council:

- Pushkinsky Boulevard was officially opened after reconstruction on June 1. The reconstruction cost ran into RUR 111 million;
- The reconstruction of the Yalta-based stadium owned by the Children's Athletic School received financing in the amount of RUR 14 million in 2008. A soccer field with artificial covering was built. The work will be fully

completed before August 1, 2009, which is the Day of the City. In 2009, Sistema-Hals OAO will allocate additional RUR 6 million for this purpose;

- Over RUR 1 million were allocated in August for celebration of the Day of the City;
- In 2008, they provided RUR 700,000 for the overhaul of the Yalta School No.9.

In addition to that, in 2008 the Company financed the acquisition of special motorized firefighting equipment. Requisite motorized equipment and containers for transportation of solid household waste were also purchased and the work to repair premises at the municipal solid waste landfill was financed. The events within the Complex Program for Crime Prevention and Consolidation of Legality conducted by the Yalta Municipal Council for 2006-2010 were also financed.

In 2008, the Group completed the resettlement of 29 families from the dormitory located on Lva Tolstogo Street, Khamovniki, Moscow. The families which have resided in the dormitory of the closed Khamovniki plant of experimental beverages since 1980s were given individual apartments in accordance with the municipal standards. During the course of resettlement, the Group supported functioning of the engineering systems in the building, including water supply, sewage, and heating.

In the letter sent to F.V. Yevtushenkov, the Chairman of the Board of Directors at Sistema-Hals, S.L. Baydakov, the prefect of the Central administrative district, and V.G. Azarov, head of the Khamovniki municipal council, the former dormitory residents expressed their thanks for the new apart-

ments: «For decades our families, including large, had to live cooped up in a building, which was not suitable for humans. Only the concerted effort of the municipal authorities and big business helped us to improve our housing conditions».

Working within the Leningradsky Towers project, the Company has performed under the investment agreement as follows: built and commissioned a new gym, a kasarne with a canteen, a surface/underground parking facility, and provided apartments to the servicemen and athletes from the Club.

Charity

In 2008, the Company remitted almost RUR 22 million for charity purposes. In 2008, acting as a co-founder of the Sistema Charity Fund, the Company remitted voluntary contributions for treatment of kids with extremely brittle bones («crystal kids») in the amount of RUR 250,000, to the Foundation for Support and Development of Combat Sports (RUR 12 million), construction of the street volleyball playgrounds in the Central administrative district of Moscow, as well as to the Regional Public Organization «Sport Vokrug» Athletic Club (RUR 9 million) as sponsor funds for the A.A. Kharlampiev Memorial Sambo Tournament.

During the period under review, the Company actively participated in restoration of the unique cultural and historical landmark – Marfa-Mariinsky Convent of Mercy in Zamoskvorechye, Moscow.