

JSC SISTEMA-HALS AND SUBSIDIARIES

**Unaudited Condensed
Consolidated Financial Statements
as of June 30, 2008 and
December 31, 2007 and
for the six months ended
June 30, 2008 and 2007**

JSC SISTEMA-HALS AND SUBSIDIARIES

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Shareholders of JSC Sistema-Hals:

We have reviewed the accompanying condensed consolidated balance sheet of JSC Sistema-Hals (Sistema-Hals) and subsidiaries (collectively – the "Group") as of June 30, 2008 and the related condensed consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for the six months ended June 30, 2008 and 2007. These financial statements are the responsibility of the Group's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants for reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche

September 11, 2008
(December 23, 2008 as to Note 20)
Moscow, Russia

JSC SISTEMA-HALS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2008 AND DECEMBER 31, 2007 (Amounts in thousands of U.S. dollars)

	Notes	June 30, 2008	December 31, 2007
ASSETS			
Cash and cash equivalents		34,039	45,398
Trade receivables, net	3	197,108	216,024
Other receivables, net	5	51,158	33,460
Loans receivable and investments in debt and equity securities	6	113,579	129,613
Taxes receivable	4	87,164	55,770
Costs and estimated earnings in excess of billings on uncompleted contracts	7	143,113	119,040
REAL ESTATE INVESTMENTS, NET			
Real estate developed for sale	8	1,012,852	856,883
Income producing properties, net	8	405,420	155,736
Total		<u>1,418,272</u>	<u>1,012,619</u>
Buildings used for administrative purposes, plant and equipment, net	9	15,085	10,702
Development rights and other intangible assets, net		39,999	33,229
Investments in associates and joint ventures		56,137	51,355
Debt issuance costs, net of accumulated amortization		36,732	36,866
Deferred tax assets		<u>12,664</u>	<u>11,014</u>
TOTAL ASSETS		<u><u>2,205,050</u></u>	<u><u>1,755,090</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Payables to suppliers and subcontractors	10	119,773	58,229
Billings in excess of costs and estimated earnings on uncompleted contracts	11	41,887	31,664
Accrued expenses and other liabilities	12	87,845	67,092
Taxes payable		13,857	11,937
Loans and notes payable	13	1,215,851	977,837
Deferred tax liabilities		<u>47,722</u>	<u>32,324</u>
TOTAL LIABILITIES		<u>1,526,935</u>	<u>1,179,083</u>
MINORITY INTERESTS		34,298	27,060
SHAREHOLDERS' EQUITY			
Share capital		20,492	20,492
Treasury stock		(1,600)	(1,576)
Additional paid-in capital		526,946	529,910
Accumulated other comprehensive income		89,195	-
Retained earnings		<u>8,784</u>	<u>121</u>
TOTAL SHAREHOLDERS' EQUITY		<u>643,817</u>	<u>548,947</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u><u>2,205,050</u></u>	<u><u>1,755,090</u></u>

See notes to condensed consolidated financial statements.

JSC SISTEMA-HALS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Amounts in thousands of U.S. dollars, except for share and per share amounts)

	Notes	Six months ended June 30,	
		2008	2007
REVENUES		227,100	129,773
OPERATING EXPENSES	15	(212,462)	(221,655)
OPERATING INCOME / (LOSS)		14,638	(91,882)
OTHER INCOME / (EXPENSES):			
Other expenses, net		(1,879)	(4,149)
Interest income		8,720	12,526
Interest expense, net of amounts capitalized		(22,587)	(4,117)
Gain on foreign currency transactions		29,938	4,321
Loss on sale of a subsidiary		-	(110)
INCOME / (LOSS) BEFORE INCOME TAX AND MINORITY INTERESTS		28,830	(83,411)
Income tax expense		(17,693)	(10,241)
INCOME / (LOSS) BEFORE MINORITY INTERESTS		11,137	(93,652)
Minority interests		(2,474)	(5,920)
NET INCOME / (LOSS)		8,663	(99,572)
Weighted average number of common shares outstanding		10,378,849	10,013,901
Earnings / (loss) per share, U.S. dollars:		0.83	(9.94)

See notes to condensed consolidated financial statements.

JSC SISTEMA-HALS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Amounts in thousands of U.S. dollars)

	Six months ended June 30,	
	2008	2007
OPERATING ACTIVITIES:		
Net income / (loss)	8,663	(99,572)
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	11,128	6,054
Loss on disposal of plant and equipment	52	972
Minority interests	2,474	5,920
Loss on sale of a subsidiary	-	110
Equity interest in net income of investees	316	-
Gain on sale of real estate investments	(20,472)	(13,125)
Stock-based compensation	(756)	97,966
Deferred tax expense	11,107	2,726
Bad debt expense	-	168
Foreign currency transactions gain for non-operating activities	(38,444)	(2,598)
Changes in operating assets and liabilities:		
(Costs and estimated earnings in excess of billings) / billings in excess of costs and estimated earnings on uncompleted contracts	(15,486)	12,424
Trade receivables	(6,610)	(6,602)
Taxes receivable	(28,216)	(23,332)
Other receivables	(14,007)	(20,310)
Payables to suppliers and subcontractors	73,815	28,541
Accrued expenses and other liabilities	31,352	25,379
Taxes payable	1,339	5,796
Net cash provided by operating activities	16,255	20,517
INVESTING ACTIVITIES:		
Payments for real estate investments	(288,560)	(161,667)
Proceeds from sale of real estate investments	106,532	12,029
Payments for plant and equipment and intangible assets	(4,376)	(2,956)
Issuance of loans and notes receivable	(33,759)	(72,717)
Repayment of loans and notes receivable	3,184	5,917
Short-term deposits	-	(50,000)
Receipts from short-term deposits	22,700	72,423
Payments for shares in associates	(1,279)	-
Proceeds from sale of subsidiary, net of cash disposed	-	(1,124)
Proceeds from sale of shares in associate	-	25
Net cash used in investing activities	(195,558)	(198,070)

JSC SISTEMA-HALS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Amounts in thousands of U.S. dollars)

	Six months ended June 30,	
	2008	2007
FINANCING ACTIVITIES:		
Payments for repurchasing own shares	(2,232)	-
Principal payments on long-term borrowings	(8,553)	(1,710)
Proceeds from long-term borrowings	104,336	1,390
Principal payments on short-term borrowings	(3,027)	(8,302)
Proceeds from short-term borrowings	76,610	14,572
Cash transfers to Sistema	-	(4,580)
Reimbursement of initial public offer	-	3,479
Dividends paid to minority shareholders of subsidiaries	(1,022)	(444)
Net cash provided by financing activities	166,112	4,405
Effects of foreign currency translation on cash and cash equivalents	1,832	285
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11,359)	(172,863)
CASH AND CASH EQUIVALENTS, beginning of the period	45,398	261,952
CASH AND CASH EQUIVALENTS, end of the period	34,039	89,089
SUPPLEMENTAL INFORMATION:		
Income taxes paid	17,004	2,224
Interest paid	28,405	11,085
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Amounts owed for capital expenditures	25,868	13,202
Payable related to investments	-	6,095

See notes to condensed consolidated financial statements.

JSC SISTEMA-HALS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND DECEMBER 31, 2007 (Amounts in thousands of U.S. dollars)

	Share capital		Treasury stock		Additional paid-in capital	Accumulated other comprehensive income	Retained earnings/ (Accumulated deficit)	Total
	Shares	Amount	Shares	Amount				
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)
Disposal of treasury stock	-	-	403,815	767	97,199	-	-	97,966
Reimbursement of initial public offering costs	-	-	-	-	3,479	-	-	3,479
Transfers from Sistema	-	-	-	-	-	-	22,920	22,920
Net loss	-	-	-	-	-	-	(99,572)	(99,572)
Balances at June 30, 2007	11,217,094	20,492	(818,848)	(1,555)	530,804	-	(133,373)	416,368
Balances at January 1, 2008	11,217,094	20,492	(830,065)	(1,576)	529,910	-	121	548,947
Stock-based compensation	-	-	-	-	(756)	-	-	(756)
Acquisition of own stock	-	-	(11,217)	(24)	(2,208)	-	-	(2,232)
Effect from change in functional currency (Note 2)	-	-	-	-	-	58,411	-	58,411
Foreign currency translation adjustment, net of minority interest of \$1,486 and income tax of nil	-	-	-	-	-	30,784	-	30,784
Net income	-	-	-	-	-	-	8,663	8,663
Balances at June 30, 2008	11,217,094	20,492	(841,282)	(1,600)	526,946	89,195	8,784	643,817

See notes to condensed consolidated financial statements.

JSC SISTEMA-HALS AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Amounts in thousands of U.S. dollars unless otherwise stated)

1. DESCRIPTION OF THE BUSINESS

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The accompanying financial statements have been prepared in conformity with the accounting principles generally accepted in the United States of America (“U.S. GAAP”). The Group’s entities maintain accounting records and prepare their statutory financial statements in Russian rubles (“RUB”), U.S. dollars and in Ukrainian 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.

In the opinion of the Group’s management, these condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the interim periods. Certain information and related footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted, although the Group believes the disclosures in these financial statements are adequate to make the information presented not misleading. The financial results of operations for the interim periods shown are not necessarily indicative of the results for the entire fiscal year.

These interim condensed consolidated financial statements should be read in conjunction with the Group’s consolidated financial statements as of and for the years ended December 31, 2007 and 2006.

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

JSC SISTEMA-HALS AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Amounts in thousands of U.S. dollars unless otherwise stated)

The ownership interest of Sistema-Hals and proportion of its voting power in its major subsidiaries as of June 30, 2008 and December 31, 2007 were as follows:

Operating entities	Ownership interest		Voting power	
	June 30, 2008	December 31, 2007	June 30, 2008	December 31, 2007
Kuntsevo-Invest	100%	100%	100%	100%
Sistema-Hals Nord-West	76%	76%	76%	76%
IRT	100%	100%	100%	100%
TRK Kazan	100%	100%	100%	100%
Mosdachtrest	57%	57%	60%	60%
Landshaft-2	100%	100%	100%	100%
Organizator	51%	51%	51%	51%
PSO Sistema-Hals	51%	51%	51%	51%
Hals-Stroy	100%	100%	100%	100%
City-Hals	100%	100%	100%	100%
Bolshoy City	100%	100%	100%	100%
Yalta Fish Plant	98%	98%	98%	98%
RTI-Estate	-	51%	-	51%
Sapidus	100%	100%	100%	100%
Gorki-8	75%	75%	75%	75%
Istochnik	75%	75%	75%	75%

Consolidation is also required when the Group is subject to a majority of the risk of loss or is entitled to receive a majority of the residual returns or both from a variable interest entity's activities. During the six months ended June 30, 2008 the Group has granted guarantees for the credit facilities obtained from Merrill Lynch International and GazPromBank by Remstroytrest-701 (see Note 13). The loans were obtained by Remstroytrest-701 to acquire the building located at Novodanilovskaya Naberezhnaya in Moscow. Upon this transaction Remstroytrest-701 was considered as a variable interest entity and was consolidated under the provision of FIN 46(R), Consolidation of Variable Interest Entities.

Foreign currency translation – Until 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.

In the beginning of 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. Accordingly, the Group's subsidiaries in the Russian Federation changed its 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, previously issued financial statements should not be restated, and the change in functional currency should be reported prospectively. The impact of the change in functional currency on the financial statements was an increase in the opening translated carrying values of the following non-monetary assets and liabilities as of January 1, 2008:

Costs and estimated earnings in excess of billings on uncompleted contracts	18,444
Real estate investments, net	58,429
Buildings used for administrative purposes, plant and equipment, net	1,984
Development rights and other intangible assets, net	9,223
Investments in associates and joint ventures	730
Billings in excess of costs and estimated earnings on uncompleted contracts	(24,075)
Deferred taxes	(2,023)
Minority interest	(4,301)
Net	58,411

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Amounts in thousands of U.S. dollars unless otherwise stated)

This increase in the opening carrying amount of non-monetary assets and liabilities has been reflected in shareholder's equity as part of other comprehensive income.

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

Under SFAS No. 52 the current rate method assumes that assets and liabilities measured in the functional currency are translated into U.S. dollars at exchange rates prevailing on the balance sheet date; whereas revenues, expenses, gains and losses are translated into U.S. dollars at average exchange rates prevailing during the period. Translation adjustments resulting from the process of translating financial statements into US dollars are reported in other comprehensive income, a separate component of shareholders' equity.

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

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

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 FSP No. FAS 142-3, “Determination of the Useful Life of Intangible Assets” (“FSP No. 142-3”). FSP No. 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 SFAS No. 142, “Goodwill and Other Intangible Assets” (“SFAS No. 142”). The objective of FSP No. 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R and other U.S. GAAP. FSP No. 142-3 applies to all intangible assets, whether acquired in a business combination or otherwise, and shall be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and should be applied prospectively to intangible assets acquired after the effective date. Early adoption is prohibited. The Group is in the process of evaluating the potential impact, if any, of the adoption of FSP No. 142-3 on its consolidated financial statements.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Amounts in thousands of U.S. dollars unless otherwise stated)

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 consolidated financial position, results of operations or cash flows.

In June 2008, 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 payment awards that contain rights to receive nonforfeitable dividends (whether 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 or reporting of its earnings per share.

3. TRADE RECEIVABLES, NET

Trade receivables, net of provision for doubtful debts, as of June 30, 2008 and December 31, 2007 consisted of the following:

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Saraya Russia	20,000	60,000
Mirax Group	19,965	30,182
Brysongate	15,000	-
Mosmetrostroy	8,818	8,059
Trade receivables from other third parties	10,707	4,936
Total trade receivables from third parties	<u>74,490</u>	<u>103,177</u>
RTI-Radio, a Sistema subsidiary	58,225	-
Apsys, joint venture	50,391	86,391
Sistema K-Invest, a Sistema subsidiary	-	15,615
Manezh 13, a Sistema subsidiary	8,039	7,868
Trade receivables from other related parties	5,963	2,973
Total trade receivables from related parties	<u>122,618</u>	<u>112,847</u>
Total	<u>197,108</u>	<u>216,024</u>

4. TAXES RECEIVABLE

Taxes receivable as of June 30, 2008 and December 31, 2007 consisted of the following:

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
VAT receivable	56,044	43,493
Other taxes receivable	31,120	12,277
Total	<u>87,164</u>	<u>55,770</u>

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Amounts in thousands of U.S. dollars unless otherwise stated)

5. OTHER RECEIVABLES, NET

Other receivables, net of provision for doubtful debts, as of June 30, 2008 and December 31, 2007 consisted of the following:

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Advances to and other receivables from third parties	26,747	20,228
Other receivables from Sistema subsidiaries	13,057	753
Prepaid expenses	4,911	4,795
Interest receivable from related parties	3,639	3,422
Interest receivable from third parties	2,073	4,035
Other receivables from Sistema subsidiaries	854	344
Less: provision for doubtful debts	<u>(123)</u>	<u>(117)</u>
Total	<u>51,158</u>	<u>33,460</u>

6. LOANS RECEIVABLE AND INVESTMENTS IN DEBT AND EQUITY SECURITIES

Deposits, loans receivable and investments in debt and equity securities as of June 30, 2008 and December 31, 2007 consisted of the following:

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Loans and notes receivable from:		
- subsidiaries of Sistema	64,891	25,288
- related parties	22,227	26,226
- third parties	26,461	55,445
Funds under trust management	-	22,149
Time deposits in MBRD	<u>-</u>	<u>505</u>
Total	<u>113,579</u>	<u>129,613</u>

The weighted average interest rates on loans and notes receivable from Sistema subsidiaries, associates of Sistema and third parties as of June 30, 2008 were 0.9%, 11.5% and 9.5%, respectively. Substantially all loans and notes receivable held by the Group as of June 30, 2008 mature within one year from that date.

As of December 31, 2007, funds under trust management were represented by a portfolio of investments managed by Renaissance Capital in the amount of USD 22,149 thousand. The trust management agreement expired in the six months ended June 30, 2008.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Amounts in thousands of U.S. dollars unless otherwise stated)

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

Costs and estimated earnings in excess of billings on uncompleted contracts as of June 30, 2008 and December 31, 2007 consisted of the following:

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Accumulated costs and earnings	261,914	312,017
Less: amounts billed	<u>(118,801)</u>	<u>(192,977)</u>
Total	<u>143,113</u>	<u>119,040</u>

8. REAL ESTATE INVESTMENTS, NET

Real estate investments, net of accumulated depreciation as of June 30, 2008 and December 31, 2007 consisted of the following:

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Real estate developed for sale	1,012,852	856,883
Income producing properties		
Buildings and constructions	420,059	166,964
Less: accumulated depreciation	<u>(14,639)</u>	<u>(11,228)</u>
	<u>405,420</u>	<u>155,736</u>
Total	<u>1,418,272</u>	<u>1,012,619</u>

The depreciation charge for the six months ended June 30, 2008 and 2007 amounted to USD 5,318 thousand and USD 2,063 thousand, respectively.

Real estate investments acquired in the six months ended June 30, 2008 mainly consisted of the following:

Project	<u>Share</u>	<u>USD thousand</u>
Land plot (Odintsovsky Region, Soloslovo)	100%	74,294
Building at Novodanilovskaya Naberezhnaya in Moscow	100%	108,737

Real estate investments disposed of during the six months ended June 30, 2008 mainly consisted of the following:

Project	<u>Share</u>	<u>Sale price, USD thousand</u>
Rodchelskaya	100%	29,696
8 Marta Street (Complex of buildings)	51%	53,802

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Amounts in thousands of U.S. dollars unless otherwise stated)

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

Buildings used for administrative purposes, plant and equipment, net of accumulated depreciation, as of June 30, 2008 and December 31, 2007 consisted of the following:

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Buildings used for administrative purposes	4,424	4,127
Plant and equipment	8,255	6,122
Other assets	<u>9,222</u>	<u>6,100</u>
	21,901	16,349
Less: accumulated depreciation	<u>(6,816)</u>	<u>(5,647)</u>
Total	<u>15,085</u>	<u>10,702</u>

The depreciation charge for the six months ended June 30, 2008 and 2007 amounted to USD 1,444 thousand and USD 670 thousand, respectively.

10. PAYABLES TO SUPPLIERS AND SUBCONTRACTORS

Payables to suppliers and subcontractors as of June 30, 2008 and December 31, 2007 consisted of the following:

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Payables for the building at Novodanilovskaya Naberezhnaya in Moscow	25,868	-
Payables to the subcontractor for the Siemens project, a related party	7,877	3,872
Payable for the building at Lva Tolstogo Street in Moscow	252	12,963
Payables to other third parties	80,967	39,670
Payables to Sistema subsidiaries	<u>4,809</u>	<u>1,724</u>
Total	<u>119,773</u>	<u>58,229</u>

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

Billings in excess of costs and estimated earnings on uncompleted contracts as of June 30, 2008, and December 31, 2007 consisted of the following:

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Amounts billed	277,958	105,904
Less: accumulated costs and earnings	<u>(236,071)</u>	<u>(74,240)</u>
Total	<u>41,887</u>	<u>31,664</u>

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Amounts in thousands of U.S. dollars unless otherwise stated)

12. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities as of June 30, 2008 and December 31, 2007 consisted of the following:

	June 30, 2008	December 31, 2007
Accrued interest expense	20,228	4,421
Payable for 50% of Soyuzkomint	12,347	12,453
Advances received for sale and rent of summer houses in the Moscow Region	8,407	10,600
Payables to municipal authorities for development project in Yalta	2,161	6,742
Other accrued expenses and other liabilities to third parties	36,364	27,413
Other liabilities to Sistema and its subsidiaries	8,338	5,463
Total	87,845	67,092

13. LOANS AND NOTES PAYABLE

The Group's loans and notes payable as of June 30, 2008 and December 31, 2007 consisted of the following:

	June 30, 2008	December 31, 2007
Loans and notes payable to third parties		
Vneshtorgbank (VTB)	700,000	700,000
Alfabank	94,330	12,075
Merrill Lynch International	57,500	-
Vnesheconombank	56,000	56,000
GazPromBank	26,000	-
InvestTorgBank	12,099	-
Other	25,250	24,194
	971,179	792,269
Loans and notes payable to Sistema subsidiaries and other related parties		
East-West United Bank	96,000	96,000
MGTS	57,138	19,975
Infokom	38,368	-
Elvistorg	28,989	-
MBRD	19,009	4,827
Davia	-	61,603
Other	5,168	3,163
	244,672	185,568
Total loans and notes payable	1,215,851	977,837
Current portion of loans and notes payable	245,482	103,321
Non-current portion of loans and notes payable	970,369	874,516
Total loans and notes payable	1,215,851	977,837

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Amounts in thousands of U.S. dollars unless otherwise stated)

In August and November 2007, the Group signed two agreements with VTB for loan facilities of USD 500,000 thousand and USD 200,000 thousand, respectively. The Group paid USD 40,000 thousand as commission under the loan facilities. The commission costs, net of accumulated amortization as of June 30, 2008 are USD 34,632 thousand. The loan facilities are payable in 60 months. The first loan facility bears an effective interest rate of 8.5% per annum and was extended for the refinancing of loans from Deutsche Bank AG, Nomura International plc and UBS AG, as well as to finance the Group's investment program. The second loan facility bears the floating interest rate of LIBOR + 5.43% and is extended for the financing of the Group's investment program and operational activities. For information about pledges under the loan facilities refer to Note 17 "Guarantees and pledges". The loans are subject to certain restrictive covenants including compliance with certain financial ratios.

In August 2007, the Group signed a loan agreement with Alfabank for a loan facility of USD 20,000 thousand. The loan is repayable within 12 months from the date of issuance. The floating interest rate varies from LIBOR + 5.5 % to LIBOR + 6.0%. As of June 30, 2008, the outstanding amount of the loan facility is USD 17,830 thousand. The facilities are extended for construction of the buildings in the Western Kuntsevo district of Moscow. In February and in April 2008, the Group obtained two tranches in the amounts of USD 35,000 thousand and USD 41,500 thousand, respectively, under a loan facility from Alfabank. The maximum amount of the loan facility is USD 88,800 thousand. The loan facility is repayable within 12 months and bears fixed interest rate of 13%. For information about pledges under the loan facilities refer to Note 17 "Guarantees and pledges".

In June 2008, the Group obtained the first tranche in the amount of USD 57,500 thousand under a credit facility from Merrill Lynch International. The maximum amount of the credit facility is USD 90,000 thousand, it 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 thousand 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 thousand annually for it. The effective interest rate of the credit facility is 11.4%+LIBOR.

In September 2007, the Group acquired Gorki-8, which had a loan agreement with Vnesheconombank in the amount of USD 56,000 thousand for the acquisition of 79 cottages with corresponding land plots in the Moscow Region. The interest rate is 9%, and the loan is repayable in July 2014. For the information about pledges under the loan refer to Note 17 "Guarantees and pledges".

In June 2008, the Group signed a loan agreement with GazPromBank for a loan facility of USD 26,000 thousand 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 17 "Guarantees and pledges".

In April and in June 2008, the Group obtained three tranches in the total amount of USD 12,099 thousand 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 14.5%. For information about pledges under the loan facilities refer to Note 17 "Guarantees and pledges".

In December 2007, the Group obtained a loan from East-West United Bank S.A. in the amount of USD 96,000 thousand to finance the acquisition of Istochnik shares. The effective interest rate under the loan agreement is 13.5%. The loan is repayable in 3 years.

In November 2007, the Group obtained a loan from MGTS in the amount of USD 19,975 thousand. The loan is repayable as of August 31, 2008 and bears a fixed interest rate of 11%. The facilities are extended for reconstruction of MGTS buildings.

JSC SISTEMA-HALS AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007

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

In the six months ended June 30, 2008, the Group consolidated a variable interest entity Remstroytrest-701 (see Note 2) that had a loan agreement with MGTS in the amount of USD 36,236 thousand. The loan facility was granted mainly for the financing of the acquisition of the building at Novodanilovskaya Naberezhnaya in Moscow. The loan facility is repayable as of December 31, 2008 and bears a fixed interest rate of 10%.

In May 2008, the Group issued promissory notes in the amount of USD 38,368 thousand to Infokom. The promissory notes bear an interest rate of 10.5%, and are repayable within 6 months from the date of issuance.

In May 2008, the Group issued promissory notes in the amount of USD 28,989 thousand to Elvistorg. The promissory notes bear an interest rate of 10.5% and are repayable within 6 months from the date of issuance.

In the six months ended June 30, 2008, the Group obtained a loan from MBRD in the amount of USD 16,996 thousand. As of June 30, 2008, the outstanding amount of the loan facility is USD 15,148 thousand. The loan facility is granted for general corporate purposes. The loan facility is repayable as of July 30, 2008 and bears a fixed interest rate of 15%.

In November 2007, the Group issued promissory notes in the amount of USD 162,031 thousand 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 thousand. As of June 30, 2008, the amounts were repaid.

The weighted average interest rate on loans and notes payable outstanding as of June 30, 2008 and December 31, 2007 was 8.3% and 9.3%, respectively.

The schedule of repayment of debt is as follows:

Period ended June 30,	
2009	245,482
2010	22,467
2011	191,883
2012	-
2013	700,000
Thereafter	56,019
Total	<u>1,215,851</u>

JSC SISTEMA-HALS AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Amounts in thousands of U.S. dollars unless otherwise stated)

14. SIEMENS PROJECT

In 2003, the Group entered into a fixed price contract with Siemens to develop an office building in Moscow. The Group also signed a fixed-price agreement with a subcontractor, a related party, to physically construct the building. During 2006 and 2007 there was significant growth in the prices of materials, labor and other construction costs. As a result of this, the Group is unable to complete the project within the original budget cost estimates. In 2007 the Group initiated negotiations with Siemens to revise the contract price to recover the increased costs.

In 2008 the negotiation process continued. As of the reporting date the Company considers the negotiations are proceeding positively but the final agreement has not been reached. Due to the uncertainties that still exist as of the reporting date, the Group is not able to reasonably determine or estimate the likely outcome of the project. No losses in relation to this project are provided for as at June 30, 2008.

The following amounts in relation to this project were recorded in the consolidated financial statements for the six months ended June 30, 2008 and for the years ended December 31, 2007 and 2006:

	<u>June 30, 2008</u>	<u>December 31, 2007</u>	<u>December 31, 2006</u>	<u>Total</u>
Revenues	11,890	-	62,444	74,334
Costs	(11,890)	(16,898)	(45,546)	(74,334)
Financing received from Siemens, EUR thousand	64,000	64,000	64,000	-

15. OPERATING EXPENSES

Operating expenses for the six months ended June 30, 2008 and 2007 comprised the following:

	<u>Six months ended June 30,</u>	
	<u>2008</u>	<u>2007</u>
Cost of sales	150,161	89,437
Stock-based compensation	(756)	97,966
Payroll and other employee-related costs	27,936	18,726
Depreciation and amortization	11,128	6,054
Bad debt expense	-	168
Consulting services	3,889	853
Repairs and maintenance	2,521	938
Taxes other than income taxes	2,252	914
Rent of premises and land	1,860	1,277
Security expenses	1,613	825
Advertising and marketing	439	1,120
Other	11,419	3,377
Total	<u>212,462</u>	<u>221,655</u>

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Amounts in thousands of U.S. dollars unless otherwise stated)

16. RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2008 and 2007, the Group entered into the following transactions with Sistema and its subsidiaries:

	Six months ended June 30,	
	2008	2007
Revenues from development projects	53,802	50,000
Services provided	16,826	8,421
Services purchased	(765)	(129)
Other income / (expenses), net	(3,887)	(2,140)
Interest income	3,048	8,131
Interest expenses	(10,475)	(770)

Revenues from development projects – In the six months ended June 30, 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 the total amount of USD 53,802 thousand.

In the six months ended June 30, 2007, the Group sold its 100% stake in Nostro, which owns a building located at 75, Sadovnicheskaya st., Moscow, for USD 50,000 thousand to MBRD.

Site management services provided – Revenues from site management services provided to Sistema and its subsidiaries in the six months ended June 30, 2008 and 2007 were USD 14,212 thousand and USD 7,241 thousand, respectively.

Agreements to act as a developer – In the six months ended June 30, 2008 and 2007, the Group had agreements with Detsky Mir, Sistema Mass Media, MGTS, Intourist and NIIDAR, subsidiaries of Sistema, to act as a developer for projects to redevelop properties owned by these entities. The revenues from such services for the six months ended June 30, 2008 and 2007 amounted to USD 1,250 thousand and USD 886 thousand, respectively.

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

Other expenses – Other expenses are represented mainly by USD 4,119 thousand of contract price reduction relating to sale of 100% stake in Nostro, which owned a building located at 75, Sadovnicheskaya st., Moscow, for USD 49,500 thousand to MBRD in 2007. In the six months ended June 30, 2008 the price was reduced down to the amount of USD 45,381 thousand due to the failure by Sistema-Hals to fulfill certain contract terms.

Interest income – In the six months ended June 30, 2008 and 2007 interest income from a deposit in MBRD amounted to USD 2,556 thousand and 4,618 thousand, respectively.

In the six months ended June 30, 2007 income received from a trust managed by MBRD amounted to USD 3,513 thousand.

Interest expenses – In the six months ended June 30, 2008 and 2007, costs of the Group’s borrowings from EWUB amounted to USD 6,460 thousand and nil, respectively.

In the six months ended June 30, 2008 and 2007, costs of the Group’s borrowings from MBRD amounted to USD 1,095 thousand and USD 770 thousand, respectively.

In the six months ended June 30, 2008 and 2007, costs of the Group’s borrowings from MGTS amounted to USD 2,920 thousand and nil, respectively.

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17. 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 June 30, 2008, common shares of the Group's entities have been pledged as follows:

	<u>Number of shares pledged</u>	<u>Number of shares pledged as a percentage of total shares</u>
Remstroytrest-701	100	100%
Promresurs	100	100%
Telekom-Development	50	100%
Mosdachrest	187	1%

As of June 30, 2008, Sistema has pledged 1,248,000 shares of JSC Sistema-Hals as a security under the loan facility from VTB in the amount of USD 500,000 thousand.

As of June 30, 2008, the Group has pledged 669,040 shares of treasury stock as a security under the loan facility from VTB in the amount of USD 200,000 thousand.

As of June 30, 2008, the Group has pledged 40 cottages (13,184.9 sq. m) and land plots (10,695 sq. m) in the Moscow Region as a security under the loan from Vnesheconombank in the amount of USD 56,000 thousand.

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

The Group has granted guarantees for the credit line obtained from MBRD by Ferro-Stroy, the co-developer, in the amount of USD 30,000 thousand and pledged title to apartments in the amount of USD 15,916 thousand under Nakhimovsky project. As of June 30, 2008, the credit line used by Ferro-Stroy amounted to USD 28,546 thousand.

As of June 30, 2008, the Group has pledged land plots and summer houses in the Odintsovsky Region with the fair value of USD 60,460 thousand as a security under a loan facility from Alfabank.

The Group has granted guarantees for the credit line obtained from MBRD by Triada-Invest in the amount of USD 4,000 thousand. As of June 30, 2008, the credit line used by Triada-Invest amounted to USD 1,016 thousand.

As of June 30, 2008, the Group has pledged land plots and the right of demand for residential apartments (assuming built) in the Odintsovsky Region (Soloslovo) with the fair value of USD 8,521 thousand and USD 16,000 thousand as a security under a loan facility from InvestTorgBank.

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18. 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 period ended June 30, 2008, the Group entered into a number of investing activities in another tax jurisdiction. 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 Rosstroj, the Federal Service for Supervision in the Sphere of Use of Natural Resources, the Federal Service on Ecological, Technologic and Nuclear Supervision and regional bodies of the state architectural and construction supervision are involved in the process of authorizing and supervising real estate development.

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

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

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.

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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 June 30, 2008. A summary of significant commitments under construction contracts as of June 30, 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 226,372 thousand as of June 30, 2008. In addition, in connection with this project, the Group undertook obligations to provide the Central Army Sports Club (“CSCA”) with residential housing in the amount of USD 43,620 thousand.

MGTS properties – The Group entered contractual agreements for the reconstruction of certain MGTS buildings. Commitments under these contracts amounted to USD 86,794 thousand as of June 30, 2008.

Mosdachrest properties – The Group has contracted for construction works related to Mosdachrest properties. Commitments under these contracts amounted to USD 5,025 thousand as of June 30, 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 15,246 thousand as of June 30, 2008.

Western Kuntsevo properties – The Group has hired a contractor to perform general construction works. Commitments under these contracts amounted to USD 98,955 thousand, including USD 85,278 thousand in relation to Elninskaya 28A Project and USD 13,677 thousand in relation to Rublevskoe shosse 111A Project as of June 30, 2008.

Zdravnitza Novaya (Rozhnovka) – The Group entered contractual agreements for a technological connection to transmission links. Commitments under the contract amounted to USD 5,949 thousand as of June 30, 2008.

Povarskaya 8 – The Group entered contractual agreements for construction of office premises. Commitments under these contracts amounted to USD 23,259 thousand as of June 30, 2008.

Pekin – The Group entered contractual agreements for construction of a Hotel and Office Centre. Commitments under these contracts amounted to USD 14,519 thousand as of June 30, 2008.

Buchvostova 12/11 – The Group entered contractual agreements for initial construction works of the project. Commitments under these contracts amounted to USD 3,744 thousand as of June 30, 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 49,539 thousand as of June 30, 2008.

Detsky Mir Lubyanka – The Group entered contractual agreements for reconstruction works under the project. Commitments under the contract amounted to USD 302,920 thousand as of June 30, 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 7,062 thousand as of June 30, 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.

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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. Periodic lease payments under land lease agreements for the period ended June 30, 2008 have not been significant.

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

f) Commitment to maintain production at Yalta Fish Processing Plant

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

g) 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.

19. SEGMENT INFORMATION

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

The Group's operating segments are: Real estate development, Project and construction management, Real estate asset management and Facility management. Activities of the Group's Real estate development segment include identification of investment opportunities, performance of feasibility studies, obtaining necessary construction permits, project financing and marketing activities. The Project and construction management segment is currently primarily acting as a construction manager to oversee compliance by contractors with design specifications and the terms of particular contracts. 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.

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

As of and for the six months ended June 30, 2008	<u>Real estate development</u>	<u>Project and construction management</u>	<u>Real estate asset management</u>	<u>Facility management</u>	<u>Total</u>
Net sales to external customers	181,423	8,087	21,328	16,262	227,100
Intersegment sales	120	1,513	383	1,558	3,574
Interest income	12,032	60	249	-	12,341
Interest expense, net of amounts capitalized	(22,579)	(313)	(1,657)	-	(24,549)
Depreciation and amortization	(7,311)	(221)	(3,557)	(39)	(11,128)
Operating income	4,448	2,904	8,214	308	15,874
Income before income tax and minority interests	22,113	2,716	6,530	526	31,885
Income tax expense	(12,807)	(1,492)	(3,154)	(240)	(17,693)
Segment assets	2,067,122	70,245	172,021	12,550	2,321,938
Capital expenditures	295,992	164	9,660	10	305,826

As of and for the six months ended June 30, 2007	<u>Real estate development</u>	<u>Project and construction management</u>	<u>Real estate asset management</u>	<u>Facility management</u>	<u>Total</u>
Net sales to external customers	87,686	14,632	17,879	9,576	129,773
Intersegment sales	143	542	273	1,288	2,246
Interest income	14,533	95	200	-	14,828
Interest expense, net of amounts capitalized	(2,894)	(281)	(1,625)	-	(4,800)
Depreciation and amortization	(4,000)	(167)	(1,878)	(9)	(6,054)
Operating income/(loss)	(109,562)	8,328	9,702	465	(91,067)
Income/(loss) before income tax and minority interests	(95,215)	10,249	7,756	464	(76,746)
Income tax expense	(5,754)	(2,100)	(2,221)	(166)	(10,241)
Segment assets	971,668	69,794	137,398	5,583	1,184,443
Capital expenditures	170,946	183	17,942	720	189,791

JSC SISTEMA-HALS AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Amounts in thousands of U.S. dollars unless otherwise stated)

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

	Six months ended June 30,	
	2008	2007
Total segment operating income / (loss)	15,874	(91,067)
Intersegment eliminations	(1,236)	(815)
Other expenses, net	(1,879)	(4,149)
Interest income	8,720	12,526
Interest expense, net of amounts capitalized	(22,587)	(4,117)
Gain on foreign currency transactions	29,938	4,321
Loss on sale of interests in a subsidiary	-	(110)
Income before income tax and minority interests	28,830	(83,411)
	June 30,	June 30,
	2008	2007
Total segment assets	2,321,938	1,184,443
Intersegment eliminations	(116,888)	(170,945)
Total assets	2,205,050	1,013,498

20. SUBSEQUENT EVENTS

In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have either been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets both globally and in Russia, notwithstanding any potential economic stabilisation measures that may be put into place by the Russian Government, there exists as at the date these financial statements are authorised for issue economic uncertainties surrounding the continual availability, and cost, of credit both for the entity and its counterparties, the potential for economic uncertainties to continue in the foreseeable future and, as a consequence, the potential that assets may not be recovered at their carrying amount in the ordinary course of business, and a corresponding impact on the entity's profitability.

In July 2008, the Board of Directors of Sistema-Hals has approved two 5-year bond issues for a total of RUB 5.0 billion (approximately USD 200 million). Raiffeisenbank and Renaissance Capital are acting as Arrangers of the issues.

In July 2008 the Group granted additional guarantees for the credit line obtained from MBRD by Triada-Invest in the amount of RUB 100,000 thousand (approximately USD 4,000 thousand).

In September 2008, the Group obtained the second tranche in the amount of USD 32,500 thousand under the credit facility from Merrill Lynch International.

In December 2008, the Group changed the terms of its credit agreements with VTB Bank. Under the new terms, the five-year credit facilities for the amounts of USD 500 million and USD 200 million granted by VTB Bank in 2007 were converted into roubles at the rate of the Russian Central Bank as of December 2, 2008. The credit interest rate is 15% per annum both for the USD 500 million credit (the previous rate was 8.5% per annum) and for the USD 200 million credit (the previous rate was LIBOR+5.43% per annum). The requirement for covenants (financial indicators) for FY2008 is cancelled and will take effect in FY2009.

JSC SISTEMA-HALS AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007

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

In October 2008, after expiration of the terms of the bank guarantee (issued by Deutsche Bank, in the amount of EUR 64 million) for the advance payment by Siemens in favour of Sistema-Hals for construction works, Siemens requested Deutsche Bank to return the advanced payment. Sistema-Hals compensated the sum equal to the paid bank guarantee on the Deutsche Bank demand. Siemens and Sistema-Hals are negotiating to sign new financial agreement and are currently working on the details of the agreement.

In December 2008, a credit facility agreement was signed with VTB Bank for the amount of RUB 7.0 billion (approximately USD 250 million) repayable in 2 years. The drawdown period is 10 months.

In December 2008 the Group sold interests in two of its subsidiaries – Organizator and PSO Sistema-Hals, which represented the Project and construction management segment of the Group.