JSC SISTEMA-HALS
AND SUBSIDIARIES

Consolidated Financial Statements
Years Ended December 31, 2008 and 2007

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, 2008 and 2007, 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, 2008 and 2007, 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.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company's recurring losses from operations and other factors raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 1 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Deloitte & Touche

April 30, 2009
Moscow, Russia

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND DECEMBER 31, 2007
(Amounts in thousands of U.S. dollars)

	Notes	December 31, 2008	December 31, 2007
ASSETS			
Cash and cash equivalents	4	58,328	37,538
Trade receivables, net	5	127,123	207,073
Other receivables, net	7	32,106	31,740
Deposits, loans receivable and investments in debt and equity securities	8	62,787	129,021
Assets of discontinued operations	3	-	22,533
Taxes receivable	6	75,986	55,672
Costs and estimated earnings in excess of billings on uncompleted contracts	9	192,824	119,040
REAL ESTATE INVESTMENTS, NET			
Real estate developed for sale	10	866,131	856,883
Income producing properties, net	10	345,179	155,736
Total		1,211,310	1,012,619
Buildings used for administrative purposes, plant and equipment, net	11	11,185	9,828
Development rights and other intangible assets, net	12	29,674	33,191
Investments in associates and joint ventures	13	78,119	48,955
Debt issuance costs, net of accumulated amortization	17	1,680	36,866
Deferred tax assets	22	14,620	11,014
TOTAL ASSETS		**1,895,742**	**1,755,090**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Payables to suppliers and subcontractors	14	84,960	57,546
Billings in excess of costs and estimated earnings on uncompleted contracts	15	14,387	31,664
Accrued expenses and other liabilities	16	83,537	62,551
Taxes payable		16,263	10,824
Loans and notes payable	17	1,466,387	977,837
Deferred tax liabilities	22	38,256	32,324
Liabilities of discontinued operations	3	-	6,337
TOTAL LIABILITIES		1,703,790	1,179,083
COMMITMENTS AND CONTINGENCIES	25	-	-
MINORITY INTERESTS		34,024	27,060
SHAREHOLDERS' EQUITY			
Share capital		20,492	20,492
Treasury stock		(1,600)	(1,576)
Additional paid-in capital		527,280	529,910
Accumulated other comprehensive loss		(12,446)	-
(Accumulated deficit)/Retained earnings		(375,798)	121
TOTAL SHAREHOLDERS' EQUITY	18	157,928	548,947
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,895,742**	**1,755,090**

* – The comparative information for the year ended December 31, 2007 reflects adjustments related to presentation of discontinued operations (Note 3).

See notes to consolidated financial statements.

JSC SISTEMA-HALS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Amounts in thousands of U.S. dollars, except for share and per share amounts)

	Notes	2008	2007
REVENUES		361,957	423,645
OPERATING EXPENSES	21	(486,429)	(391,040)
OPERATING (LOSS)/INCOME		(124,472)	32,605
OTHER INCOME/(EXPENSES):			
Other expenses, net		(10,421)	(1,597)
Interest income		12,026	14,162
Interest expense		(82,722)	(12,695)
(Loss)/gain on foreign currency transactions		(138,410)	15,158
(Loss)/income from associates and joint ventures		(11,446)	214
Gain on sale of a subsidiary		1,012	113
(LOSS)/INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX AND MINORITY INTERESTS		(354,433)	47,960
Income tax expense	22	(15,257)	(11,449)
(LOSS)/INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTERESTS		(369,690)	36,511
Minority interests		(6,485)	(6,158)
(LOSS)/INCOME FROM CONTINUING OPERATIONS		(376,175)	30,353
Income from discontinued operations, net of income tax effect of USD 1,382 and USD 4,767 respectively and minority interest of USD 1,741 and USD 7,634 respectively	3	1,803	4,328
Loss from disposal of discontinued operations, net of income tax effect of USD 513	3	(6,725)	-
NET (LOSS)/INCOME		**(381,097)**	**34,681**
Weighted average number of common shares outstanding:			
Basic and diluted		10,377,318	10,200,006
(Loss)/earnings per share, basic and diluted, U.S. dollars:			
(Loss)/income from continuing operations		(36.25)	2.98
(Loss)/income from discontinued operations		(0.47)	0.42
Net (loss)/income		(36.72)	3.40

* – The comparative information for the year ended December 31, 2007 reflects adjustments related to presentation of discontinued operations (Note 3).

See notes to consolidated financial statements.

JSC SISTEMA-HALS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Amounts in thousands of U.S. Dollars)

	2008	2007
OPERATING ACTIVITIES:		
Net (loss)/income	(381,097)	34,681
Adjustments to reconcile net income to net cash used in operations:		
Depreciation and amortization	23,980	14,873
(Gain)/loss on disposal of plant and equipment	(219)	47
Minority interests	6,485	13,793
Loss from disposal of discontinued operations	6,725	-
Gain from discontinued operations	(1,803)	-
Gain on disposal of interest in subsidiaries and affiliates	(1,012)	(113)
Gain on sale of real estate investments	(20,530)	(157,989)
Stock-based compensation	(422)	99,807
Deferred tax expense/(benefit)	(2,318)	(194)
Bad debt expense	42,832	-
Provision for losses on construction contracts	25,389	
Foreign currency transactions loss/(gain) on loans and notes payable	147,810	(7,796)
Gain on sale of short-term investments	-	(4,809)
Amortization of debt issuance costs	32,882	3,134
Impairment of real estate investment	41,838	-
Impairment of investments in associates and joint ventures	4,878	-
Impairment of costs and estimated earnings in excess of billings on uncompleted contracts	4,408	-
Loss from affiliates	11,446	(214)
Changes in operating assets and liabilities:		
Increase in trade receivables	5,607	(52,980)
Increase in other receivables	(16,098)	(23,499)
Increase in taxes receivable	(37,280)	(18,026)
Increase in costs and estimated earnings in excess of billings/decrease in billings in excess of costs and estimated earnings on uncompleted contracts	(151,921)	(113,733)
Increase in payables to suppliers and subcontractors	69,182	11,088
Increase in accrued expenses and other liabilities	14,005	31,082
Increase in taxes payable	7,585	9,506
Net cash used in operating activities	**(167,648)**	**(161,342)**
INVESTING ACTIVITIES:		
Payments for real estate investments	(518,459)	(713,416)
Proceeds from sale of real estate investments	123,645	68,254
Proceeds from disposal of property, plant and equipment	1,537	-
Payments for plant and equipment and intangible assets	(6,191)	(8,672)
Payments for loans and notes receivable	(9,450)	(189,628)
Proceeds from loans and notes receivable issued	49,308	143,597
Short-term deposits	(11,238)	(50,000)
Repayments of short-term deposits	21,874	146,896
Long-term deposits	(11,229)	-
Payments for shares in associates	(1,338)	(2,737)
Proceeds from sale of subsidiary, net of cash disposed	(6,746)	(362)
Proceeds from sale of shares in associate	3,490	25
Net cash used in investing activities	**(364,797)**	**(606,043)**

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Amounts in thousands of U.S. dollars)

	2008	2007
FINANCING ACTIVITIES:		
Purchase of treasury stock	(2,232)	(2,781)
Principal payments on long-term borrowings	(138,651)	(10,226)
Proceeds from long-term borrowings	386,621	729,201
Debt issuance costs	-	(40,000)
Principal payments on short-term borrowings	(67,305)	(438,609)
Proceeds from short-term borrowings	370,083	294,884
Capital contributions from Sistema	5,177	27,500
Distribution to Sistema	-	(5,658)
Dividends paid to minority shareholders of subsidiaries	(986)	(4,655)
Net cash provided by financing activities	**552,707**	**549,656**
Effects of foreign currency translation on cash and cash equivalents	(7,333)	1,175
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	12,930	(216,554)
CASH AND CASH EQUIVALENTS, beginning of the year	**45,398** (1)	**261,952**
CASH AND CASH EQUIVALENTS, end of the year	**58,328**	**45,398**(1)
SUPPLEMENTAL INFORMATION:		
Income taxes paid	16,604	13,423
Interest paid, net of amount capitalized	89,764	38,109
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Amounts owed for capital expenditures	4,448	14,811
Payable related to acquisition of investments	12,368	15,267

(1) – Including cash and cash equivalents of PSO Sistema-Hals and Organizator, entities within the project and construction management segment disposed in the current year. As of December 31, 2007 the cash and cash equivalents of these two entities was USD 7,860.

In addition, non-cash investing and financing activities for the years ended December 31, 2008 and 2007 included the stock option and stock bonus program, as described in Note 27.

See notes to consolidated financial statements.

JSC SISTEMA-HALS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Amounts in thousands of U.S. dollars)

	Share capital		Treasury stock					
	Shares	**Amount**	**Shares**	**Amount**	**Additional paid-in capital**	**Accumulated other comprehensive income**	**Retained earnings/ (Accumulated deficit)**	**Total**
Balances at January 1, 2007	**11,217,094**	**20,492**	**(1,222,663)**	**(2,322)**	**430,126**	**-**	**(54,550)**	**393,746**
Effect of FIN 48 adoption	-	-	-	-	-	-	(2,171)	(2,171)
Stock-based compensation (Note 27)	-	-	403,815	767	99,040	-	-	99,807
Acquisition of treasury stock	-	-	(11,217)	(21)	(2,760)	-	-	(2,781)
Reimbursement of initial public offering costs, net of tax	-	-	-	-	3,504	-	-	3,504
Transfers from Sistema (Note 19)	-	-	-	-	-	-	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**
Reversal of stock-based compensation (Note 27)	-	-	-	-	(422)	-	-	(422)
Acquisition of treasury stock (Note 18)	-	-	(11,217)	(24)	(2,208)	-	-	(2,232)
Effect from change in functional currency, net of income tax effect of USD 2,023 and minority interest of USD 6,067	-	-	-	-	-	59,730	-	59,730
Foreign currency translation adjustment, net of income tax effect of nil	-	-	-	-	-	(72,176)	-	(72,176)
Transfers from Sistema (Note 19)	-	-	-	-	-	-	5,178	5,178
Net loss	-	-	-	-	-	-	(381,097)	(381,097)
Balances at December 31, 2008	**11,217,094**	**20,492**	**(841,282)**	**(1,600)**	**527,280**	**(12,446)**	**(375,798)**	**157,928**

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, 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:

1. Sale of completed development projects, both commercial and residential, as well as the sale of rights for land;
2. Rental income from completed development projects held as investments; and
3. Facility management services.

The Group’s 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. The majority of the Group entities are incorporated in the RF.

The Group’s operations were significantly impacted in 2008 by the worldwide economic slowdown. In late 2008, a number of major economies around the world, including Russia, experienced volatile capital and credit markets. These volatile markets resulted in a number of major global financial institutions being placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. In the countries where the Group operates this impacts of the economic slowdown is evidenced in reduced consumer spending, a decrease in the market value of properties and decreased demand for property, increase in unemployment and a reduction in available credit. In addition, in late 2008 the Rouble devaluated significantly against the USD, the currency in which the Group has significant borrowings. The devaluation of the Rouble resulted in the group recognizing a foreign currency loss of USD 138,410 in the year ended December 31, 2008.

At December 31, 2008, the Group has an accumulated deficit of USD 375,798 and recognized a loss of USD 381,097 for the year ended December 31, 2008. In addition, the Group has negative operating cash flows and has invested significantly in real estate investements. This has resulted in an increase in the Group’s indebtedness by USD 488,550 during the year ended December 31, 2008.
During the next year the Group is due to repay debt in the amount of USD 414,179 a significant portion of which relates to loans received from Alfabank, Raiffeisenbank and Sistema subsidiaries in the amounts of USD 90,001, USD 34,036 and USD 301,585, respectively.

The factors listed above, and the Group’s ability to complete projects currently under development and to fund its contractual commitments/co-investment contracts, requires a significant amount of capital and liquidity, and this has been addressed by management as discussed below..

The management of the Group has assessed its current strategic and operations intentions, the future profitability of its operations based on current market conditions, its cash requirements and its ability to access to financing and the associated cost of such financing. Based on this assessment management has taken the following actions:

- Management has assessed it current portfolio of projects and has prioritized those that it believes are more strategic to the Group and suspended the other activities in order to reduce its cash requirements;
- In December 2008, the Board of Directors of the Sistema Hals approved an expenditure reduction program. This program has an objective of reducing the selling, general and administrative expenses by approximately 50%. The program includes a reduction in the levels of support personnel, rationalization of the Group's office accommodation requirements, and suspension expenditure on of IT projects and office renovation, as well as other initiatives;
- During November 2008, the Group modified its debt agreement with VTB resulting in a conversion of USD 700,000 of borrowings into Rouble denominated debt, which reduced the Group's exposure to fluctuations in the RUB/USD;
- Subsequent to year-end, in conjunction with the sale by Sistema of part of its interest in the Company to VTB, the Group's borrowings from VTB are to be restructured; and
- Subsequent to year end, the Group issued 5 million bond securities with a par value of Rubles 1,000 each. The bonds Series 1 bear a coupon rate of 15%, and the bonds Series 2 bear a coupon rate of 12%. Both Series mature in 2014. The cash received as a result of the bonds issue was used to repay the current debt of the Group.

Management believes the based on the actions completed, the cost reduction initiative, and its current projections described above, that it will have adequate liquidity to continue fund its liabilities and operations and continue as a going concern for the next year.

These consolidated financial statements have been prepared based on the assumption that the Group is able to continue its business as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

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, Euros and in Ukrainian hryvna 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.

Principles of consolidation – The consolidated financial satements include the accounts of Sistema and the entities that it controls or where it is determined to be the primary beneficiary. Control is determined primarily based on voting powers. The primary beneficiary for variable interest entities is determined based on when the Group absorbs a majority of the entity's losses, receives a majority of the entity's expected residual returns, or both..

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

The ownership interest of Sistema-Hals and the proportion of its voting power in its major subsidiaries as of December 31, 2008 and 2007 were as follows:

	Ownership interest and voting power	
Operating entities	**December 31, 2008**	**December 31, 2007**
Kuntsevo-Invest	100%	100%
Sistema-Hals Nord-West	76%	76%
IRT	100%	100%
TRK Kazan	100%	100%
Mosdachtrest	58%	57%
Landshaft-2	100%	100%
Organizator	-	51%
PSO Sistema-Hals	-	51%
Hals-Stroy	100%	100%
City-Hals	100%	100%
Bolshoy City	100%	100%
Yalta Fish Plant	98%	98%
RTI-Estate	-	51%
Sapidus	100%	100%
Gorki-8	75%	75%
Istochnik	75%	75%

In addition, at December 31, 2008 the consolidated financial statements include to investments where the Group has been determined to be the primary benificiary. These include the following:

- The Group granted guarantees for the credit facilities obtained from Merrill Lynch International and GazPromBank by Remstroytrest-701 (see Note 17). The loans were obtained by Remstroytrest-701 to acquire the building located at Novodanilovskaya Naberezhnaya in Moscow. Upon this transaction the Group determined it is now the primary beneficiary of Remstroytrest-701 and this entity was consolidated under the provisions of FIN 46(R).
- The Group also consolidated Triada Invest under the provisions of FIN 46(R) as Triada Invest has an insignificant amount of equity and the main part of its borrowings were obtained from the Group, which is considered the primary beneficiary of Triada Invest.

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, revenues and expenses and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Examples of significant estimates include the cost to complete projects, the recoverability of real estate investments, the allowance for doubtful receivables and valuation allowances on deferred tax assets.

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 complexed, 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.

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 main credit risk exposure is associated with trade accounts receivable and loans and notes receivable. The Group has a relatively small number of significant value receivables. As of December 31, 2008 the allowance for doubtful trade accounts receivable and loans and notes receivable amounted to USD 33,965 and USD 6,673 respectively.

Liquidity risk – The Group is exposed to liquidity risk which is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. In order to meet its financial obligation and to finance operating activity in the fourth quarter 2008 the Group obtained financing from Sistema.

Foreign Currency Translation – Through December 31, 2007 the functional currency of the substantial majority of the Group's operations was the US dollar because the majority of revenues, costs and real estate investments, debt and trade liabilities were either priced, incurred, payable or otherwise measured in U.S. dollars.

Beginning 2008, the subsidiaries of the Group domiciled in Russia introduced a policy to contract sales in Russian rubles or where this was not the case to contract at a fixed exchange rate for residential and commercial real estate sale contracts which are denominated in U.S. dollars or unit equivalents and undertook certain other measures to ensure business is transacted in Russian rubles. As a result of this change in policy, there was a significant shift in the currency in which sales were denominated from U.S. dollars to rubles. Further, during the year, the Group refinanced its U.S. dollar borrowings with VTB to rubles (refer to Note 17). Accordingly, the Group's subsidiaries in the Russian Federation changed their functional currency from U.S. dollars to Russian rubles beginning January 1, 2008. Pursuant to the provisions of U.S. Statement of Financial Accounting Standards ("SFAS") No. 52, Foreign Currency Translation, the effect of this change in functional currency has been accounted for prospectively.
All non-monetary assets and liabilities were retranslated at the date of the change, resulting in approximately $59,730 million net of income taxes of $2,023, of the translation adjustment recorded in the statement of changes in shareholder's equity as part of other comprehensive income at the date of the change.

The Group has retained the U.S. dollar as its reporting currency, which is consistent with the presentation currency of Sistema. Therefore, the financial statements, after the change of the functional currency, were translated into the reporting currency in accordance with SFAS No. 52 using the current rate method.

Under the current rate method, assets and liabilities are translated into U.S. dollars at exchange rates prevailing on the balance sheet date. Revenues, expenses, gains and losses are translated into U.S. dollars at exchange rates prevailing at the time those elements are recognized or using close approximations of such rates. Shareholders' equity is translated at the applicable historical rates. The resulting translation gain/(loss) is recorded as a separate component of other comprehensive income.

Revenue recognition – The Group's revenues are principally derived from i) the provision of property construction services (ii) the sale of completed development projects, both commercial and residential, as well as the sale of rights for land iii) rental income from completed development projects held as investments; and iv) facility management services. The Group records revenues as follows:

(i) Property construction services

The Group provides project construction services to mid-size and large corporates. Prior to the sale of its construction management division (Note 3), the Group also provided project construction and management services to municipal governments on certain socially important infrastructure projects.

When the Group acts as a contractor under construction contracts, the Group recognizes contract revenue in accordance with American Institute of Certified Public Accountants Statement of Position ("SOP") No. 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts ("SOP 81-1").

In accordance with SOP 81-1, the Group recognizes revenue on fixed-price contracts using the percentage-of-completion method. Under this method for revenue recognition, the Group estimates the progress towards completion to determine the amount of revenue and profit to recognize on all significant contracts. The Group generally utilizes an efforts-expended, cost-to-cost approach in applying the percentage-of-completion method under which revenue is earned in proportion to total costs incurred divided by total costs expected to be incurred.

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.

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 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.

(ii) Sale of completed real estate development

The Group derives revenue through the sale of completed commercial and residential properties. Revenues from the sale of completed real estate development activities are recognized in accordance with the provisions of SFAS 66 "Accounting for Sales of Real Estate".

When the Group undertakes real estate development projects, 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. Revenue is recognized when (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, in accordance with SFAS 66, 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. The application of the percentage-of-completion method with regards to these development properties is consistent with the method applied for property construction services as described above.

The Group also sells completed commercial buildings through the sale of the Group's equity interest in the companies which holds such property. Revenue from the 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.

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.

(iii) Rental income from properties held as investments

The Group has a number of developments where it generates income 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.

Rental revenues are recognized over the lease term on a straight-line basis.

(iv) Facility management

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

Fair Value Measurements – Effective January 1, 2008, the Group adopted SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 requires a new framework for measuring fair value of financial and non-financial instruments and expands related disclosures.

Fair value is determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

The valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, whilst unobservable inputs reflect our market assumptions. Observable inputs are used as the preferred source of inputs. Unobservable inputs are only used in the absence of market inputs.

The inputs are categorized into the following fair value hierarchy:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Significant inputs to the valuation model are unobservable.

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, 2008 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 with a fixed interest nature does not approximate the carrying amount of those financial instruments as of December 31, 2008. The fair value of significant investments in associates and joint ventures is presented in Note 13 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 are 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 private companies are carried at cost, less provisions for other than temporary impairment in value.

Investments in associates and joint ventures – The Group's investments in entities in which it 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"), are accounted for using the equity method of accounting. Under the equity method of accounting, the Company records its investments in equity-method investees in the consolidated balance sheet under Investments in associates and joint ventures and records its share of the investees' earnings or losses together with other-than-temporary impairments in value as a component of operating income. In the years ended December 31, 2008 and 2007, the Group's share in the net income/(loss) of these entities amounted to USD 11,446 loss and USD 214 income, respectively.

Accounts receivable – Accounts receivable are stated net of an allowance for doubtful accounts. Such allowance reflects either specific cases or estimates based on historical experience of the Group on collectibility of these receivables adjusted for changes in expectations.

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 date 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, 2008 and 2007, 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 over a period of four years.

Impairment of long-lived assets other than goodwill and investments – The Group periodically evaluates the recoverability of the carrying amount of its long-lived assets other than goodwill and investments in accordance with SFAS No. 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. In the year ended December 31, 2008 the Group recognized an impairment charge relating to such assets of USD 41, 838.

Impairment of Goodwill – Goodwill is not amortized to operations, but instead is reviewed for impairment, at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In accordance with SFAS No. 142 "Goodwill and Other Intangible Assets" ("SFAS No. 142"), goodwill is reviewed for impairment by comparing the carrying value of each reporting unit's net assets (including allocated goodwill) to the fair value of those net assets. If the reporting unit's carrying amount is greater than its fair value, then a second step is performed whereby the portion of the fair value that relates to the reporting unit's goodwill is compared to the carrying value of that goodwill. The Company recognizes a goodwill impairment charge for the amount by which the carrying value of goodwill exceeds the fair value. The Company has determined that there are no impairment losses in respect of goodwill for any of the reporting periods covered by these consolidated financial statements.

Construction obligations – Construction obligations represent 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, 2008 and 2007 was 24%. From January 1, 2009 the RF government has approved an income tax rate of 20%.

The Group provides for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No.109, "Accounting for Income Taxes" ("SFAS No. 109") and Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48").

Uncertain tax positions are recognized in the consolidated financial statements for positions which are considered more likely than not of being sustained based on the technical merits of the position on audit by the tax authorities. The measurement of the tax benefit recognized in the consolidated financial statements is based upon the largest amount of tax benefit that, in management's judgement, is greater than 50% likely of being realized based on a cumulative probability assessment of the possible outcomes.

Deferred tax assets and liabilities are recognized for differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the tax bases of assets and liabilities that will result in future taxable or deductible amounts. The deferred tax assets and liabilities are measured using the enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company recognizes interest relating to unrecognized tax benefits and penalties within income taxes.

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, 2008 and 2007, capitalized borrowing costs were USD 59,520 and USD 25,837, respectively. Other borrowing costs were recognized as an expense in the period in which they were incurred.

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 distribution of dividends up to the amount of distributable retained earnings based on the statutory financial statements of Sistema-Hals. As of December 31, 2008 Sistema-Hals recognized an accumulated deficit of USD 89.8 million (unaudited) in it's statutory financial statements which would preclude the payment of dividends by Sistema-Hals. The accumulated deficit recognized in the statutory financial statements differs from the amount of accumulated deficit 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.Earnings per share is disclosed separately for continuing and discontinued operations.

Recent accounting pronouncements

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS No. 162"). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP (the GAAP hierarchy). This statement will be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles". The Group does not believe that the adoption of SFAS No. 162 will have an impact on its consolidation financial position, results of operations or cash flows.

In June, the FASB issued FASB Staff Position ("FSP") on Emerging Issues Task Force ("EITF") No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("FSP-EITF No. 03-6-1"). Under FSP-EITF No. 03-6-1, unvested share-based payments awards that contain rights to receive nonfortfeitable dividends (where paid or unpaid) are participating securities, and should be included in the two-class method of computing earnings per share. FSP-EITF No. 03-6-1 is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. The Group does not expect the adoption of FSP-EITF No. 03-6-1 to have a material impact on the determination of its earnings per share.

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.

In April 2008, the FASB issued FASB Staff Position (FSP) FAS 142-3, Determination of the Useful Life of Intangible Assets. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008 and early adoption is prohibited. Management are currently evaluating the impact of the pending adoption of FSP FAS 142-3 on the Group's consolidated financial statements.

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements. Statement 157 defines fair value, establishes a framework for measuring fair value and expands fair value measurement disclosures. In February 2008, the FASB issued FASB Staff Position No. FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 and FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157. Collectively, the Staff Positions defer the effective date of Statement 157 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities except for items that are recognized or disclosed at fair value on a recurring basis at least annually, and amend the scope of Statement 157. We have adopted Statement 157 except for those items specifically deferred under FSP No. FAS 157-2. Management is currently evaluating the impact of the full adoption of Statement 157 on our consolidated financial statements. SFAS No. 157 also established a hierarchy that classifies the inputs used to measure fair value. This hierarchy prioritizes the use of inputs used in valuation techniques into three levels based on observable and unobservable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Group. Unobservable inputs, which require more judgment, are those inputs described above that reflect management’s views on the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs.

In June 2008, the FASB issued FASB Staff Position (FSP) EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.” Under the provisions of this standard, unvested awards of share-based payments with rights to receive dividends or dividend equivalents, such as our restricted stock units (RSUs), are considered participating securities for purposes of calculating earnings per share. As a result, these participating securities will be included in the weighted average number of shares outstanding as disclosed on the face of the income statement. This FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior period earnings per share data presented in financial reports after the effective date shall be adjusted retrospectively to conform to the provisions of this FSP. Early application is not permitted. The Group has evaluated the potential impact of this standard and anticipates it will have no material impact on our previously reported earnings per share amounts.

In October 10, 2008, the FASB issued FSP FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active,” which clarifies how companies should apply the fair value measurement methodologies of SFAS 157 to financial assets when markets they are traded in are illiquid or inactive. Under the provisions of this FSP, companies may use their own assumptions about future cash flows and appropriately risk-adjusted discount rates when relevant observable inputs are either not available or are based solely on transaction prices that reflect forced liquidations or distressed sales. This FSP is effective as of September 30, 2008. There was no impact to our financial position or results of operations from the adoption of this FSP.

In February 2007, the FASB issued FASB Statement No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115” (“SFAS No. 159”), which permits an entity to measure certain financial assets and financial liabilities at fair value. SFAS No. 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 fair value option, or FVO). Effective January 1, 2008, the Group adopted SFAS No. 159. On adoption and as of December 31, 2008, the Group did not elect to measure any financial instruments and liabilities at fair value other than those required to be accounted for at fair value under other accounting standards. Therefore, the adoption of SFAS No. 159 did not have any impact on the Group’s financial position, results of operations or cash flows.

In December 2007, the FASB issued FASB Statement No. 141R, “Business Combinations” (“SFAS No. 141R”), and FASB Statement No. 160, “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51” (“SFAS No. 160”). These statements change the way companies account for business combinations and noncontrolling interests (minority interests in current GAAP). SFAS No. 141R and SFAS No. 160 will require, among other changes: (a) more assets acquired and liabilities assumed to be measured at fair value as of the acquisition date; (b) liabilities related to contingent consideration to be remeasured at fair value in each subsequent reporting period; (c) an acquirer to expense acquisition-related costs; and (d) noncontrolling interests in subsidiaries initially to be measured at fair value and classified as a separate component of equity. Both Statements are to be applied prospectively (with one exception related to income taxes) for fiscal years beginning on or after December 15, 2008. However, SFAS No.160 requires entities to apply the presentation and disclosure requirements retrospectively (e.g., by reclassifying noncontrolling interests to appear in equity) to comparative financial statements, if presented. Both standards prohibit early adoption. The Group expects SFAS No.141R will have an impact on its accounting for future business combinations once adopted, but the effect is dependent upon the acquisitions that are made in the future.

In connection with the issuance of SFAS No. 160, EITF Topic D-98, “Classification and Measurement of Redeemable Securities” (“Topic D-98”), was revised to include the SEC Staff’s views regarding the interaction between Topic D-98 and SFAS No. 160. The revised Topic D-98 indicates that the classification, measurement, and earnings-per-share guidance required by Topic D-98 applies to noncontrolling interests (e.g., when the noncontrolling interest is redeemable at a fixed price or fair value by the holder or upon the occurrence of an event that is not solely within the control of the issuer). The revisions to Topic D-98 that are specific to accounting for noncontrolling interests should be applied no later than the effective date of SFAS No. 160.

In November 2008, the FASB issued EITF Issue No. 08-6, “Equity Method Investment Accounting Considerations” (“EITF Issue No. 08-6”). EITF Issue No. 08-6 considers the effects of the issuances of SFAS No. 141R and SFAS No. 160 on an entity’s application of the equity method under Opinion 18, “The Equity Method of Accounting for Investments in Common Stock,” i.e. determination of the initial carrying value of an equity-method investment, impairment assessment of an underlying indefinite-lived intangible asset of an equity-method investment, accounting for issuance of shares by an equity investee, and accounting for a change in an investment from the equity method to the cost method. EITF No. 08-6 is effective for transactions occurring in fiscal years beginning on or after December 15, 2008 and interim periods within those fiscal years. Early adoption is not permitted. The Group does not expect the adoption of EITF No. 08-6 to have a significant impact on its financial position, results of operations and cash flows.

In November 2008, the FASB issued EITF Issue No. 08-7, “Accounting for Defensive Intangible Assets” (“EITF Issue No. 08-7”). EITF Issue No. 08-7 applies to all acquired intangible assets in situations in which an entity does not intend to actively use the asset but intends to hold (lock up) the asset to prevent others from obtaining access to the asset (a defensive intangible asset), except for intangible assets that are used in research and development activities. The EITF reached a consensus that a defensive intangible asset should be accounted for as a separate unit of accounting and should be assigned a useful life that reflects the entity's consumption of the expected benefits related to the asset, noting that it would be rare for a defensive intangible asset to have an indefinite life. This EITF Issue No. 08-7 is effective for intangible assets acquired on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Group expects EITF Issue No. 08-7 will have an impact on its accounting for future acquisitions of intangible assets once adopted, but the effect is dependent upon the acquisitions that are made in the future.

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

3. DISCONTINUED OPERATIONS

PSO Sistema-Hals and Organizator

In November 2008 the Group sold its stake in two entities, PSO Sistema-Hals and Organizator, which represented the Project and construction management segment of the Group. The transaction resulted in a loss from disposal of USD 6,725, net of income tax of USD 513.

The summarized, combined statements of operations for discontinued operations were as follows:

	December 31, 2008	**December 31, 2007**
Revenues	15,688	28,551
Operating expenses	(10,139)	(12,491)
Operating income	5,549	16,060
Other (loss)/income	(623)	669
Income tax expense	(1,382)	(4,767)
Minority interest	(1,741)	(7,634)
Income from discontinued operations	1,803	4,328

The assets and liabilities of discontinued operations as of December 31, 2007 consisted of the following:

	December 31, 2007
Cash and cash equivalents	7,860
Trade receivables, net	8,951
Other receivables, net	1,720
Investments in associates and joint ventures	2,400
Other assets	1,602
Total assets of discontinued operations	**22,533**
Payables to suppliers and subcontractors	683
Accrued expenses and other liabilities	4,541
Taxes payable	1,113
Total liabilities of discontinued operations	**6,337**

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

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2008 and 2007 consisted of the following:

	December 31, 2008	December 31, 2007
Cash and cash equivalents on deposit with:		
Third parties	43,270	7,883
Moscow Bank of Reconstruction and Development (“MBRD”), a subsidiary of Sistema	15,058	29,655
Total	**58,328**	**37,538**

The Group had USD 11,089 and USD 18,693 of deposits maturing within three months from origination (purchase) that were classified as cash equivalents as of December 31, 2008 and December 31, 2007, respectively. The weighted average interest rate on demand deposits as of December 31, 2008 and December 31, 2007 was 8% and 7.3%, respectively.

5. TRADE RECEIVABLES, NET

Trade receivables, net of allowance for doubtful debts, as of December 31, 2008 and 2007 consisted of the following:

	December 31, 2008	December 31, 2007
Saraya Russia	20,000	60,000
Mirax Group	18,965	30,182
Brysongate	15,000	-
Trade receivables from other third parties	6,678	4,924
Total trade receivables from third parties	**60,643**	**95,106**
Apsys, a joint venture (refer Note 13)	50,391	86,391
RTI-Radio, a Sistema subsidiary	46,598	-
Other trade receivables from Sistema subsidiaries	2,675	1,949
Trade receivables from related parties other than Sistema subsidaries	626	144
Manezh 13, a Sistema subsidiary	155	7,868
Sistema K-Invest, a Sistema subsidiary	-	15,615
Total trade receivables from related parties	**100,445**	**111,967**
Less: allowance for doubtful debts	(33,965)	-
Total	**127,123**	**207,073**

In the year ended December 31, 2008 the Group recognized an allowance for bad debt expense in relation to the accounts receivable from Mirax Group and Brysongate in the total amount of USD 33,965.

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

6. TAXES RECEIVABLE

Taxes receivable as of December 31, 2008 and 2007 consisted of the following:

	December 31, 2008	December 31, 2007
VAT receivable	47,613	43,439
Other taxes receivable	28,373	12,233
Total	**75,986**	**55,672**

Other taxes receivable represent mainly advances paid for income tax.

7. OTHER RECEIVABLES, NET

Other receivables, net of allowance for doubtful debts, as of December 31, 2008 and 2007 consisted of the following:

	December 31, 2008	December 31, 2007
Prepaid expenses	3,573	4,564
Advances to and other receivables from third parties	11,781	20,228
Other receivables from Sistema subsidiaries	8,937	753
Interest receivable from related parties	7,169	3,422
Interest receivable from third parties	1,382	2,546
Interest receivable from Sistema subsidiaries	883	344
Less: allowance for doubtful debts	(1,619)	(117)
Total	**32,106**	**31,740**

In the year ended December 31, 2008 the Group recognized an allowance for bad debt expense relating to interest receivable from third parties in the amount of USD 1,502.

8. DEPOSITS, LOANS RECEIVABLE AND INVESTMENTS

Deposits, loans receivable and investments in debt and equity securities as of December 31, 2008 and 2007 consisted of the following:

	December 31, 2008	December 31, 2007
Loans and notes receivable from:		
- third parties	30,925	54,853
- subsidiaries of Sistema	30,445	25,288
- related parties	8,090	26,226
Funds under trust management	-	22,149
Time deposits in MBRD	-	505
Total	**69,460**	**129,021**
Less: allowance for doubtful debts from third parties	(6,673)	-
Total	**62,787**	**129,021**

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

The weighted average interest rates on loans and notes receivable from Sistema subsidiaries, related parties and third parties as of December 31, 2008 were 1.74%, 10.55% and 1.83%, respectively. Substantially all loans and notes receivable held by the Group as of December 31, 2008 mature within one year from that date.

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. In the year ended December 31, 2008, the trust management account was closed.

As of December 31, 2007 the Group's time deposits were represented by time deposits in MBRD in the amount of USD 505. As of December 31, 2008 there were no time deposits.

In the year ended December 31, 2008 the Group recognized an allowance for bad debt expense relating to loans and notes receivable from third parties in the amount of USD 6,673.

9. 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, 2008 and 2007 consisted of the following:

	December 31, 2008	December 31, 2007
Accumulated costs and earnings	295,048	312,017
Less: amounts billed	(97,816)	(192,977)
Less: impairment	(4,408)	-
Total	**192,824**	**119,040**

In the year ended December 31, 2008 the Group recognized an impairment charge relating to accumulated costs and earnings in the amount of USD 4,408. This was a result of the write-off in relation to a project as management has assessed the amount to be non-recoverable from the customer.

10. REAL ESTATE INVESTMENTS, NET

Real estate investments, net of accumulated depreciation as of December 31, 2008 and 2007 consisted of the following:

	December 31, 2008	December 31, 2007
Real estate developed for sale	903,305	856,883
Less: impairment	(37,174)	-
	866,131	**856,883**
Income producing properties		
Buildings and cottages	367,759	166,964
Less: impairment	(4,664)	-
Less: accumulated depreciation	(17,916)	(11,228)
	345,179	**155,736**
Total	**1,211,310**	**1,012,619**

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

The depreciation charge for the years ended December 31, 2008 and 2007 amounted to USD 12,163 and USD 6,192, respectively.

In the years ended December 31, 2008 the Group recognized an impairment charge relating to its investments in real estate developed for sale and income producing property in the amount of USD 37,174 and USD 4,664 respectively. This impairment was mainly related to the NIIDAR project in the amount of USD 16,706, the Khamovniki project in the amount of USD 6,842, and the Vrubelevskii Spusk project in the amount of USD 4,358, and resulted from recognition of the decrease of the market value of such properties as determined by the latest independent valuation. The Group has estimated the fair value of the properties based on the valuation report as of January 1, 2009. The assets that were impaired are included in the Real Estate Development segment.

The Group made additional investments in Real Estate to be developed for sale during the year. These investments primarily consisted of the following:

Project	**Share**	**USD**
Land plot (Odintsovsky Region, Soloslovo)	100%	74,294
Building at Novodanilovskaya Naberezhnaya in Moscow	100%	108,737

The land plot in Odintsovsky Region was acquired for future development. The building was acquired as income producing property.

Real estate investments disposed during 2008 mainly consisted of the following:

Project	**Share**	**Sale price, USD**
Rochdelskaya	100%	29,791
8 Marta Street (Complex of buildings)	51%	53,967

11. 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, 2008 and 2007 consisted of the following:

	December 31, 2008	**December 31, 2007**
Buildings used for administrative purposes	3,389	4,120
Plant and equipment	5,436	5,545
Other assets	7,720	4,834
	16,545	14,499
Less: accumulated depreciation		
- for buildings used for administrative purposes	(662)	(659)
- for plant and equipment	(2,059)	(1,844)
- for other assets	(2,639)	(2,168)
	(5,360)	(4,671)
Net balance value:		
Buildings used for administrative purposes	2,727	3,461
Plant and equipment	3,377	3,701
Other assets	5,081	2,666
Total	**11,185**	**9,828**

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

The depreciation charge for the years ended December 31, 2008 and 2007 amounted to USD 2,723 and USD 1,716 respectively.

During the year ended December 31, 2008 there was a disposal of fixed assets with the gross book value of USD 1,270 and the accumulated depreciation of USD 559.

12. DEVELOPMENT RIGHTS AND OTHER INTANGIBLE ASSETS, NET

Development rights and other intangible assets, net of accumulated amortization as of December 31, 2008 and 2007 consisted of the following:

	December 31, 2008	December 31, 2007
Development rights – Kuntsevo properties	46,065	43,156
Other intangible assets	1,513	135
	47,578	43,291
Less: accumulated amortization:		
- development rights – Kuntsevo properties	(17,805)	(10,097)
- other intangible assets	(99)	(3)
	(17,904)	(10,100)
Net balance value:		
Development rights – Kuntsevo properties	28,260	33,059
Other intangible assets	1,414	132
Total	**29,674**	**33,191**

The amortization charge for the years ended December 31, 2008 and 2007 amounted to USD 8,473 and USD 6,642 respectively.

The development rights were granted to Kuntsevo-Invest in connection with a government program for reconstruction of residential property in the Western Kuntsevo district of Moscow. In exchange for the development rights, Kuntsevo-Invest agreed to develop properties for the Government in proproption to the properties it developed for sale or as income producing properties, and to then transfer the ownership in the properties developed for the government to them for no additional compensation.

Kuntsevo-Invest entered into an investment agreement with CJSC Inteko, pursuant to which Kuntsevo-Invest and CJSC Inteko were jointly (50/50) responsible for the program and its 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 current program related to these development rights, the Group remains committed to complete construction of 162.9 thousand square meters of residential living space to be sold in the market (“commercial buildings”) and an additional 50.01 thousand square meters of residential living space to be transferred to the Moscow City Government (“municipal buildings”). The Group’s commitment to develop the municipal buildings arises upon the completion of the commercial buildings. However, the Group’s commitments are also connected with the fulfillment by the Government of its obligations to relocate citizens and for registration of rent agreements on land for construction. As of December 31, 2008 the project is suspended. However management considers that the suspension is temporary, and that this will resume in due course. During completion of the project, the Company will recognize its commitment to the Moscow City Government in relation to the municipal buildings. No liability exists at December 31, 2008.

(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:

2009	7,419
2010	7,419
2011	7,418
2012	7,418
2013 and after	-
Total	**29,674**

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.

13. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures as of December 31, 2008 and 2007 consisted of the following:

	December 31, 2008	December 31, 2007
Joint venture with Apsys	51,158	27,371
Joint venture with Saraya	19,518	5,824
Soyuzkomint	10,600	12,604
Other	1,721	1,799
Detsky Mir	-	1,357
	82,997	48,955
Less impairment:		
- For joint venture with Apsys	(4,278)	-
- For Soyuzkomint	(600)	-
	(4,878)	-
Total	**78,119**	**48,955**

In June 2007, the Group purchased from a related entity, whose primary beneficiary is Sistema, 5% of the common shares of Detsky Mir for USD 7,014. Detskiy Mir is a subsidiary of Sistema. In November 2008, the Group sold the shares back to Sistema for USD 6,868 (See also Note 19).

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

In the year ended December 31, 2008 the Group recognized an impairment charge relating to its investment in Joint venture with Apsys and investment in Soyuzkomint in the amount of USD 4,278 and USD 600 respectively. Resulting from an impairment of the underlying project as per the latest valuation.

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

The fair value of the Group's share in investments in associates and in joint ventures as of December 31, 2008 and 2007 is estimated as follows:

	December 31, 2008	December 31, 2007
Joint venture with Apsys	46,880	36,000
Joint venture with Saraya	13,185	60,000
Soyuzkomint	10,000	12,604

The Joint venture with Apsys is for development of a retail and entertainment complex TRK Leto in Saint-Petersburg.

The Joint venture with Saraya is for development of hotel and recreation services complex Kameliya in Sochi.

14. PAYABLES TO SUPPLIERS AND SUBCONTRACTORS

Payables to suppliers and subcontractors as of December 31, 2008 and 2007 consisted of the following:

	December 31, 2008	December 31, 2007
Nakhimovskiy 4 and Dnepropetrovskaya 25	27,458	875
Leningradsky 39	11,267	3,872
Yartcevskaya 27B	6,665	12,821
Rublevskoe 111	3,645	1,938
Building at Lva Tolstogo Street in Moscow	103	12,963
Other third parties	34,674	23,353
Sistema subsidiaries	1,148	1,724
Total	**84,960**	**57,546**

15. 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, 2008 and 2007 consisted of the following:

	December 31, 2008	December 31, 2007
Amounts billed	92,372	105,904
Less: accumulated costs and earnings	(77,985)	(74,240)
Total	**14,387**	**31,664**

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

16. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities as of December 31, 2008 and 2007 consisted of the following:

	December 31, 2008	December 31, 2007
Accrued interest expense	19,185	4,421
Advances received for sale of Aviacionny and Lomonosovsky projects	17,164	-
Payable for 50% interest in Soyuzkomint	10,755	12,453
Provision for termination payments to employees	8,653	-
Advances received for sale and rent of summer houses in the Moscow Region	3,218	10,600
Payables to municipal authorities for development project in Yalta	396	6,742
Other accrued expenses and other liabilities to third parties	16,134	23,156
Other liabilities to Sistema and its subsidiaries	8,032	5,179
Total	**83,537**	**62,551**

17. LOANS AND NOTES PAYABLE

The Group's loans and notes payable as of December 31, 2008 and 2007 consisted of the following:

	December 31, 2008	December 31, 2007
Loans and notes payable to third parties		
Vneshtorgbank (VTB)	801,849	700,000
Alfabank	90,001	12,075
Merrill Lynch International	70,000	-
Vnesheconombank	56,000	56,000
Raiffeisenbank	34,036	-
GazPromBank	26,000	-
InvestTorgBank	22,819	-
Other	36,269	24,194
	1,136,974	**792,269**
Loans and notes payable to Sistema subsidiaries and other related parties		
East-West United Bank	140,417	96,000
Finekskort M	106,016	-
MBRD	38,464	4,827
Elvistorg	20,422	-
MGTS	16,688	19,975
Davia	-	61,603
Other	7,406	3,163
	329,413	**185,568**
Total loans and notes payable	**1,466,387**	**977,837**
Short-term portion of loans and notes payable	414,179	103,321
Long-term portion of loans and notes payable	1,052,208	874,516
Total loans and notes payable	**1,466,387**	**977,837**

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

Loans and notes payable as of December 31, 2008 and 2007 consisted of the following:

	Currency	Maturity	Interest rate (Actual at December 31, 2008)	December 31, 2008	December 31, 2007
VTB	RUB	2012	15%	665,704	700,000
VTB	RUB	2010	17,5%	136,145	-
Finekskort M	RUB	2009	0%	106,016	-
East-West United Bank	RUB	2009	11,5%	69,917	-
East-West United Bank	USD	2011	12,6%	70,500	96,000
Alfa bank	USD	2009	13%	76,500	-
Alfa bank	USD	2009	From LIBOR + 5,5% to LIBOR + 6%	13,501	12,075
Merrill Lynch International	USD	2011	LIBOR + 11,4%	70,000	-
Vnesheconombank	USD	2014	9%	56,000	56,000
Raiffeisenbank	RUB	2009	MOSPRIME + 5,5%	34,036	-
MBRD	RUB	2009	13% and 15%	33,358	-
MBRD	USD	2009-2010	LIBOR+2% and 15%	5,106	4,827-
GazPromBank	USD	2011	12,5%	26,000	-
Elvistorg	RUB	2009	10,5%	20,422	-
InvestTorgBank	RUB	2011	18,5%	19,319	-
MGTS	RUB	2009	11%	16,688	19,975
InvestTorgBank	USD	2011	17,0%	3,500	-
Davia	RUB	-	-	-	61,603
Other	RUB; USD	Various	Various	43,675	27,357
Total				**1,466,387**	**977,837**

VTB Bank

In August and November 2007, the Group signed two agreements with VTB for loan facilities of USD 500,000 and USD 200,000, respectively, to provide financing to repay loans from Deutsche Bank AG, Nomura International plc and UBS AG, as well as to finance the Group's investment program and operational activities. The loan facilities are payable in 60 months.

In November 2008, the Group modified the terms of these agreements as follows:

- The USD 500,000 and USD 200,000 were converted into roubles borrowings at the rate of the Russian Central Bank as of December 2, 2008 (RUB 27.94 for 1 US dollar).
- Interest rate on the rouble borrowings was set at 15% compared to the previous rate of 6.22% (effective rate was 8.5%) for the USD 500 million loan and LIBOR+5.43% per annum for the USD 200 million loan.
- Covenants on these borrowings were modified to waive all financial covenants (financial ratios and indicators) for FY2008. The future covenants are being negotiated with VTB and will go into effect in FY 2009

This modification has been treated as a debt extinguishment and new loan for accounting purposes, and as a result the Group wrote off the remaining unamortized debt issuance costs associated with this loan of US 25,428. This is included in interest expense in the consolidated statement of operations.

In November 2008, a credit facility agreement was signed with VTB Bank for the amount of RUB 7.0 billion (approximately USD 238 million) repayable in 2 years. The interest rate is 17.5%. In December 2008 the Group utilised RUB 4.0 billion (USD 136,145 at the USD exchange rate as of December 31, 2008) under the facility. The loan was partially used to refinance loans from Sistema and partially to finance the construction of townhouses in Odintsovsky Region (project Gorki-8). For information about pledges under the loan facilities refer to Note 24 “Guarantees and pledges”.

Alfabank

In August 2007, the Group signed a loan agreement with Alfabank for a loan facility of USD 20,000. 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%. As of December 31, 2008, the outstanding amount under the loan facility is USD 13,501. The facilities are extended for construction of the buildings in the Western Kuntsevo district of Moscow.

In April and in February 2008, the Group obtained two tranches in the amounts of USD 35,000 and USD 41,500, respectively, under a loan facility from Alfabank. The maximum amount of the loan facility is USD 88,800. The loan facility is repayable within 12 months and bears a fixed interest rate of 13%. For information about pledges under the loan facilities refer to Note 24 “Guarantees and pledges”.

Merrill Lynch International

In June and September 2008, the Group through Remstroytrest-701(see Note 2) obtained of USD 57,500 and USD 32,500, respectively, under a loan facility from Merrill Lynch International. The maximum amount of the credit facility is USD 90,000, and is extended for the financing of the acquisition of the building at Novodanilovskaya Naberezhnaya in Moscow. The loan is repayable in 36 months. The Group paid USD 1,350 as commission under the credit facility. The Group obtained a bank guarantee from Gazprombank for the credit facility and is obliged to pay USD 4,532 annually for it. The effective interest rate of the credit facility is LIBOR + 11.4%. For information about pledges under the loan facilities refer to Note 24 “Guarantees and pledges”.

GazPromBank

In June 2008, the Group through Remstroytrest-701(see Note 2) signed a loan agreement with GazPromBank for a loan facility of USD 26,000 for the financing of the acquisition of the building at Novodanilovskaya Naberezhnaya in Moscow and refinancing of the loans from MBRD. The interest rate under the loan facility is 12.5%, and the loan is repayable in 36 months. For information about pledges under the loan facilities refer to Note 24 “Guarantees and pledges”.

Vnesheconombank

In September 2007, the Group acquired Gorki-8, which had a loan agreement with Vnesheconombank in the amount of USD 56,000 extended for the acquisition of 79 cottages with corresponding land plots in the Moscow Region. The interest rate is 9%, and the loan is repayable in July 2014. For the information about pledges under the loan refer to Note 24 “Guarantees and pledges”.

Raiffeisenbank

In August 2008 the Group obtained a loan from Raiffeisenbank in the amount of RUB 1.0 billion (USD 34,036 at the USD exchange rate as of December 31, 2008) to finance operating activities. The variable interest rate under the loan is one month MOSPRIME rate + 5.5%. The loan is repayable in May 2009.

InvestTorgBank

In April and in June 2008, the Group obtained several tranches in the total amount of USD 22,819 under a loan facility from InvestTorgBank. The loan facility is extended for construction of residential apartments in Soloslovo (Odintsovsky region). The loan facility is repayable within 36 months and bears a fixed interest rate of 17% and 18.5%. For information about pledges under the loan facilities refer to Note 24 “Guarantees and pledges”.

East-West United Bank S.A

In December 2007, the Group obtained a loan from East-West United Bank S.A. in the amount of USD 96,000 to finance the acquisition of Istochnik shares. The effective interest rate under the loan agreement is 13.5%. The loan is repayable in 3 years. In December 2008 the group repaid the loan and obtained a new loan in the amount of USD 70,500 with an interest rate of 12.6% and a repayment date in three years. Also in the December 2008 the Group issued promissory notes in the amount of RUB 2,054 million (USD 69,917 at the USD exchange rate as of December 31, 2008) with an interest rate of 11,5% and maturity in December 2009.

Finekskort M

In the fourth quarter of 2008 the group issued promissory notes in the amount of RUB 3,115 million (USD 106,016 at the USD exchange rate as of December 31, 2008) to Finekskort M with zero discount and zero interest rate and a maturity in the fourth quarter of 2009. The loan was used to finance the return of an advance from Siemens in the amount of EUR 64 million (also see Note 20) as well as to finance the operating activities of the Group.

Davia

In November 2007, the Group issued promissory notes in the amount of USD 162,031 to Davia, which in turn received a loan in an equivalent amount from MBRD. As of December 31, 2007, the outstanding balance amounted to USD 61,603. In May 2008, the Group refinanced the above notes by promissory notes in the amount of RUB 900 million (USD 38,497) and RUB 680 milion (USD 28,831) issued to Infokom and Elvistorg, respectively. The promissory notes bear an interest rate of 10.5%. The promissory notes for RUB 900 million and RUB 80 million were repaid in October 2008 and in the fourth quarter 2008, respectively. The promissory notes for RUB 600 million (USD 20,422 at the USD exchange rate as of December 31, 2008) which are repayable in June 2009 were outstanding as of December 31, 2008.

MBRD

In the year ended December 31, 2008 the Group partially repaid loans from MBRD which were outstanding from 2007. In December 2008, the Group issued promissory notes in the amount of USD 885 million (USD 30,138 at the USD exchange rate as of December 31, 2008) to MBRD. The loan is granted for general corporate purposes. The promissory notes mature in July 2009 and bear a fixed interest rate of 13%.

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

MGTS

In November 2007, the Group obtained a loan from MGTS in the amount of USD 16,688. The loan is repayable on December 31, 2009. The fixed interest rate is 11%. The facilities are extended for reconstruction of MGTS buildings.

The weighted average interest rate on loans and notes payable outstanding as of December 31, 2008 and December 31, 2007 was 12.73% and 9.3%, respectively.

The schedule of repayment of debt is as follows:

Year ended December 31,	
2009	414,179
2010	141,144
2011	189,317
2012	665,703
2013	0
Thereafter	56,044
Total	**1,466,387**

18. CAPITAL TRANSACTIONS

At January 1, 2007, Sistema Hals had 11,217,094 common shares issued and 10,387,029 shares outstanding.

In the year ended December 31, 2007, the amount of outstanding common shares increased by 403,815 as stock based compensation was granted (Note 27) and subsequently decreased by 11,217 shares. The payment was made at market value. In the year ended December 31, 2008, the amount of outstanding common shares decreased by 11,217 shares as shares were repurchased from a former employee for USD 2,232. The payment was made at market value.

19. 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 to MBRD (see Note 23). 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 was recorded as a transfer to Sistema. In November 2008, the Group sold the shares back to Sistema and recorded the excess of the sales price over the historical value of the assets in the amount of USD 5,178 as transfers from Sistema (see Notes 13).

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

20. SIEMENS PROJECT

In 2003, the Group entered into a fixed price contract with Siemens to develop an office building in Moscow. Due to a significant growth in the prices of materials, labor and other construction costs starting in 2006, the Group costs were projected to be in excess of its original budget.

In 2007 the Group initiated negotiations with Siemens to reach an agreement that would allow it to recover the increased costs. Based on those negotiations, the Group did not record any estimated loss on the contract at December 31, 2007.

In 2008 the negotiations on the contract price continued. The parties discussed the possibility of increasing the contract price by an amount sufficient to cover the estimated cost overruns. No agreement was reached, partially due to the worsening economic environment and turmoil in the financial and real estate markets. At the commencement of the project, Siemens paid a construction advance of EUR 64 million to the Group, which was backed by the Group with a performance gurantee from Deutsche Bank. In October 2008, Siemens drew on the guarantee from Deutsche Bank in the amount of the construction advance received by Sistema-Hals from Siemens and the amount was repaid using financing from Sistema (see Note 17). In November 2008, the Group suspended construction of the building. The Group is continuing discussions with Siemens, and we have accounted for our best estimate of the loss to be incurred based on the most probable outcome of the negotiations and our assessment of the future of the contract, which amounted to USD 25.4 million. The cost has been reflected in operating expenses on the consolidated statements of operations.

21. OPERATING EXPENSES

Operating expenses for the years ended December 31, 2008 and 2007 comprised the following:

	2008	2007
Cost of sales	254,130	222,509
Impairment of long-lived assets (Note 2)	51,124	-
Payroll and other employee-related costs	40,265	34,340
Allowance for doubtful accounts	42,831	-
Provision for losses on construction contracts (Note 20)	25,389	-
Depreciation and amortization	23,980	14,551
Provision for payments to the employees	9,170	-
Consulting services	5,557	2,398
Taxes other than income taxes	4,820	3,652
Banking services	4,498	-
Repairs and maintenance	4,418	1,867
Nostro contract price reduction	4,119	-
Rent of premises and land	2,226	976
Advertising and marketing	1,589	3,261
Security expenses	733	2,151
Stock-based compensation (benefit)/expense (Note 27)	(422)	99,807
Other	12,002	5,528
Total	**486,429**	**391,040**

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

22. INCOME TAXES

The Group's provision for income taxes related to continuing operations for the years ended December 31, 2008 and 2007 was as follows:

	2008	2007
Current tax expense	(12,939)	(11,686)
Deferred tax (expense)/benefit	(2,318)	237
Income tax expense	**(15,257)**	**(11,449)**

The provision for income taxes reflected in continuing operations 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:

	2008	2007
Income tax benefit/(provision) computed on income before taxes at statutory rate	85,064	(11,508)
Adjustments due to:		
Stock-based compensation	(101)	(23,954)
Other non-deductible items	(6,809)	(1,981)
Effect of non-standard income tax rates	5,103	26,565
Other non-taxable items	2,863	2,922
Change in valuation allowance for deferred tax asset	(86,068)	(1,089)
Prior period losses used in the current period	-	1,089
Change in unrecognized tax benefits	(2,844)	(3,641)
Currency exchange and translation differences	(6,877)	148
Effect from change in income tax rate	(5,588)	-
Total	**(15,257)**	**(11,449)**

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, 2008 and 2007.

	December 31, 2008	December 31, 2007
Deferred tax assets		
Provisions	21,015	4,706
Tax losses carried forward	45,780	2,465
Depreciation	1,649	939
Other	12,742	2,904
Less: valuation allowance	(66,566)	-
Total deferred tax assets	**14,620**	**11,014**
Deferred tax liabilities		
Borrowing costs capitalized	(14,768)	(17,474)
Revenue recognition	(12,154)	(6,903)
Development rights	(5,652)	(7,934)
Other	(5,682)	(13)
Total deferred tax liabilities	**(38,256)**	**(32,324)**

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

Effective January 1, 2009 the RF government changed the income tax rate from 24% to 20% which resulted in a USD 4,727 decrease in deferred income tax expense (decrease in deferred tax assets and liabilities by USD 2,924 and USD 7,651, respectively).

Substantially all assets relating to tax losses carried forward will expire in 2018 in accordance with statutory tax legislation.

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.

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 (of which approximately USD 361 related to penalties and USD 6 related to fines). As of December 31, 2008, the Group included accruals for unrecognized income tax benefits totaling USD 7,470 as a component of accrued liabilities (of which approximately USD 1,643 relates to penalties and USD 269 relates to 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, 2008 were as follows:

Balance at January 1, 2008	4,052
Additions based on tax positions related to the current year	5,537
Reversal of tax positions from prior years due to expiration of statute of limitations	(2,848)
Translation adjustment	(1,183)
Balance at December 31, 2008	**5,558**

The Group considers it reasonably possible that approximately USD 806 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, 2006, 2007 and 2008 remained subject to examination by the Russian tax authorities.

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

23. RELATED PARTY TRANSACTIONS

In the years ended December 31, 2008 and 2007, the Group entered into the following transactions with Sistema and its subsidiaries:

	2008	2007
Revenues from development projects	53,967	50,000
Services provided	32,228	19,952
Services purchased and other expenses	(14,549)	(1,857)
Interest income	4,218	10,251
Interest costs	(18,517)	(1,960)

Revenues from development projects – In the year ended December 31, 2008, the Group sold a complex of buildings at 8 Marta Street and its 51% share in JSC "RTI-Estate", which owns a building at 8 Marta Street (building 10, construction 12) to JSC "RTI-Radio", a subsidiary of Sistema, for USD 53,967.

In the year ended December 31, 2007, the Group sold its 100% stake in Nostro, which owns a building located at 75, Sadovnicheskaya st., Moscow, for USD 50,000 to MBRD.

Site management services provided – Revenues from site management services provided to Sistema and its subsidiaries in the years ended December 31, 2008 and 2007 were USD 28,835 and USD 18,527, respectively.

Agreements to act as a developer – In the years ended December 31, 2008 and 2007, the Group had agreements with Detsky Mir, Sistema Mass Media, MGTS 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 years ended December 31, 2008 and 2007 amounted to USD 1,648 and USD 625, respectively.

Services purchased and other expenses – In the year ended December 31, 2008, Rensonbay Corp. and Sistema granted guarantees for the investment obtained by the Group from SIMOS. Costs to the Group for Rensonbay Corp.'s and Sistema's guarantees amounted to USD 4,071 and USD 665, respectively.

Services purchased by the Group also include connection services from MTS, MGTS and Comstar as well as bank commission paid to MBRD.

Other expenses are represented mainly by a USD 4,119 contract price reduction relating to the sale of the 100% stake in Nostro, which owned a building located at 75, Sadovnicheskaya st., Moscow, for USD 50,000 to MBRD in 2007. In the year ended December 31, 2008 the price was reduced down to the amount of USD 45,881 due to the failure by Sistema-Hals to fulfill certain contract terms.

Interest costs – In the years ended December 31, 2008 and 2007, interest costs of the Group's borrowings included interest paid or payable to the following related parties:

	2008	2007
EWUB	13,855	-
MBRD	1,612	422
MGTS	2,451	147
Finekskort-M	403	-

Interest income – In the years ended December 31, 2008 and 2007 interest income from a deposit in MBRD amounted to USD 2,840 and 5,921, respectively.

In the year ended December 31, 2008 and 2007 income from a trust managed by MBRD amounted to nil and USD 3,726, respectively.

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

24. 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, 2008, common shares of the Group's entities have been pledged as follows:

	Number of shares pledged	Number of shares pledged as a percentage of total shares
Landshaft II	100	100%
Landshaft	15	15%
Remstroytrest	100	100%
Promresurs	100	100%
Telekom-Development	50	50%
Mosdachtrest	187	1%

As of December 31, 2008, Sistema and Gals-Finance pledged 1,610,484 and 669,040 shares of JSC Sistema-Hals respectively as security under the loan facility from VTB in the amount of USD 190,201.

As of December 31, 2008, Sistema, Gals-Finance and Investitsionnaya Pensionnaya Kompaniya pledged 5,749,023 shares, 261,744 shares and 137,560 shares of JSC Sistema-Hals respectively as security under the loan facility from VTB in the amount of USD 475,502.

The Group pledged land plots in the Odintsovsky Region (Soloslovo) with a pledge value of USD 109,691 as security under the credit line from VTB in the amount of USD 238,254 (RUB 7.0 billion). As of December 31, 2008, the credit line used by the Group amounted to USD 136,145 (4.0 billion).

As of December 31, 2008, the Group has pledged 40 cottages (13,184.9 sq. m) and land plots (10,695 sq. m) in the Moscow Region as security under the loan from Vnesheconombank in the amount of USD 56,000.

As of December 31, 2008, the Group has also pledged title to apartments with a value of USD 3,756 under obligations of Triada-Invest to MBRD.

The Group has granted guarantees for the credit line obtained from MBRD by Ferro-Stroy, the co-developer, in the amount of USD 9,055 and pledged title to apartments in the amount of USD 15,916 under the Nakhimovsky project. As of December 31, 2008, the credit line used by Ferro-Story amounted to USD 23,101.

The Group has granted guarantees for the credit obtained from Eurohypo by Gals-Invest-Development in the amount of USD 187,500 and pledged an intra-group loan in the amount of USD 51,054. As of December 31, 2008, the credit used by Gals-Invest-Development amounted to USD 44,152.

As of December 31, 2008, the Group pledged land plots and summer houses in the Odintsovsky Region with a pledge value of USD 60,460 as a security under a loan facility from Alfa Bank.

As of December 31, 2008, the Group pledged land plots and result of development activities in the Odintsovsky Region (Soloslovo) with a pledge value of USD 13,516 and USD 30,613 respectively as a security under a loan facility from InvestTorgBank.

As of December 31, 2008, the Group granted guarantees for the credit obtained from Westernmost Investments Limited by Telekom-Development in the amount of USD 9,154.

25. 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 years ended December 31, 2008 and 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 22 “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) 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 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.

c) 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.

d) 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, 2008. A summary of significant commitments under construction contracts as of December 31, 2008 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 181,460 as of December 31, 2008. In addition, in connection with this project, the Group undertook obligations to provide the Central Army Sports Club ("CSCA") with residential housing with approximate market value of USD 34,810 as of December 31, 2008.

MGTS properties – The Group entered contractual agreements for the reconstruction of certain MGTS buildings. Commitments under these contracts amounted to USD 57,427 as of December 31, 2008.

Mosdachtrest properties – The Group has contracted for construction works related to Mosdachtrest properties. Commitments under these contracts amounted to USD 2,677 as of December 31, 2008.

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 4,242 as of December 31, 2008.

Western Kuntsevo properties – The Group hired a contractor to perform general construction works. Commitments under these contracts amounted to USD 68,555, including USD 68,086 in relation to the Elninskaya 28A Project and USD 469 in relation to the Rublevskoe Shosse 111A Project as of December 31, 2008.

Zdravnitza Novaya (Rozhnovka) – The Group entered contractual agreements for a technological connection to transmission links. Commitments under the contract amounted to USD 4,705 as of December 31, 2008.

Povarskaya 8 – The Group entered contractual agreements for construction of office premises. Commitments under these contracts amounted to USD 16,646 as of December 31, 2008.

Pekin – The Group entered contractual agreements for construction of a Hotel and Office Centre. Commitments under these contracts amounted to USD 9,432 as of December 31, 2008.

Buchvostova 12/11 – The Group entered contractual agreements for initial construction works of the project. Commitments under these contracts amounted to USD 3,062 as of December 31, 2008.

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 34,760 as of December 31, 2008.

Detsky Mir Lubyanka – The Group entered contractual agreements for reconstruction works under the project. Commitments under the contract amounted to USD 315,798 as of December 31, 2008.

Kinostudia (Gen. Chruleva st.) – The Group entered contractual agreements for renovation and decoration works under the project. Commitments under the contract amounted to USD 1,561 as of December 31, 2008.

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.

e) 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.

f) 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.

26. 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, 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 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. 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.

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

As of and for the year ended December 31, 2008	Real estate development	Real estate asset management	Facility management	Total
Net sales to external customers	274,314	54,525	33,118	361,957
Intersegment sales	194	751	3,141	4,086
Interest income	11,968	58	-	12,026
Interest expense, net of amounts capitalized	(82,697)	(2,308)	2,283	(82,722)
Intersegment interest expense	-	(259)	(2,306)	(2,565)
Depreciation and amortization	(16,829)	(7,082)	(69)	(23,980)
Operating (loss)/income	(149,795)	24,262	1,432	(124,101)
(Loss)/income before income tax and minority interests	(369,327)	21,252	1,333	(346,742)
Income tax expense	(8,964)	(5,982)	(312)	(15,257)
Segment assets	1,827,076	159,408	11,368	1,997,852
Capital expenditures	466,543	38,321	210	505,074

As of and for the year ended December 31, 2007	Real estate development	Real estate asset management	Facility management	Total
Net sales to external customers	356,044	44,828	22,773	423,645
Intersegment sales	373	537	2,524	3,434
Interest income	13,737	425	-	14,162
Interest expense, net of amounts capitalized	(12,323)	(372)	-	(12,695)
Intersegment interest expense	-	(2,998)	-	(2,998)
Depreciation and amortization	(9,068)	(5,431)	(53)	(14,552)
Operating income	7,185	23,939	2,203	33,327
Income before income tax and minority interests	37,746	15,692	2,137	55,575
Income tax expense	(7,016)	(3,917)	(516)	(11,449)
Segment assets	1,720,308	147,856	8,422	1,876,586
Capital expenditures	766,049	24,782	192	791,023

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:

	2008	2007
Total segment operating (loss)/income	(124,101)	33,327
Intersegment eliminations	(371)	(722)
Other loss, net	(10,421)	(1,383)
Interest income	12,026	14,162
Interest expense, net of amounts capitalized	(82,722)	(12,695)
(Loss)/gain on foreign currency transactions	(138,410)	15,158
Equity in net income of investees	(11,446)	-
Gain on sale of equity investee	1,012	-
Loss on sale of interests in a subsidiary	-	113
Income before income tax and minority interests	**(354,433)**	**47,960**
Total segment assets	1,997,852	1,876,586
Intersegment eliminations	(102,110)	(144,030)
Assets of discontinued operations	-	22,534
Total assets	**1,895,742**	**1,755,090**

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

27. 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 ordinary 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 and USD 29,934, respectively, (valued at USD 12.13 per GDR where 1 share represents 20 GDRs) and was included in operating expenses for the year ended December 31, 2007 (see Note 21).

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. The options are contingent on the continued employment of the grantees with the Group. According to the terms of the plan, the grantees are entitled to buy option in four installments 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 Group recognizes expense for stock-based compensation on a straight-line basis over the vesting period.

The following table summarizes information about non-vested common stock options in the years ended December 31, 2008 and 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	47.43
Exercised	-	-	-
Forfeited	(89,736)	201	47.43
Outstanding as of December 31, 2007	145,820	201	47.43
Granted	-	-	-
Exercised	-	-	-
Forfeited	(112,169)	201	47.43
Outstanding as of December 31, 2008	**33,651**	**201**	**47.43**

The fair value of options granted 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)	4 tranches of 1 year each (2007-2010)
Grant date fair value of options (per share)	USD 47.43

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

The compensation benefit under the stock option plan of USD 422 was recognized in the consolidated statement of operations during the year ended December 31, 2008 (see Note 21).

The total fair value of shares vested during the years ended December 31, 2008 and 2007, was USD 28.7 million and USD 0.2 million, respectively.

As of December 31, 2008, there is USD 709 of total unrecognized compensation cost related to non-vested stock-based compensation awards under the stock option plan. This amount is expected to be recognized over a period of 30 months. The weighed average contractual term of the options is one year. The vesting period is distributed as follows:

Year of vesting	Number of options
2009	11,217
2010	11,217
2011	11,217

The stock option plan is out-of-the-money as of December 31, 2008.

28. SUBSEQUENT EVENTS

In February 2009 the Group sold it's 50% share in Soyuzkomint LLC for USD 10,000.

In February 2009 the Group increased its share in Sib-Brok LLC (a project company for elite apartments in Yalta) from 75% to 100%. The purchase price amounted to USD 7,756.

During the first quarter of 2009 the Group issued notes payable to Sistema subsidiaries for the approximate amount of USD 96 million. The notes mature in 2009–2011 and bear interest rates from 0% to 20.5%.

In April – March 2009 the Group repaid part of the loan from Alfabank in the amount of USD 68,000. The repayment date for the outstanding loan amount of USD 22,000 was extended till the end of May.

In April 2009 the Group issued 5 million bond securities with a par value RUB 1,000 each. The bonds bear a coupon rate of 15% and mature in 2014. The bonds were issued at par value. The cash received as a result of the bonds issue was used to refinance the current debt of the Group.

In April 2009, AFK Sistema signed an agreement to sell the shares of Sistema-Hals to VTB. According to the agreement, in April 2009 VTB acquired 19.5% share in Sistema-Hals for RUB 30 and received a call option to acquire additional 31.5% share for RUB 30. As a result of this deal the share of AFK Sistema in Sistema-Hals' capital decreased from 69.4% to 19.5%, while the share of VTB comprised 19.5% and the treasury stock increased from 9.7% to 39.6%. In case the option is executed by VTB this will increase its share in Sistema-Hals up to 51%. Debt restructuring will be done subject to corporate approvals.