JSC SISTEMA-HALS
AND SUBSIDIARIES

Consolidated Financial Statements
Years Ended December 31, 2007 and 2006

JSC SISTEMA-HALS AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC Sistema-Hals:

We have audited the accompanying consolidated balance sheets of JSC Sistema-Hals ("Sistema-Hals") and subsidiaries (collectively – the "Group") as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the consolidated financial statements, the Group changed the manner in which it accounts for uncertain tax positions effective January 1, 2007, in accordance with the adoption of Statement of Financial Accounting Standards Interpretation No. 48, "Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109".

Deloitte & Touche

April 28, 2008
Moscow, Russia

JSC SISTEMA-HALS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2007 AND DECEMBER 31, 2006
(Amounts in thousands of U.S. dollars)

	Notes	December 31, 2007	December 31, 2006
ASSETS			
Cash and cash equivalents	3	45,398	261,952
Trade receivables, net	4	216,024	34,741
Taxes receivable	5	55,770	38,855
Other receivables, net	6	33,460	9,771
Deposits, loans receivable and investments in debt and equity securities	7	129,613	164,855
Costs and estimated earnings in excess of billings on uncompleted contracts	8	119,040	13,081
REAL ESTATE INVESTMENTS, NET			
Real estate developed for sale	9	856,883	270,892
Income producing properties, net	9	155,736	59,541
Total		1,012,619	330,433
Buildings used for administrative purposes, plant and equipment, net	10	10,702	5,477
Development rights and other intangible assets, net	11	33,229	40,035
Investments in associates and joint ventures	12	51,355	2,799
Debt issuance costs, net of accumulated amortization	16	36,866	-
Deferred tax assets	21	11,014	-
TOTAL ASSETS		**1,755,090**	**901,999**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Payables to suppliers and subcontractors	13	58,229	33,477
Billings in excess of costs and estimated earnings on uncompleted contracts	14	31,664	25,363
Accrued expenses and other liabilities	15	67,092	25,130
Taxes payable		11,937	3,899
Construction obligations		-	2,232
Loans and notes payable	16	977,837	377,967
Deferred tax liabilities	21	32,324	21,504
TOTAL LIABILITIES		1,179,083	489,572
COMMITMENTS AND CONTINGENCIES	24	-	-
MINORITY INTERESTS		27,060	18,681
SHAREHOLDERS' EQUITY			
Share capital	17	20,492	20,492
Treasury stock	17	(1,576)	(2,322)
Additional paid-in capital	17	529,910	430,126
Retained earnings/(accumulated deficit)		121	(54,550)
TOTAL SHAREHOLDERS' EQUITY		548,947	393,746
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,755,090**	**901,999**

See notes to consolidated financial statements.

JSC SISTEMA-HALS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

(Amounts in thousands of U.S. dollars, except for share and per share amounts)

	Notes	2007	2006
REVENUES		452,196	282,899
OPERATING EXPENSES	20	(403,530)	(199,903)
OPERATING INCOME		48,666	82,996
OTHER INCOME/(EXPENSES):			
Other expenses, net		(2,140)	(372)
Interest income		14,274	4,255
Interest expense, net of amounts capitalized		(12,790)	(7,554)
Gain/(loss) on foreign currency transactions		16,567	(1,930)
Gain on sale of shares in associates		-	2,808
Gain on sale of a subsidiary		113	-
INCOME BEFORE INCOME TAX AND MINORITY INTERESTS		64,690	80,203
Income tax expense	21	(16,216)	(16,299)
INCOME BEFORE MINORITY INTERESTS		48,474	63,904
Minority interests		(13,793)	(8,330)
NET INCOME		**34,681**	**55,574**
Weighted average number of common shares outstanding:			
Basic		10,200,006	6,316,318
Diluted		10,273,318	6,316,318
Earnings per share, U.S. dollars:			
Basic	2	3.40	8.80
Diluted	2	3.38	8.80

See notes to consolidated financial statements.

JSC SISTEMA-HALS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Amounts in thousands of U.S. Dollars)

	2007	2006
OPERATING ACTIVITIES:		
Net income	34,681	55,574
Adjustments to reconcile net income to net cash (used in) /provided by operations:		
Depreciation and amortization	14,873	7,144
Loss /(gain) on disposal of plant and equipment	47	(507)
Minority interests	13,793	8,330
Gain on sale of a subsidiary	(113)	-
Gain on sale of shares in associate	-	(2,808)
Gain on sale of real estate investments	(157,989)	(96,919)
Stock-based compensation	99,807	-
Deferred tax (benefit)/expense	(194)	10,621
Bad debt expense	-	115
Foreign currency transactions gain for non-operating activities	(7,796)	(448)
Gain on sale of short-term investments	(4,809)	
Amortization of debt issuance cost	3,134	
Changes in operating assets and liabilities:		
(Costs in excess of billings) / billings in excess of costs on uncompleted contracts	(113,733)	66,602
Trade receivables	(52,980)	(13,927)
Taxes receivable	(18,026)	(13,797)
Other receivables	(23,713)	(6,197)
Payables to suppliers and subcontractors	11,088	20,267
Accrued expenses and other liabilities	31,082	10,416
Taxes payable	9,506	(3,229)
Net cash (used in) / provided by operating activities	**(161,342)**	**41,237**
INVESTING ACTIVITIES:		
Payments for real estate investments	(713,416)	(145,407)
Proceeds from sale of real estate investments	68,254	52,537
Payments for plant and equipment and intangible assets	(8,672)	(4,094)
Proceeds from sale of plant and equipment	-	1,207
Issuance of loans and notes receivable	(189,628)	(96,022)
Repayment of loans and notes receivable issued	143,597	42,596
Short-term deposits	(50,000)	(104,118)
Repayments of short-term deposits	146,896	-
Payments for shares in associates	(2,737)	(2,697)
Proceeds from sale of subsidiary, net of cash disposed	(362)	-
Proceeds from sale of shares in associate	25	3,290
Net cash used in investing activities	**(606,043)**	**(252,708)**

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Amounts in thousands of U.S. dollars)

	2007	2006
FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	-	391,756
Payments for repurchasing own shares	(2,781)	-
Principal payments on long-term borrowings	(10,226)	(85,264)
Proceeds from long-term borrowings	729,201	28,609
Debt issuance cost	(40,000)	-
Principal payments on short-term borrowings	(438,609)	(216,624)
Proceeds from short-term borrowings	294,884	400,352
Cash transfers from Sistema	27,500	(57,451)
Cash transfers to Sistema	(5,658)	-
Dividends paid to minority shareholders of subsidiaries	(4,655)	(3,551)
Net cash provided by financing activities	**549,656**	**457,827**
Effects of foreign currency translation on cash and cash equivalents	1,175	5,234
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(216,554)	251,590
CASH AND CASH EQUIVALENTS, beginning of the year	**261,952**	**10,362**
CASH AND CASH EQUIVALENTS, end of the year	**45,398**	**261,952**
SUPPLEMENTAL INFORMATION:		
Income taxes paid	13,423	6,174
Interest paid	38,109	10,245
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Amounts owed for capital expenditures	14,811	2,873
Payable related to investments	15,267	2,623

In addition, non-cash investing and financing activities for the year ended December 31, 2007 included stock option and stock bonus program, as described in Note 26.

See notes to consolidated financial statements.

JSC SISTEMA-HALS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Amounts in thousands of U.S. dollars)

	Share capital		Treasury stock			Retained earnings/ (Accumulated deficit)	
	Shares	**Amount**	**Shares**	**Amount**	**Additional paid-in capital**		**Total**
Balances at January 1, 2006	**1,175**	**24**	**-**	**-**	**41,909**	**(12,502)**	**29,431**
Issuance of common stock	11,215,919	20,468	(1,222,663)	(2,322)	388,217	(14,607)	391,756
Transfers to Sistema	-		-		-	(83,015)	(83,015)
Net income	-		-		-	55,574	55,574
Balances at December 31, 2006	**11,217,094**	**20,492**	**(1,222,663)**	**(2,322)**	**430,126**	**(54,550)**	**393,746**
Effect of FIN 48 adoption (Note 2)	-		-		-	(2,171)	(2,171)
Stock-based compensation (Note 26)			403,815	767	99,040	-	99,807
Acquisition of own stock			(11,217)	(21)	(2,760)		(2,781)
Reimbursement of initial public offering costs, net of tax (Note 17)	-		-		3,504	-	3,504
Transfers to and from Sistema (Note 18)	-		-		-	22,161	22,161
Net income	-		-		-	34,681	34,681
Balances at December 31, 2007	**11,217,094**	**20,492**	**(830,065)**	**(1,576)**	**529,910**	**121**	**548,947**

See notes to consolidated financial statements.

1. DESCRIPTION OF THE BUSINESS

JSC Sistema-Hals ("Sistema-Hals") and subsidiaries (together – "the Group") are engaged in real estate development, project and construction management, real estate asset management and facility management, primarily focused on the "Class A" and "Class B" segments of the Moscow office market, shopping centers, high-end housing, single family houses, apartment buildings and land development. The Group's revenues are derived principally from the following activities:

(i) Sale of completed development projects, both commercial and residential, as well as the sale of rights for land;
(ii) Project and construction management activities for infrastructure and other construction and development projects;
(iii) Rental income from completed development projects held as investments; and
(iv) Facility management services.

Business operations of the Group are conducted in the Russian Federation (hereinafter referred to as "the RF") and the Commonwealth of Independent States ("the CIS"), primarily in Moscow, the Moscow Region, the Nizhniy Novgorod region, Sochi, Kiev and Saint-Petersburg. Majority of the Group entities are incorporated in the RF.

Initial public offering – In November 2006, Sistema-Hals completed an initial public offering of 1,850,821 common shares, including 1,738,650 newly issued shares (in the form of global depositary receipts ("GDRs"), with twenty GDRs representing one share) and 112,171 shares sold by the shareholders. The GDRs were admitted to trade on the London Stock Exchange.

The Group's reorganization – In the fourth quarter of 2006, JSFC Sistema ("Sistema"), the controlling shareholder of the Group, completed the corporate reorganization of its Real Estate business segment by consolidating ownership of the segment's entities under Sistema-Hals. The reorganization has been accounted for at the historical book value of the assets and liabilities of the Group's entities. The Group's equity has been retroactively restated to reflect the reorganization as if it had occurred at the beginning of the earliest period presented.

Prior to the reorganization, Sistema did not charge the Group for any management services, including corporate oversight, financial management, legal, corporate communications or human resources. Costs incurred by Sistema to provide such services to the Group have not been significant during these periods. However, the financial statements for the periods prior to reorganization may not necessarily be indicative of the conditions that would have existed or the results of operations and cash flows if the Group had been operated as a stand-alone company during these periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The accompanying financial statements have been prepared in conformity with the accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Group's entities maintain accounting records and prepare their statutory financial statements in Russian rubles ("RUB"), U.S. dollars and in Ukrainian hryvnia in accordance with the requirements of accounting and tax legislation in their respective countries of domicile. The accompanying financial statements differ from the financial statements prepared for statutory purposes in that they reflect certain adjustments, not recorded in the statutory accounting books of the Group's entities, which are appropriate to present the financial position, results of operations and cash flows in accordance with U.S. GAAP.

(Amounts in thousands of U.S. dollars unless otherwise stated)

Principles of consolidation – All significant transactions within the Group, balances and unrealized gains/(losses) on such transactions have been eliminated in these financial statements.

The ownership interest of Sistema-Hals and proportion of its voting power in its major subsidiaries as of December 31, 2007 and 2006 were as follows:

Operating entities	**Ownership interest**		**Voting power**	
	December 31, 2007	**December 31, 2006**	**December 31, 2007**	**December 31, 2006**
Kuntsevo-Invest	100%	100%	100%	100%
Sistema-Hals Nord-West	76%	76%	76%	76%
IRT	100%	100%	100%	100%
TRK Kazan	100%	100%	100%	100%
Mosdachtrest	57%	57%	60%	60%
Landshaft-2	100%	100%	100%	100%
Nostro	-	100%	-	100%
Organizator	51%	51%	51%	51%
PSO Sistema-Hals	51%	51%	51%	51%
Hals-Stroy	100%	100%	100%	100%
City-Hals	100%	100%	100%	100%
Bolshoy City	100%	100%	100%	100%
Yalta Fish Plant	98%	98%	98%	98%
RTI-Estate	51%	-	51%	-
Sapidus	100%	-	100%	-
Gorki-8	74,9%	-	74,9%	-
Istochnik	74,9%	-	74,9%	-

Use of estimates – The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses of the reporting period. Actual results could differ from those estimates.

Concentration of business risk – The Group's principal business activities are within the RF. Laws and regulations affecting businesses operating in the RF are subject to rapid changes. Russian land and property legislation is complicated, often ambiguous and contradictory at the federal and regional levels. In particular, it is not always clear which state bodies are authorized to enter into land leases with respect to particular land plots, construction approval procedures are complicated and prone to challenge or reversal, and construction and environmental rules often contain requirements that are impossible to comply with in practice. As a result, the risk exists that the Group's ownership of and/or lease rights for land and buildings might be challenged by government authorities or third parties.

The construction industry in general is subject to risks in respect to the means of financing, the legal and political risks and the financial risks associated with construction projects which transpire over a prolonged period of time. The Group is also reliant on a limited number of general contractors and subcontractors to undertake its commitments for construction in the timeframe required to avoid penalties and other associated costs.

Concentration of credit risk – The Group is exposed to credit risk which is the risk that the other party to a financial instrument will fail to discharge its obligation and cause a financial loss for the Group. The Group does not hedge its credit risks.

Foreign currency translation – The Group follows a translation policy in accordance with Statement on Financial Accounting Standards ("SFAS") 52, "Foreign Currency Translation".

Management believes that the U.S. Dollar ("USD") was the functional currency of the Group in the years ended December 31, 2007 and 2006, as the majority of its revenues, costs and capital expenditures were either priced, incurred, payable or otherwise measured in USD. In addition, the Group maintained a significant portion of its debt instruments in USD. To the extent settlements were required to be in RUB, the Group set prices and values in USD and performed the settlements in RUB using the then prevailing exchange rate of the Central Bank of Russia.

As such, in the years ended December 31, 2007 and 2006, the Group remeasured its assets, liabilities, income and expense items in USD. Monetary assets and liabilities were translated into USD at the rate in effect as of the balance sheet date; non-monetary assets and liabilities and income and expense items were translated at the rate prevailing on the date of the transaction. Exchange gains and losses arising from the remeasurement of monetary assets and liabilities not denominated in USD were included in gain/(loss) on foreign currency transactions in the statements of operations. The official exchange rates quoted by the Central Bank of Russia as of December 31, 2007 and 2006 were 24.55 and 26.33 rubles per 1 USD, respectively.

Revenue recognition – The Group's revenues are principally derived from i) real estate development, ii) project and construction management, iii) real estate asset management and iv) facility management. The Group records revenues as follows:

(i) Revenues from real estate development activities are recognized in accordance with the provisions of SFAS 66 "Accounting for Sales of Real Estate" or AICPA Statement of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" ("SOP 81-1").

When the Group undertakes real estate development projects at its own risk, it recognizes revenues from sales of real estate when a) a sale is consummated; b) the buyer's initial and continuing investments are adequate to demonstrate a commitment to pay; c) the Group's receivable is not subject to future subordination; d) the Group has transferred to the buyer the usual risks and rewards of ownership and does not have a substantial continuing involvement with the project. A sale is not considered consummated until (a) the parties are bound by the terms of a contract; (b) all consideration has been exchanged; (c) any permanent financing for which the Group is responsible has been arranged; and (d) all conditions precedent to closing have been performed. Revenues from development of office buildings, apartments, condominiums, shopping centers and similar structures are recognized prior to consummation of sale by the percentage-of-completion method if (a) construction is beyond a preliminary stage; (b) the buyer is committed to the extent of being unable to require a refund except for nondelivery of the property; (c) sales prices are collectible; (d) aggregate sales proceeds and costs can be reasonably estimated. Other investments in real estate developed for sale where the sale is not consummated are accounted for under the deposit method in accordance with SFAS 66.

In those instances, when the Group acts as a contractor under construction contracts with third parties, it applies the percentage of completion method to the respective contracts where and as soon as it is able to reliably estimate the stage of progress to completion of the project, costs to complete the project and contractual revenues. Progress towards completion is measured by the percentage of costs incurred to date to the estimated total costs at completion for each contract (the "cost-to-cost" method). On most of its contracts, the Group is not able to reliably estimate costs to complete the project and contractual revenues until the project is at least 30% complete.

Revenue from sale of equity interests in the properties developed by the Group are recognized when (a) the buyer is independent of the Group, (b) collection of the sales price is reasonably assured, (c) the Group will not be required to support the operations of the property or its related obligations to an extent greater than its proportionate interest.

When the Group participates in the revenue and cost sharing agreements relating to project development, revenues and related costs are recognized in the amount reflecting the Group's share in such agreements.

(ii) The Group provides project and construction management services to municipal governments on certain socially important infrastructure projects. The Group's remuneration for such services was determined as a percentage of project costs incurred by third parties and approved by the municipal government. Based upon the guidance in Emerging Issues Task Force Consensus 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent ("EITF 99-19"), management has concluded that the Group's services under such contracts do not transfer to the Group the full risks and rewards associated with the projects. Therefore, the Group recognizes as revenues only its fees from project management services. Fees are recognized as the project costs are incurred and approved by the municipal government.

(iii) Revenues from real estate asset management include rental revenues, revenues from sale or assignment of rights to land plots and residential units. Rental revenues are recognized over the lease term on a straight-line basis. Revenues from sale or assignment of rights over real estate are recognized when substantially all the risks and rewards of ownership have been passed to the buyer.

(iv) Revenues from service contracts for facility management are recognized on the accrual basis over the periods when services are provided.

Change orders and claims – Once contract performance is underway, the Group may experience changes in the conditions, client requirements, specifications, designs, materials and/or work schedule ("change orders"). Generally a change order will be negotiated with the customer to modify the original contract to approve both the scope and the pricing of the change. When a change order becomes a point of dispute between the Group and its customer, the Group then considers it as a claim. Costs related to change orders and claims are recognized when they are incurred. Change orders are included in total estimated contract revenues when it is probable that the change order will result in a bona fide addition to the relevant contract value and can be reliably estimated. Claims are included in total estimated contract revenue only to the extent that contract costs related to the claim have been incurred and when it is probable that the claim will result in a bona fide addition to contract value and can be reliably estimated.

Estimated losses on uncompleted contracts and changes in contract estimates – The Group provides for estimated losses on uncompleted contracts in the periods in which such losses are identified. The cumulative effects of revisions to contract revenue and estimated completion costs are recorded in the accounting period in which the amounts become evident and can be reasonably estimated. These revisions may include such items as the effects of change orders and claims, warranty claims, other contractual penalties and contract closeout settlements.

Costs and billings on uncompleted contracts – Costs related to the Group's performance under construction contracts (including estimated earnings from uncompleted contracts) is recorded net of billings on those contracts. Billings when in excess of costs and estimated earnings on uncompleted contracts are recorded as liabilities.

Income producing properties – The Group has a number of developments where it generates or expects to generate economic benefits through retaining title to or lease rights for the property and receiving rental revenues. Such properties primarily consist of residential and commercial buildings and land which is, or will be, leased on either a short-term or long-term basis.

Income producing properties are depreciated on a straight-line basis over the estimated useful lives of the assets (buildings and land improvements – 20 to 40 years; leasehold improvements – the lesser of the remaining life of the asset or term of the lease).

Fair value of financial instruments – The Group's financial instruments primarily comprise cash and cash equivalents, deposits, loans receivable, investments in debt and equity securities, receivables, payables and debt. The estimated fair value of short-term financial instruments as of December 31, 2007 approximated their carrying value as reflected in the balance sheet due to the short maturity of those instruments. The fair value of long-term loans and notes payable which have variable interest rates based on market rates approximate the carrying amount of those financial instruments. The fair value of long-term loans and notes payable which have fixed interest rates also approximate the carrying amount of those financial instruments as of December 31, 2007 as these loans were recently obtained. Fair value of significant investments in associates and joint ventures is presented in Note 12 to these consolidated financial statements.

Cash and cash equivalents – Cash and cash equivalents include cash on hand, amounts on deposit in banks and cash invested temporarily in various instruments with maturities of three months or less at the time of purchase.

Deposits, loans receivable and investments in debt and equity securities – Deposits and loans receivable with original maturities in excess of three months are being accounted for at amortized cost. Management regularly assesses the realizability of the carrying values of deposits and loans receivable and, if necessary, records impairment losses to write these assets down to fair value.

Investments in marketable debt and equity securities are classified as available-for-sale and stated at fair value based on market quotes. Unrealized gains/(losses), net of income taxes, are recognized in other comprehensive income. Interest income on debt securities is recognized in the statement of operations.

Investments in associates and joint ventures – The Group's share in the net assets and net income/(loss) of the entities, in which the Group holds 20-50% of the voting shares and has the ability to exercise significant influence over their operating and financial policies ("affiliates") and the entities, in which the Group shares in joint control ("joint ventures"), is accounted for using the equity method of accounting. In the years ended December 31, 2007 and 2006, the Group's share in the net income/(loss) of these entities was insignificant.

Investments in corporate shares where the Group owns less than 20% voting interest or does not have the ability to exercise significant influence are accounted for at cost of acquisition.

Accounts receivable – Accounts receivable are stated at their net realizable value after deducting an allowance for doubtful accounts. Such provisions reflect either specific cases or estimates based on evidence of collectibility.

Value-added taxes – Value-added taxes ("VAT") related to sales are payable to the tax authorities on an accrual basis based upon invoices issued to the customer. VAT incurred for purchases may be reclaimed, subject to certain restrictions, against VAT related to sales. VAT related to purchase transactions that are reclaimable after the balance sheet dates is recorded in taxes receivable.

Non-reclaimable VAT on real estate investments is capitalized as it is a cost necessarily incurred in the completion of the relevant project.

Buildings used for administrative purposes, plant and equipment – Buildings used for administrative purposes, plant and equipment with a useful life of more than one year are capitalized at historical cost. Cost includes major expenditures for improvements and replacements which extend useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance are charged to the statements of operations as incurred.

Buildings used for administrative purposes, plant and equipment that are retired or otherwise disposed of are eliminated from the balance sheet along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is included in the determination of net income.

Plant and equipment is depreciated on the straight-line basis over 3 to 5 years. Buildings used for administrative purposes are depreciated on the straight-line basis over 20 to 40 years.

Development rights and other intangible assets – Development rights acquired by the Group are stated at acquisition cost. The costs of development rights are amortized on a straight-line basis from the date when the project starts generating revenues until the development period expires. Development rights as of December 31, 2007 and 2006, comprise rights to develop residential property in the Western Kuntsevo district of Moscow. The development period for this project is expected to be completed in 2012. Amortization of other finite-life intangible assets is computed on a straight-line basis.

Impairment of long-lived assets – The Group periodically evaluates the recoverability of the carrying amount of its long-lived assets in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group compares undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, the Group records impairment losses to write the asset down to fair value, measured by the estimated discounted net future cash flows expected to be generated from the use of the assets. Management does not believe there should be any impairment charge recorded relating to the Group's investments in long-lived assets as of December 31, 2007 and 2006.

Construction obligations – Construction obligations represented obligations to construct apartments assumed as a result of the acquisition of rights to develop residential property in the Western Kuntsevo district of Moscow.

Income taxes – Income taxes have been computed in accordance with the laws of the countries of domicile of the Group entities. The standard income tax rate in the RF for the years ended December 31, 2007 and 2006 was 24%.

Deferred income taxes are accounted for under the liability method and reflect the tax effect of all significant temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. A valuation allowance is provided for deferred tax assets if it is more likely than not that these items will either expire before the Group will be able to realize the benefit, or the future deductibility is uncertain.

Accounting for uncertainty in income taxes – As of January 1, 2007, the Group implemented Interpretation No. 48, "Accounting for Uncertainty in Income Taxes", ("FIN 48"), which clarifies the accounting for uncertain tax positions stated in SFAS No. 109, "Accounting for Income Tax". FIN 48 applies to all tax positions that are within the scope of FAS No. 109 and requires a two-step approach for recognizing and measuring tax benefits. FIN 48 establishes a "more-likely-than-not" recognition threshold that must be met before a tax benefit can be recognized in the financial statements. To meet this threshold, the enterprise must determine that upon examination by the taxing authority, the tax position is more likely to be sustained than not, based on the technical merits of the position. Once the recognition threshold has been met, enterprises are required to recognize the largest amount of tax benefit that is greater that fifty percent likely of being realized upon ultimate settlement with the taxing authority. In both steps, enterprises must presume that the taxing authority has full knowledge of all relevant information.

(Amounts in thousands of U.S. dollars unless otherwise stated)

The adoption of FIN 48 resulted in a cumulative effect adjustment to the opening balance of retained earnings as of January 1, 2007, of USD 2,171 thousand (of which approximately USD 361 thousand for the payment of penalties and USD 6 thousand for the payment of fines). As of December 31, 2007, the Group included accruals for unrecognized income tax benefits totaling USD 5,812 thousand as a component of accrued liabilities (of which approximately USD 1,608 thousand for payments of penalties and USD 313 thousand for fines).

The Group recognizes accrued interest related to unrecognized tax benefits and penalties in income tax expenses.

The changes in unrecognized tax benefits for the year ended December 31, 2007 were as follows:

Balance at January 1, 2007	1,804
Additions based on tax positions related to the current year	3,305
Translation loss	57
Reversal of tax positions from prior years due to expiration of statute of limitations	(1,275)
Balance at December 31, 2007	**3,891**

The Group considers it reasonably possible that approximately USD 813 thousand of unrecognized tax benefit (including interest and penalties) will be reversed within the next year, due to the expiration of the statute of limitations.

As of the date of these financial statements, the tax years ended December 31, 2005, 2006 and 2007 remained subject to examination by the Russian tax authorities.

Retirement benefit and social security costs – The Group contributes to the RF state pension fund, social insurance fund and medical insurance fund on behalf of all of its current employees in the RF. In accordance with the current RF legislation, all social contributions are calculated by the application of a regressive rate from 26% to 2% to the annual gross remuneration of each employee.

Stock-based compensation – The Group accounts for stock-based compensation in accordance with the provisions of SFAS No. 123R , “Share-Based Payment”. Under SFAS No. 123R, companies must calculate and record the cost of equity instruments, such as stock options or restricted stock, awarded to employees for services received in the statement of operations. The cost of the equity instruments is measured based on the fair value of the instruments on the date they are granted and is recognized over the period during which the employees are required to provide services in exchange for the equity instruments.

Borrowing costs – The Group capitalizes interest on borrowings during the active construction period of its development projects. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. For the years ended December 31, 2007 and 2006, capitalized borrowing costs were USD 25,837 thousand and USD 10,234 thousand, respectively. Other borrowing costs were recognized as an expense in the period in which they were incurred.

(Amounts in thousands of U.S. dollars unless otherwise stated)

Advertising costs – The Group expenses the cost of advertising in the period in which it is incurred.

Minority interests – Minority interests represent the share in the book value of the net assets of the Group's entities proportional to equity interests in those entities owned, directly or indirectly, by shareholders outside of the Group.

Dividends and distributions – Dividends and distributions to shareholders are recognized at the date they are declared. The dividends are distributed in accordance with statutory legislation that allows to distribute dividends up to the amount of distributable retained earnings based on statutory financial statements of Sistema-Hals of USD 14 million (unaudited) that differs from amount of retained earnings calculated on the basis of U.S. GAAP.

Earnings per share – Basic earnings per share of common stock are computed by dividing net income by the weighted average number of common shares outstanding for the year. Diluted earnings per share of common stock reflects the maximum potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock and would then share in the net income of the Group.

The following table reconciles numerator (income) and denominator (shares) of the EPS calculation for the year ended December 31, 2006:

		Income ('000 USD)	**Shares**	**EPS (USD)**
EPS – basic	$	55,574	6,316,318	8.80

The following table reconciles numerator (income) and denominator (shares) of the EPS calculation for the year ended December 31, 2007:

		Income ('000 USD)	**Shares**	**EPS (USD)**
EPS – basic	$	34,681	10,200,006	3.40
Effect of stock option (Note 26)		-	73,312	(0.02)
EPS – diluted		-	10,273,318	3.38

Recent accounting pronouncements – In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management believes that the adoption of SFAS No. 157 will not have a material effect on the Group's financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"), which permits an entity to measure certain financial assets and financial liabilities at fair value. SFAS 159 offers an irrevocable option to carry the vast majority of financial assets and liabilities at fair value, with changes in fair value recorded in earnings. The Statement's objective is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes, without having to apply complex hedge accounting provisions. SFAS 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Group adopted the provisions of SFAS No. 159 effective January 1, 2008. Management has decided not to designate any additional financial instruments to be accounted for at the fair value effective January 1, 2008 and therefore believes that the adoption will not have a material impact on the Group's financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations, ("SFAS 141R"). SFAS 141R significantly changes the accounting for business combinations. Under SFAS 141R, an acquired entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition date fair value with limited exceptions. SFAS 141R will change the accounting treatment for certain specific acquisition related items including expensing acquisition related costs as incurred, valuing noncontrolling interests at fair value at the acquisition date and expensing restructuring costs associated with an acquired business. SFAS 141R also includes a substantial number of new disclosure requirements. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The Group is currently assessing the impact of adopting the statement.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51 ("SFAS 160"). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interest of the parent and the interests of the noncontrolling owners. SFAS 160 is effective on January 1, 2009. The Group is currently assessing the impact of adopting the statement.

In March 2008, the FASB issued FASB Statement No. 161 ("SFAS No. 161"), "Disclosures about Derivative Instruments and Hedging Activities". The new standard requires enhanced disclosures about derivative instruments and hedging activities to enable investors to better understand their effects on an entity's financial statements. SFAS No. 161 becomes effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Management is currently evaluating the potential impact, if any, of the adoption of SFAS No. 161 on the Group's financial statements.

(Amounts in thousands of U.S. dollars unless otherwise stated)

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2007 and 2006 consisted of the following:

	December 31, 2007	December 31, 2006
Cash and cash equivalents on deposit with:		
Third parties	11,590	7,542
Moscow Bank of Reconstruction and Development ("MBRD"), a subsidiary of Sistema	33,808	254,410
Total	**45,398**	**261,952**

The Group had USD 18,693 thousand and USD 240,771 thousand of deposits maturing within three months that were classified as cash equivalents as of December 31, 2007 and December 31, 2006, respectively. The weighted average interest rate on demand deposits as of December 31, 2007 and December 31, 2006 was 7.3% and 5.4%, respectively.

4. TRADE RECEIVABLES, NET

Trade receivables, net of provision for doubtful debts, as of December 31, 2007 and 2006 consisted of the following:

	December 31, 2007	December 31, 2006
Apsys	86,391	-
Saraya Russia	60,000	-
Mirax Group	30,182	-
Mosmetrostroy	8,059	-
TMK Global AG	-	15,338
Trade receivables from other third parties	4,936	12,278
Total trade receivables from third parties	**189,568**	**27,616**
Sistema K-Invest, a Sistema subsidiary	15,615	-
Manezh 13, a Sistema subsidiary	7,868	6,052
Other trade receivables from Sistema subsidiaries	2,001	1,114
Trade receivables from related parties other than Sistema subsidaries	972	153
Total trade receivables from related parties	**26,456**	**7,319**
Less: provision for doubtful debts	-	(194)
Total	**216,024**	**34,741**

(Amounts in thousands of U.S. dollars unless otherwise stated)

5. TAXES RECEIVABLE

Taxes receivable as of December 31, 2007 and 2006 consisted of the following:

	December 31, 2007	December 31, 2006
VAT receivable	43,493	34,133
Other taxes receivable	12,277	4,722
	55,770	**38,855**

6. OTHER RECEIVABLES, NET

Other receivables, net of provision for doubtful debts, as of December 31, 2007 and 2006 consisted of the following:

	December 31, 2007	December 31, 2006
Advances to and other receivables from third parties	20,228	7,279
Interest receivable from related parties	3,422	-
Prepaid expenses	4,795	4,328
Interest receivable from third parties	4,035	79
Other receivables from Sistema subsidiaries	1,097	663
Less: provision for doubtful debts	(117)	(2,578)
Total	**33,460**	**9,771**

The provision for doubtful debts as of December 31, 2006 includes a provision against an advance given for project 15, Elninskaya St. in the amount of USD 2,512 thousand. The project was completed as of December 31, 2006 and the contractor did not fulfill its obligations. As of December 31, 2007, the advance was written off against provision.

7. DEPOSITS, LOANS RECEIVABLE AND INVESTMENTS IN DEBT AND EQUITY SECURITIES

Deposits, loans receivable and investments in debt and equity securities as of December 31, 2007 and 2006 consisted of the following:

	December 31, 2007	December 31, 2006
Available-for-sale investments in marketable debt and equity securities	-	64,974
Funds under trust management	22,149	-
Loans and notes receivable from:		
- subsidiaries of Sistema	25,288	64,211
- related parties	26,226	3,464
- third parties	55,445	25,210
Time deposits in MBRD	505	6,996
Total	**129,613**	**164,855**

(Amounts in thousands of U.S. dollars unless otherwise stated)

In December 2006, the Group transferred a portfolio of its investments in debt securities into a trust managed by MBRD. As of December 31, 2006, the portfolio included promissory notes of Sistema subsidiaries in the amount of USD 32,148 thousand and debt securities of third parties in the amount of USD 64,974 thousand. The trust management agreement expired in September 2007.

In April 2007, the Group transferred a deposit in the amount of USD 50,000 thousand into two trusts managed by Renaissance Capital Investment Management Ltd ("Renaissance Capital"). As of December 31, 2007, funds under trust management were represented by the portfolio of investments managed by Renaissance Capital in the amount of USD 22,149 thousand.

Realized income from available-for-sale securities for the year ended December 31, 2007 in amount of USD 4,809 thousand was recorded in the statement of operations.

The weighted average interest rates on loans and notes receivable from Sistema subsidiaries, associates of Sistema and third parties as of December 31, 2007 were 5.5%, 13.1% and 10.0%, respectively. Substantially all loans and notes receivable held by the Group as of December 31, 2007 mature within one year from that date.

The Group's time deposits are represented by time deposits in MBRD in the amount of USD 505 thousand. The weighted average interest rate under time deposits in MBRD was 4.2% as of December 31, 2007.

8. COSTS AND ESTIMATED EARNINGS IN EXCESS OF BILLINGS ON UNCOMPLETED CONTRACTS

Costs and estimated earnings in excess of billings on uncompleted contracts as of December 31, 2007 and 2006 consisted of the following:

	December 31, 2007	**December 31, 2006**
Accumulated costs and earnings	312,017	25,578
Less: amounts billed	(192,977)	(12,497)
Total	**119,040**	**13,081**

(Amounts in thousands of U.S. dollars unless otherwise stated)

9. REAL ESTATE INVESTMENTS, NET

Real estate investments, net of accumulated depreciation as of December 31, 2007 and 2006 consisted of the following:

	December 31, 2007	December 31, 2006
Real estate developed for sale	**856,883**	**270,892**
Income producing properties		
Buildings and constructions	166,964	66,140
Less: accumulated depreciation	(11,228)	(6,599)
	155,736	**59,541**
Total	**1,012,619**	**330,433**

The depreciation charge for the years ended December 31, 2007 and 2006 amounted to USD 6,192 thousand and USD 2,759 thousand, respectively.

Real estate investments acquired during 2007 mainly consisted of the following:

Project	Share	USD thousand
Land in Odintsovsky region	74.9%	151,210
Building in Moscow at Lva Tolstogo Street	100%	135,000
Land and summer houses in Odintsovsky region	74.9%	100,366
Building in Moscow at 8 Marta Street	51%	31,382
Land in Nizhny Novgorod	100%	23,200
Long-term lease right for a land plot of 14,016 sq. meters and ownership rights for a land plot of 1,041 sq. meters in Kyiv (Ukraine)	51%	20,000
Building on Khalturinskaya Street in Moscow	100%	14,636
Land in Naro-Fominsky district of Moscow Region	100%	14,600
Plot of land in Yalta (Ukraine)	75%	561

Real estate investments disposed during 2007 mainly consisted of the following:

Project	Share	Sale price, USD thousand
Building at Kostyansky lane, Moscow	100%	49,983
Building at Kamenny Ostrov, Saint-Petersburg	50%	14,080
TRK Leto, a retail and entertainment complex in Saint-Petersburg	50%	86,400
Kamelia Health Resort, hotel in Sochi	50%	60,000

(Amounts in thousands of U.S. dollars unless otherwise stated)

10. BUILDINGS USED FOR ADMINISTRATIVE PURPOSES, PLANT AND EQUIPMENT, NET

Buildings used for administrative purposes, plant and equipment, net of accumulated depreciation, as of December 31, 2007 and 2006 consisted of the following:

	December 31, 2007	December 31, 2006
Buildings used for administrative purposes	4,127	2,454
Plant and equipment	6,122	2,260
Other assets	6,100	3,446
	16,349	8,160
Less: accumulated depreciation	(5,647)	(2,683)
Total	**10,702**	**5,477**

The depreciation charge for the years ended December 31, 2007 and 2006 amounted to USD 2,036 thousand and USD 988 thousand, respectively.

11. DEVELOPMENT RIGHTS AND OTHER INTANGIBLE ASSETS, NET

Development rights and other intangible assets, net of accumulated amortization as of December 31, 2007 and 2006 consisted of the following:

	December 31, 2007	December 31, 2006
Development rights – Kuntsevo properties	43,156	43,156
Other intangible assets	305	391
	43,461	43,547
Less: accumulated amortization	(10,232)	(3,512)
Total	**33,229**	**40,035**

The amortization charge for the years ended December 31, 2007 and 2006 amounted to USD 6,642 thousand and USD 3,397 thousand, respectively.

Development rights granted to Kuntsevo-Invest in accordance with the Decree of the Moscow City Government relate to the program for reconstruction of residential property in the Western Kuntsevo district of Moscow. Kuntsevo-Invest entered into an investment agreement with CJSC Inteko, pursuant to which Kuntsevo-Invest and CJSC Inteko shared 50% of the program's risks and rewards each. During the year ended December 31, 2007, CJSC Inteko transferred its risks and rewards for the program to PIK Group. Under the program, as subsequently amended, the Group is committed to complete construction of 190.7 thousand square meters of residential living space to be sold in the market ("commercial buildings") and of an additional 86.65 thousand square meters of residential living space to be transferred to the Moscow City Government ("municipal buildings"). As of December 31, 2007, the Group's remaining commitment under the program was to complete 162.9 thousand square meters of commercial buildings and 50.1 thousand square meters of municipal buildings.

(Amounts in thousands of U.S. dollars unless otherwise stated)

Management estimates that on the basis of the amortization policy referred to in Note 2, the estimated amortization expense is as follows:

2008	6,646
2009	6,646
2010	6,646
2011	6,646
2012	6,645
Total	**33,229**

Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible assets acquisitions, changes in useful lives and other relevant factors.

12. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures as of December 31, 2007 and 2006 consisted of the following:

	December 31, 2007	December 31, 2006
Soyuzkomint	12,604	-
Joint venture with Apsys	27,371	-
Joint venture with Saraya	5,824	-
Sibmost	2,400	2,400
Detsky Mir	1,357	-
Other	1,799	399
Total	**51,355**	**2,799**

In September 2007, the Group purchased 50% of Soyuzkomint shares for USD 12,453 thousand. Soyuzkomint owns warehouses in the Moscow Region. The investment is accounted for under equity method.

The Group does not have the ability to exercise significant influence over Sibmost's operations, and therefore accounted for the investment in 25% of Sibmost's common shares using the cost method in the financial statements for the years ended December 31, 2007 and 2006.

In June 2007, the Group purchased from a variable interest entity (as defined by FIN 46(R) "Consolidation of Variable Interest Entities"), whose primary beneficiary is Sistema, 5% of the common shares of Detsky Mir for USD 7,014 thousand. Detskiy Mir is a subsidiary of Sistema. (See also Notes 18 and 22).

(Amounts in thousands of U.S. dollars unless otherwise stated)

Fair value of the Group's share in investments in associates and in joint ventures as of December 31, 2007 estimated is as follows:

	December 31, 2007
Soyuzkomint	12,604
Joint venture with Apsys	36,000
Joint venture with Saraya	60,000

13. PAYABLES TO SUPPLIERS AND SUBCONTRACTORS

Payables to suppliers and subcontractors as of December 31, 2007 and 2006 consisted of the following:

	December 31, 2007	**December 31, 2006**
Payable for the building at Lva Tolstogo Street in Moscow	12,963	-
Payables to other third parties	39,670	30,729
Payables to the subcontractor for Siemens project, a related party (Note 19)	3,872	1,049
Payables to Sistema subsidiaries	1,724	1,699
Total	**58,229**	**33,477**

14. BILLINGS IN EXCESS OF COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

Billings in excess of costs and estimated earnings on uncompleted contracts as of December 31, 2007 and 2006 consisted of the following:

	December 31, 2007	**December 31, 2006**
Amounts billed	105,904	97,274
Less: accumulated costs and earnings	(74,240)	(71,911)
Total	**31,664**	**25,363**

(Amounts in thousands of U.S. dollars unless otherwise stated)

15. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities as of December 31, 2007 and 2006 consisted of the following:

	December 31, 2007	December 31, 2006
Payable for 50% of Soyuzkomint	12,453	-
Advances received for sale and rent of summer houses in the Moscow Region	10,600	4,278
Accrued interest expense	4,421	8,219
Payables to municipal authorities for development project in Yalta	6,742	-
Other accrued expenses and other liabilities to third parties	27,413	10,987
Other liabilities to Sistema and its subsidiaries	5,463	1,646
Total	**67,092**	**25,130**

16. LOANS AND NOTES PAYABLE

The Group’s loans and notes payable as of December 31, 2007 and 2006 consisted of the following:

	December 31, 2007	December 31, 2006
Loans and notes payable to third parties		
VTB	700,000	-
Vnesheconombank	56,000	-
Davia	61,603	-
Alfabank	12,075	-
Deutsche Bank AG	-	140,000
Nomura International plc	-	100,000
UBS AG	-	100,000
Other	24,194	27,867
	853,872	**367,867**
Loans and notes payable to Sistema and its subsidiaries		
East-West United Bank	96,000	-
MGTS	19,975	-
Other	7,990	10,100
	123,965	**10,100**
Total loans and notes payable	**977,837**	**377,967**
Current portion of loans and notes payable	103,321	362,560
Non-current portion of loans and notes payable	874,516	15,407

In August, September and October 2006, Sistema-Hals entered into one-year loan facilities with Deutsche Bank AG, Nomura International plc and UBS AG in the amounts of USD 140,000 thousand, USD 100,000 thousand and USD 100,000 thousand, respectively. The facilities are extended for the Group’s general operational needs and refinancing of its existing debt facilities and had interest rates of 8.65%, 8.45% and 8.65%, respectively. The debt was guaranteed by Sistema. The guarantee fee payable by the Group was 3% per annum. As of December 31, 2007, all of the above loans were fully repaid in accordance with the repayment schedule.

(Amounts in thousands of U.S. dollars unless otherwise stated)

In August and November 2007, the Group signed two agreements with VTB for loan facilities of USD 500,000 thousand and USD 200,000 thousand, respectively. The Group paid USD 40,000 thousand as commission under the loan facilities. The commission costs, net of accumulated amortization as of December 31, 2007 are USD 36,866 thousand. The loan facilities are payable in 60 months. The first loan facility bears effective interest rate of 8.5% per annum and was extended for the refinancing of loans from Deutsche Bank AG, Nomura International plc and UBS AG, as well as to finance the Group's investment program. The second loan facility bears the floating interest rate of LIBOR + 5.43% and is extended for the financing of the Group's investment program and operational activities. For information about pledges under the loan facilities refer to Note 23 "Guarantees and pledges". The loans are subject to certain restrictive covenants including compliance with certain financial ratios. The Group received waiver from VTB with respect to the year ended December 31, 2007.

In August 2007, the Group signed a loan agreement with Alfabank for a loan facility of USD 12,075 thousand. The loan is repayable within 12 months from the date of issuance. The floating interest rate varies from LIBOR + 5.5 % to LIBOR + 6.0% . The facilities are extended for construction of the buildings in the Western Kuntsevo district of Moscow.

In September 2007, the Group acquired Gorki-8, which had a loan agreement with Vnesheconombank in the amount of USD 56,000 thousand for the acquisition of 79 cottages with corresponding land plots in the Moscow Region. The interest rate is 9%, the loan is repayable in July 2014. For the information about pledges under the loan refer to Note 23 "Guarantees and pledges".

In November 2007, the Group issued promissory notes in the amount of USD 162,031 thousand to Davia, which in turn received loan in an equivalent amount from MBRD. As of December 31, 2007, the outstanding balance amounted to USD 61,603 thousand. The promissory notes are repayable upon demand, but not earlier than May 27, 2008. The notes bear fixed interest rate of 10.5%, that will be charged since May 27, 2008.

In November 2007, the Group obtained a loan from MGTS in the amount of USD 19,975 thousand. The loan is repayable on May 30, 2008. The fixed interest rate is 8% until March 31, 2008, afterwards the fixed interest rate is 9%. The facilities are extended for reconstruction of MGTS buildings.

In December 2007, the Group obtained a loan from East-West United Bank S.A. in the amount of USD 96,000 thousand to finance the acquisition of Istochnik. The fixed interest rate under the loan agreement is 12.6%. The loan is repayable in 3 years.

The weighted average interest rate on loans and notes payable outstanding as of December 31, 2007 and 2006 was 9.3% and 8.7%, respectively.

The schedule of repayment of debt is as follows:

Year ended December 31,	
2008	103,321
2009	20,503
2010	96,981
2011	-
2012	700,000
Thereafter	57,032
Total	**977,837**

17. CAPITAL TRANSACTIONS

The authorized share capital of Sistema-Hals as of December 31, 2007 and December 31, 2006 comprised 13,087,525 common shares, of which 11,217,094 shares were issued as of December 31, 2007 and 10,387,029 shares were outstanding.

In the year ended December 31, 2007, the amount of outstanding common shares increased by 403,815 as the stock based compensation was granted (Note 26) and subsequently decreased by 11,217 shares as shares were repurchased from a former employee for USD 2,781 thousand.

Additional paid-in capital increased in the year ended December 31, 2007 by USD 3,504 thousand, net of tax, due to the reimbursement of initial public offering costs.

18. TRANSFERS TO AND FROM SISTEMA

In the year ended December 31, 2007, Sistema-Hals sold its 100% stake in Nostro, which owns a building located at 75, Sadovnicheskaya st., Moscow, for USD 50,000 thousand to MBRD (see Note 22). Part of the excess of the sale price over the carrying value of the investment in the amount of USD 27,500 represented a return of a cash transfer to Sistema, recorded at the acquisition of the Nostro shares by the Group in 2006. This amount was recorded in the statement of changes in equity for the year ended December 31, 2007 as a transfer from Sistema.

In July 2007, Sistema-Hals acquired from parties under common control a 5% stake in Detsky Mir. The excess of the purchase price over the historical value of the assets in Sistema books in the amount of USD 5,658 thousand was recorded as a transfer to Sistema.

19. SIEMENS PROJECT

In 2003, the Group entered into a fixed price contract with Siemens to develop an office building in Moscow. In 2005 the Group signed a fixed price agreement with a subcontractor to physically construct the building. In October 2007, the subcontractor’s controlling shareholder was assigned as a vice-president of the Group in charge for construction. Management believes that this event will not effect the relationships with subcontractor. Amounts due to the subcontractor are presented in the Note 13 to these consolidated financial statements.

During 2006 and 2007, there was significant growth in the prices of materials, labor and other construction costs. As a result of this, the Group is unable to complete the project within the original budget cost estimates. The Group has initiated negotiations with Siemens to revise the contract price to recover the increased costs. At the same time, the Group is negotiating the fixed price construction agreement so that all or part of the overruns be absorbed by the subcontractor. In case the Group is unable to reach consensus with Siemens and/or the subcontractor on these matters, the Group will consider various remedial options, including actions that may lead to termination of the contract. In case the contract is terminated the Group is likely to retain the rights for the constructed building and become liable for repayment of EURO 64 million of advances received previously under the contract, while possible compensation, claims and damages to Siemens will need to be assessed. At this stage the Group is unable to estimate the amount of such compensation, claims and damages.

Due to the uncertainties referred to above, as of the reporting date, the Group is not able to reasonably determine or estimate the likely outcome of the project. No losses in relation to this project are provided for as at December 31, 2007.

(Amounts in thousands of U.S. dollars unless otherwise stated)

The following amounts in relation to this project were recorded in the consolidated financial statements as of and for the years ended December 31, 2007 and 2006:

	December 31, 2007	December 31, 2006	Total
Revenues	-	62,444	62,444
Costs	(16,898)	(45,546)	(62,444)
Financing received from Siemens, EUR thousand	64,000	64,000	-

20. OPERATING EXPENSES

Operating expenses for the years ended December 31, 2007 and 2006 comprised the following:

	2007	2006
Cost of sales	223,680	151,476
Stock-based compensation (see Note 26)	99,807	-
Payroll and other employee-related costs	41,630	24,720
Depreciation and amortization	14,872	7,144
Taxes other than income taxes	3,998	1,555
Advertising and marketing	3,261	739
Consulting services	2,847	1,617
Rent of premises and land	2,730	2,009
Security expenses	2,239	1,479
Repairs and maintenance	2,142	2,247
Other	6,324	6,917
Total	**403,530**	**199,903**

21. INCOME TAXES

The Group's provision for income taxes for the years ended December 31, 2007 and 2006 was as follows:

	2007	2006
Current tax expense	16,410	5,678
Deferred tax (benefit)/expense	(194)	10,621
Total	**16,216**	**16,299**

(Amounts in thousands of U.S. dollars unless otherwise stated)

The provision for income taxes is different from that which would be obtained by applying the statutory income tax rate of 24% to income before income tax and minority interests. The items causing this difference are as follows:

	2007	**2006**
Income tax provision computed on income before taxes at statutory rate	15,523	19,248
Adjustments due to:		
Stock-based compensation	23,954	-
Other non-deductible items	3,109	1,189
Effect of non-standard income tax rates	(26,565)	-
Other non-taxable items	(3,007)	-
Share of profit on Pokrovka 40 development project, retained by the controlling shareholder	-	(6,135)
Change in valuation allowance	1,089	369
Tax losses not carried forward	-	1,135
Prior period losses used in the current period	(1,089)	-
Change in unrecognized tax benefits	3,641	-
Currency exchange and translation differences	(439)	493
Total	**16,216**	**16,299**

During the year ended December 31, 2007, the Group entered into certain investing activities in another tax jurisdiction. The tax benefit from those transactions amounted to USD 26,565 thousand.

Temporary differences between the Russian statutory tax accounts and these financial statements give rise to the following deferred tax assets and liabilities as of December 31, 2007 and 2006.

	December 31, 2007	**December 31, 2006**
Deferred tax assets		
Tax losses carried forward	2,465	-
Depreciation	939	-
Provisions	4,706	-
Other	2,904	1,089
Less: valuation allowance	-	(1,089)
Total deferred tax assets	**11,014**	**-**
Deferred tax liabilities		
Development rights	(7,934)	(9,561)
Revenue recognition	(6,903)	(11,100)
Borrowing costs capitalized	(17,474)	-
Other	(13)	(843)
Total deferred tax liabilities	**(32,324)**	**(21,504)**

(Amounts in thousands of U.S. dollars unless otherwise stated)

22. RELATED PARTY TRANSACTIONS

In the years ended December 31, 2007 and 2006, the Group entered into the following transactions with Sistema and its subsidiaries:

	2007	2006
Revenues from development projects	50,000	2,148
Services provided	19,952	10,058
Services purchased and other expenses	(1,857)	(981)
Interest income	10,251	1,522
Interest costs	(1,960)	(3,963)

Site management services provided

Revenues from site management services provided to Sistema and its subsidiaries in the years ended December 31, 2007 and 2006 were USD 18,527 thousand and USD 8,004 thousand, respectively.

Agreements to act as a developer:

In the year ended December 31, 2007 and 2006, the Group had agreements with Detsky Mir, Sistema Mass Media and MGTS, Intourist and NIIDAR, subsidiaries of Sistema, to act as a developer for projects to redevelop properties owned by these entities. The revenues from such services for the year ended December 31, 2007 amounted to USD 625 thousand. The revenues from such services for the year ended December 31, 2006 were not material.

Services purchased and other expenses

Services purchased by the Group mostly include connection services from MTS. Other expenses include transfers to the Charity Fund “Sistema”.

Interest costs:

In the years ended December 31, 2007 and 2006, costs of the Group’s borrowings from MBRD amounted to USD 422 thousand and USD 3,742 thousand, respectively.

In the year ended December 31, 2007, costs of the Group’s borrowings from MGTS amounted to USD 147 thousand.

The Group paid USD 1,373 thousand and nil of guarantee fees to Sistema in the years ended December 31, 2007 and 2006 respectively.

Interest income

Interest income for the year ended December 31, 2007 includes USD 3,726 thousand of income received from a trust managed by MBRD and USD 5,921 thousand from a deposit in MBRD. Interest income from a deposit in MBRD in the year ended December 31, 2006 amounted to USD 1,438 thousand.

Related party balances for the years ended December 31, 2007 and 2006 are disclosed in the corresponding notes to the financial statements.

(Amounts in thousands of U.S. dollars unless otherwise stated)

23. GUARANTEES AND PLEDGES

Warranties and guarantees of work performed – The Group is contractually responsible for the quality of construction works performed subsequent to the date at which the relevant object was handed over, generally for a period up to 2 years subsequent to handover. Based upon prior experience with warranty claims, which have not been significant, no contingent liabilities have been recorded in the Group's financial statements in relation to warranties and guarantees for work performed.

Pledges – As of December 31, 2007, common shares of the Group's entities have been pledged under borrowings from MBRD as follows:

	Number of shares pledged	Number of shares pledged as a percentage of total shares
Mosdachtrest	5,609	9%

As of December 31, 2007, Sistema has pledged 1,248,000 shares of JSC Sistema-Hals as a security under the loan facility from VTB in the amount of USD 500,000 thousand.

As of December 31, 2007, the Group has pledged 669,040 shares of treasury stock as a security under the loan facility from VTB in the amount of USD 200,000 thousand.

As of December 31, 2007, the Group has pledged 40 cottages (13,184.9 sq. m) and land plots (10,695 sq. m) in the Moscow Region as a security under the loan from Vnesheconombank in the amount of USD 56,000 thousand.

As of December 31, 2007, the Group has also pledged title to apartments with fair value of USD 2,971 thousand and USD 137 thousand under obligations to Ordynka and Remstroytrest-701, respectively.

As of December 31, 2007, the Group has guaranteed MBRD's borrowings to its subsidiaries in the amount of USD 9,653 thousand.

As of December 31, 2007, the Group has granted guarantees and pledged title to apartments under Nakhimovsky project in the amount of USD 30,000 thousand. Guarantees and pledges were provided for the credit line obtained by Ferro-Stroy, the co-developer, from MBRD in the amount of USD 30,000 thousand.

As of December 31, 2007, the Group has guaranted the loans obtained by RemStroyTrest from MGTS and Golden Line, subsidiaries of Sistema, in the amounts of USD 34,682 thousand and USD 2,567 thousand respectively.

24. COMMITMENTS AND CONTINGENCIES

a) Taxation environment

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax ("VAT"), corporate income tax and payroll (social) taxes, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia that are more significant than typically found in countries with more developed tax systems. Management believes that the Group is in compliance with the tax laws affecting its operations; however, the risk remains that governmental authorities could take differing positions with regard to interpretative issues.

During the year ended December 31, 2007, the Group entered into a number of investing activities in another tax jurisdiction, their tax effect is described as "effect of non-standard income tax rates" in Note 21 "Income taxes". While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, it is possible that the tax authorities in the Russian Federation could take a differing position with regard to certain interpretive tax issues relating to the aforementioned tax savings. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

b) Russian environment and current economic situation

Over the past decade Russia has undergone substantial political and social changes. As an emerging market, Russia does not possess a fully developed business and regulatory infrastructure that would generally exist in a more mature market economy. The Russian government is attempting to address these issues; however it has not yet fully implemented the reforms necessary to create banking and judicial systems that usually exist in more developed markets. As a result, operations in Russia involve risks that typically do not exist in more developed markets.

c) Industry regulation

Construction and development of real estate in Russia is primarily governed by the Civil Code, the Federal Land Code, the City Construction Code, the Federal Law on the State Registration of Rights to Immovable Property and Transactions Therewith, construction norms and regulations approved by the Ministry of Industry and Energy, and others. Construction and development involves compliance with burdensome regulatory requirements, and authorizations from a large number of authorities at the federal, regional and local levels. In particular, the Federal Agency on Construction, Housing and the Communal Sector, or Rosstroi, the Federal Service for Supervision in the Sphere of Use of Natural Resources, the Federal Service on Ecological, Technologic and Nuclear Supervision and regional bodies of the state architectural and construction supervision are involved in the process of authorizing and supervising real estate development.

In addition, construction is subject to all applicable environmental, fire safety and sanitary norms and regulations.

The Group is constructing a number of cottages without obtaining the necessary construction permits. However, management is in the process of addressing this issue and does not foresee that this will adversely affect the Group's financial position or results of operations.

d) Legal proceedings

In the ordinary course of business, the Group may be a party to various legal and tax proceedings, and be subject to claims. In the opinion of management, the Group's liability, if any, in all current and pending litigations or other legal proceedings will not have a material effect upon the financial condition, results of operations or liquidity of the Group, other than as is already reflected in these financial statements.

e) Commitments under construction contracts

The Group has entered into agreements with third parties for construction of objects which will require capital outlays subsequent to December 31, 2007. A summary of significant commitments under construction contracts as of December 31, 2007 is provided below:

Leningradsky 39 – The Group has contracted for construction works, including foundations, shell and core, utilities and other general construction expenditures. Commitments under these contracts amounted to USD 63,307 thousand as of December 31, 2007. In addition, in connection with this project, the Group undertook obligations to provide the Central Army Sports Club ("CSCA") with 17,437 sq.m. of residential housing. As of December 31, 2007, the remaining obligation amounted to 8,775 sq.m. with approximate market value of USD 36,320 thousand.

MGTS properties – The Group entered contractual agreements for the reconstruction of certain MGTS buildings. Commitments under these contracts amounted to USD 53,210 thousand as of December 31, 2007.

Mosdachtrest properties – The Group has contracted for construction works related to Mosdachtrest properties. Commitments under these contracts amounted to USD 5,296 thousand as of December 31, 2007.

Aurora project – The Group has contracted for construction works, including construction of the roads, gas and electricity networks. Commitments under these contracts amounted to USD 15,415 thousand as of December 31, 2007.

Western Kuntsevo properties – The Group has hired a contractor to perform general construction works. Commitments under these contracts amounted to USD 101,513 thousand, including USD 81,495 thousand in relation to Elninskaya 28A Project and USD 19,555 thousand in relation to Rublevskoe shosse 111A Project as of December 31, 2007.

Zdravnitza Novaya (Rozhnovka) – The Group entered contractual agreements for a technological connection to transmission links. Commitments under the contract amounted to USD 2,990 thousand as of December 31, 2007.

Povarskaya 8 – The Group entered contractual agreements for construction of office premises. Commitments under these contracts amounted to USD 22,331 thousand as of December 31, 2007.

Pekin – The Group entered contractual agreements for construction of a Hotel and Office Centre. Commitments under these contracts amounted to USD 15,662 thousand as of December 31, 2007.

Buchvostova 12/11 – The Group entered contractual agreements for initial construction works of the project. Commitments under these contracts amounted to USD 3,019 thousand as of December 31, 2007.

TRK Leto – The Group entered contractual agreements for construction of a retail and entertainment complex in Saint-Petersburg. Commitments under these contracts amounted to USD 48,139 thousand as of December 31, 2007.

Moscow City Government – The Group has obligations to manage a number of construction projects which will be completed subsequent to the balance sheet date. The Moscow City Government has the obligation to finance these construction projects, with the Group generating commissions based on the agreed upon budget cost of the project.

f) Operating leases

With a few exceptions, land in Moscow is owned by the Moscow Government. The lease of land in Moscow is subject to a separate regulatory regime administered by the Government. As a general rule, such land lease rights are granted by the Government on the basis of an auction or tender, typically in exchange for either an upfront payment or ongoing consideration in the form of periodic lease payments. Periodic lease payments under land lease agreements in effect for the years ended December 31, 2007 and 2006 have not been significant.

Mosdachtrest leases numerous cottages to individuals at a discount to market rates as a result of the Moscow Government requirement to make available certain properties to pensioners and others entitled to social benefits. Furthermore, certain residents of Mosdachtrest settlements hold life or long-term leases, which could prevent or delay the Group from developing or redeveloping such settlements. Even if granted the right to develop or redevelop these properties, the Group would be required to transfer these residents to housing of a similar quality.

g) Commitment to maintain production at Yalta Fish Processing Plant

In the acquisition of the Yalta Fish Processing Plant, the Group assumed obligations to maintain the activities and the workforce of the plant up to the end of 2008. Management does not expect this commitment to result in significant cash outflows for the Group.

h) Environmental regulations

Environmental laws and regulations impose certain restrictions and encumbrances on the properties that the Group holds or develops. Some of the land plots under development are located in areas that have special environmental protection. In addition, the development of a project may be subject to certain obligations, including planting of greenery and clean-up measures. These requirements may result in delays in the development of projects, or additional costs.

25. SEGMENT INFORMATION

SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information”, established standards for reporting information about operating segments in financial statements. Operating segments are defined as components of an enterprise engaging in business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker or group in deciding how to allocate resources and in assessing performance.

The Group’s operating segments are: Real estate development, Project and construction management, Real estate asset management and Facility management. Activities of the Group’s Real estate development segment include identification of investment opportunities, performance of feasibility studies, obtaining necessary construction permits, project financing and marketing activities. The Project and construction management segment is currently primarily acting as a construction manager to oversee compliance by contractors with design specifications and the terms of a particular contract. The Real estate asset management segment is involved in renting of residential and commercial properties that the Group has developed or acquired. The Facility management segment provides site management services, including security, cleaning, staffing, technical support, repair and renovation, as well as general building maintenance. The Group’s management evaluates performance of the segments based on both operating income and income before income taxes and minority interests.

(Amounts in thousands of U.S. dollars unless otherwise stated)

General and administrative expenses of the managing company of the Group (Sistema-Hals) are allocated to the Real estate development segment.

The intersegment eliminations presented below consist primarily of intersegment sales transactions, elimination of interest on intersegment borrowings and other intersegment transactions conducted under the normal course of operations.

As of and for the year ended December 31, 2007	**Real estate development**	**Project and construction management**	**Real estate asset management**	**Facility management**	**Total**
Net sales to external customers	356,044	28,551	44,828	22,773	452,196
Intersegment sales	373	1,601	537	2,524	5,035
Interest income	19,043	106	425	-	19,574
Interest expense, net of amounts capitalized	(11,451)	(528)	(3,369)	-	(15,348)
Depreciation and amortization	(9,026)	(363)	(5,431)	(52)	(14,872)
Operating income	9,412	15,104	23,939	2,203	50,658
Income before income tax and minority interests	33,389	17,469	15,692	2,137	68,687
Income tax expense	(7,331)	(4,452)	(3,917)	(516)	(16,216)
Segment assets	1,678,580	64,265	147,856	8,422	1,899,123
Capital expenditures	764,272	1,777	24,782	192	791,023

As of and for the year ended December 31, 2006	**Real estate development**	**Project and construction management**	**Real estate asset management**	**Facility management**	**Total**
Net sales to external customers	206,155	39,930	26,805	10,009	282,899
Intersegment sales	250	4,741	529	1,751	7,271
Interest income	4,048	590	2	-	4,640
Interest expense, net of amounts capitalized	(6,485)	(542)	(912)	-	(7,939)
Depreciation and amortization	(3,920)	(366)	(2,846)	(12)	(7,144)
Operating income /(loss)	64,488	9,517	11,040	(953)	84,092
Income/(loss) before income tax and minority interests	66,555	9,253	6,561	(1,070)	81,299
Income tax expense	(9,690)	(3,485)	(2,971)	(153)	(16,299)
Segment assets	850,973	40,546	96,539	3,599	991,657
Capital expenditures	148,303	826	25	347	149,501

(Amounts in thousands of U.S. dollars unless otherwise stated)

The reconciliation of segment operating income to the income before income tax and minority interests and reconciliation of segment assets to the total assets of the Group are as follows:

	2007	2006
Total segment operating income	50,658	84,092
Intersegment eliminations	(1,992)	(1,096)
Other income/(loss), net	(2,140)	(372)
Interest income	14,274	4,255
Interest expense, net of amounts capitalized	(12,790)	(7,554)
Gain/(loss) on foreign currency transactions	16,567	(1,930)
Gain on sale of equity investee	-	2,808
Loss on sale of interests in a subsidiary	113	-
Income before income tax and minority interests	**63,302**	**80,203**
Total segment assets	1,899,123	991,657
Intersegment eliminations	(144,033)	(89,658)
Total assets	**1,755,090**	**901,999**

26. STOCK-BASED COMPENSATION

On May 22, 2007, the Board of Directors of Sistema-Hals approved a stock option and stock bonus program ("the Program") for senior management of Sistema-Hals. On June 25, 2007, the General Meeting of shareholders approved the stock bonus program ("the Program") for the Board of Directors of Sistema-Hals.

Within the framework of the Program on June 25, 2007 Sistema-Hals granted stock bonuses of 403,815 common shares (3.6% of total issued shares) to the Group's top managers (280,427 shares – 2.5% of total issued shares), and directors (123,388 shares – 1.1% of total issued shares). The fair value of the awards as of the grant date approximated USD 68,032 thousand and USD 29,934 thousand, respectively, and was included in operating expenses for the year ended December 31, 2007 (see Note 20).

Within the framework of the Program, in July 2007, Sistema-Hals granted stock options of 235,556 shares (2.1% of total issued shares) to certain members of the top management. Stock options entitle participants of the Program to acquire a specific number of shares of Sistema-Hals during the following 4 year period in equal amounts each year at a price determined and agreed in advance. The exercise price for these options is 201 US Dollars (calculated as 10.05 US Dollars for 1 GDR, where 1 share represents 20 GDRs). The stock price as of the grant date amounted to 236 US Dollars.

The following table summarizes information about non-vested common stock options in the year ended December 31, 2007:

	Number of shares	Exercise price (per share), USD	Grant date fair value of options (per share), USD
Outstanding as of January 1, 2007	-	-	-
Granted	235,556	201	29.36
Exercised	-	-	-
Forfeited	(89,736)	201	29.36
Outstanding as of December 31, 2007	**145,820**	**201**	**29.36**

(Amounts in thousands of U.S. dollars unless otherwise stated)

The fair value of options granted in the year ended December 31, 2007 was estimated using the Black-Scholes pricing model using the following assumptions:

Risk-free rate	4.97%
Expected dividend yield	0%
Expected volatility	26.2%
Expected option life (years)	1
Grant date fair value of options (per share)	USD 236

Compensation costs under the stock option plan of USD 1,841 thousand were recognized in consolidated statements of operations during the year ended December 31,2007.

As of December 31, 2007, there is USD 5,075 thousand of total unrecognized compensation cost related to non-vested stock-based compensation awards under stock option plan. This amount is expected to be recognized over a period of 42 months.

The stock option plan is out-of-the-money as of December 31, 2007.

27. SUBSEQUENT EVENTS

As at January 1, 2008, the Group has changed its functional currency from US Dollars to Russian Rubles in accordance with SFAS No. 52 “Foreign Currency Translation”. The change in functional currency is due to the introduction of a new policy to fix contract sales prices in Russian Rubles from January 1, 2008, as well as other changes to the Group’s activities.

In February and in April 2008, the Group obtained two tranches in the amounts of USD 35,000 thousand and USD 41,500 thousand, respectively, under a loan facility from Alfa Bank. The maximum amount of the loan facility is USD 88,800 thousand. The loan facility is repayable within 12 months and bears fixed interest rate of 13%. The Group has pledged land plots and summer houses in the Odintsovsky Region with the fair value of USD 60,460 thousand as a security under the loan facility.

In March 2008, the Group sold a complex of buildings at 8 Marta Street and its 51% share in JSC “RTI-Estate”, that owns a building at 8 Marta Street (building 10, construction 12) to JSC “RTI-Radio”, a subsidiary of Sistema, for the total amounts of USD 18,450 thousand and USD 38,553 thousand respectively.

In March 2008, the Group sold its 100% share in JSC “Rosturstroy”, which owns construction rights for 22, Rodchelskaya St., for the amount of USD 26,249 thousand. The estimated gain on the disposal is approximately USD 11,654 thousand.