JSC SISTEMA-HALS
AND SUBSIDIARIES

Independent Accountants' Review Report

Consolidated Financial Statements
as of June 30, 2007 (unaudited) and
December 31, 2006 and for the six months
ended June 30, 2007 and 2006 (unaudited)

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 consolidated balance sheet of JSC Sistema-Hals and subsidiaries (the “Group”) as of June 30, 2007 and the related consolidated statements of operations, changes in shareholders’ equity, and cash flows for the six months ended June 30, 2007 and 2006. 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 financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche

September 27, 2007

JSC SISTEMA-HALS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2007 (UNAUDITED) AND DECEMBER 31, 2006
(Amounts in thousands of U.S. dollars)

	Notes	June 30, 2007	December 31, 2006
ASSETS			
Cash and cash equivalents	3	89,089	261,952
Trade receivables, net	4	59,026	34,741
Taxes receivable	5	62,689	38,855
Other receivables, net	6	30,942	9,771
Deposits, loans receivable and investments in debt and equity securities	7	198,097	164,855
Costs and estimated earnings in excess of billings on uncompleted contracts	8	25,041	13,081
REAL ESTATE INVESTMENTS, NET			
Real estate developed for sale	9	408,183	270,892
Income producing properties, net	9	88,769	59,541
Total		496,952	330,433
Buildings used for administrative purposes, plant and equipment, net	10	6,458	5,477
Development rights and other intangible assets, net	11	36,540	40,035
Investments in associates	12	8,664	2,799
TOTAL ASSETS		**1,013,498**	**901,999**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Payables to suppliers and subcontractors	13	37,267	33,477
Billings in excess of costs and estimated earnings on uncompleted contracts	14	49,747	25,363
Accrued expenses and other liabilities	15	81,948	25,130
Taxes payable		10,405	3,899
Construction obligations	16	-	2,232
Loans and notes payable	17	373,545	377,967
Deferred tax liabilities	21	25,808	21,504
TOTAL LIABILITIES		578,720	489,572
COMMITMENTS AND CONTINGENCIES	24	-	-
MINORITY INTERESTS		18,410	18,681
SHAREHOLDERS' EQUITY			
Share capital	18	20,492	20,492
Treasury stock	18	(1,555)	(2,322)
Additional paid-in capital	18	530,804	430,126
Accumulated deficit		(133,373)	(54,550)
TOTAL SHAREHOLDERS' EQUITY		416,368	393,746
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,013,498**	**901,999**

See notes to consolidated financial statements.

JSC SISTEMA-HALS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)
(Amounts in thousands of U.S. dollars, except share and per share amounts)

		Six months ended June 30,	
	Notes	**2007**	**2006**
REVENUES		129,773	106,620
OPERATING EXPENSES	20	(221,655)	(64,627)
OPERATING (LOSS)/INCOME		(91,882)	41,993
OTHER INCOME/(EXPENSES):			
Other (expenses)/income, net		(4,149)	268
Interest income		12,526	846
Interest expense, net of amounts capitalized		(4,117)	(2,600)
Gain/(loss) on foreign currency transactions		4,321	(4,819)
Gain on sale of shares in associates		-	3,078
Loss on sale of subsidiaries	2	(110)	-
(LOSS)/INCOME BEFORE INCOME TAX AND MINORITY INTERESTS		(83,411)	38,766
Income tax expense	21	(10,241)	(4,748)
(LOSS)/INCOME BEFORE MINORITY INTERESTS		(93,652)	34,018
Minority interests		(5,920)	(2,934)
NET (LOSS)/INCOME		**(99,572)**	**31,084**
Weighted average number of common shares outstanding		10,013,901	9,994,431
(Loss)/earnings per share, U.S. dollars, basic and diluted		(9.9)	3.1

See notes to consolidated financial statements.

JSC SISTEMA-HALS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)
(Amounts in thousands of U.S. Dollars)

	Six months ended June 30,	
	2007	**2006**
OPERATING ACTIVITIES:		
Net (loss)/income	(99,572)	31,084
Adjustments to reconcile net (loss)/income to net cash provided by operations:		
Depreciation and amortization	6,054	1,714
Loss on disposal of plant and equipment	972	191
Minority interests	5,920	2,934
Loss on sale of subsidiaries	110	-
Gain on disposal of an equity investee	-	(3,078)
Gain on sale of a real estate investment	(13,125)	-
Profit recognized by the percentage-of-completion method on real estate developed for sale	-	(34,935)
Stock-based compensation	97,966	-
Deferred tax expense	2,726	2,449
Bad debt expense/(reversal)	168	(87)
Foreign currency transactions (gain)/loss on non-operating activities	(2,598)	4,413
Changes in operating assets and liabilities:		
Billings in excess of costs on uncompleted contracts	12,424	56,398
Trade receivables	(6,602)	12,907
Taxes receivable	(23,332)	(719)
Other receivables	(20,310)	(6,827)
Payables to suppliers and subcontractors	28,541	17,321
Accrued expenses and other liabilities	25,379	21,881
Taxes payable	5,796	985
Net cash provided by operating activities	**20,517**	**106,631**
INVESTING ACTIVITIES:		
Payments for real estate investments	(161,667)	(59,414)
Proceeds from sale of real estate investments	12,029	30,341
Purchases of plant and equipment and intangible assets	(2,956)	(3,461)
Proceeds from sale of plant and equipment	-	331
Issuance of short-term loans and notes receivable, net	(44,377)	(4,117)
Purchases of long-term investments	-	(2,520)
Proceeds from sale of long-term investments	-	139
Proceeds from sale of subsidiaries, net of cash disposed	(1,124)	-
Proceeds from sale of equity investees	25	3,094
Net cash used in investing activities	**(198,070)**	**(35,607)**

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)
(Amounts in thousands of U.S. dollars)

	Six months ended June 30,	
	2007	**2006**
FINANCING ACTIVITIES:		
Principal payments on long-term borrowings	(1,710)	(30,400)
Proceeds from long-term borrowings	1,390	9,546
Proceeds from/(principal payments on) short-term borrowings, net	6,270	(35,946)
Transfer to Sistema	(4,580)	-
Reimbursement of initial public offering costs	3,479	-
Dividends paid to minority shareholders of subsidiaries	(444)	(1,922)
Net cash provided by/(used in) financing activities	**4,405**	**(58,722)**
Effects of foreign currency translation on cash and cash equivalents	285	625
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(172,863)	12,927
CASH AND CASH EQUIVALENTS, beginning of the period	261,952	10,362
CASH AND CASH EQUIVALENTS, end of the period	89,089	23,289
CASH PAID DURING THE PERIOD FOR:		
Income taxes	2,244	1,594
Interest	11,085	2,351

See notes to consolidated financial statements.

In addition, non-cash investing activities for the six months ended June 30, 2007 and 2006 included acquisitions of rights for land, as described in Note 15.

JSC SISTEMA-HALS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2007 (UNAUDITED) AND DECEMBER 31, 2006
(Amounts in thousands of U.S. dollars)

	Share capital	Treasury stock	Additional paid-in capital	Accumu-lated deficit	Total
Balances at January 1, 2006	**$ 24**	**$ -**	**$ 41,909**	**$ (12,502)**	**$ 29,431**
Issuance of common stock	14,607			(14,607)	-
Transfers to Sistema	-	-	-	(22,250)	(22,250)
Net income	-	-	-	31,084	31,084
Balances at June 30, 2006	**$ 14,631**	**$ -**	**$ 41,909**	**$ (18,275)**	**$ 38,265**
Balances at January 1, 2007	**$ 20,492**	**$ (2,322)**	**$ 430,126**	**$ (54,550)**	**$ 393,746**
Effect of FIN 48 adoption (Note 2)	-	-	-	(2,171)	(2,171)
Disposal of treasury stock (Note 26)	-	767	97,199	-	97,966
Reimbursement of initial public offering costs (Note 18)	-	-	3,479	-	3,479
Transfers from Sistema (Note 19)	-	-	-	22,920	22,920
Net income	-	-	-	(99,572)	(99,572)
Balances at June 30, 2007	**$ 20,492**	**$ (1,555)**	**$ 530,804**	**$ (133,373)**	**$ 416,368**

See notes to consolidated financial statements.

1. DESCRIPTION OF THE BUSINESS

JSC Sistema-Hals ("Sistema-Hals") and subsidiaries (together – "the Group") are engaged in real estate development, project and construction management, real estate asset management and facility management, primarily focused on the "Class A" and "Class B" segments of the Moscow office market, shopping centers, high-end housing, single family houses, apartment buildings and land development. The Group's revenues are derived principally from the following activities: (i) sale of completed development projects, both commercial and residential, as well as the sale of rights for land; (ii) project and construction management activities for infrastructure and other construction and development projects; (iii) rental income from completed development projects held as investments; and (iv) facility management services.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The ownership interest of Sistema-Hals and proportion of its voting power in its major subsidiaries as of June 30, 2007 and December 31, 2006 were as follows:

Operating entities	Ownership interest		Voting power	
	June 30, 2007	December 31, 2006	June 30, 2007	December 31, 2006
Kuntsevo-Invest	100%	100%	100%	100%
Sistema-Hals Nord-West	76%	76%	76%	76%
DM Krasnoyarsk	100%	100%	100%	100%
TRK Kazan	100%	100%	100%	100%
Mosdachtrest	57%	57%	60%	60%
Landshaft	100%	100%	100%	100%
Landshaft-2	100%	100%	100%	100%
Sistema-Temp	100%	100%	100%	100%
Nostro	-	100%	-	100%
Organizator	51%	51%	51%	51%
PSO Sistema-Hals	51%	51%	51%	51%
Transtekhproekt	-	26% (1)	-	51%
Shestnadtsaty Trest	-	25% (1)	-	50%
Upravlenie Metrostroya	-	26% (1)	-	51%
Hals-Story	100%	100%	100%	100%
City-Hals	100%	100%	100%	100%
Kamelia Health Resort	68%	-	68%	-
Hals-Stroy Nord-West	100%	100%	100%	100%
Sib-Brok	75%	-	75%	-
Yalta Fish Plant	98%	98%	98%	98%
Sapidus	100%	-	100%	-
Vilina	100%	-	100%	-

(1) –indirect ownership.

In the six months ended June 30, 2007, the Group sold its stake in Transtekhproekt, Shestnadtsaty Trest and Upravlenie Metrostroya. Revenue from sale of the above subsidiaries amounted to USD 1,366 thousand. The sale resulted in a net loss of USD 110 thousand.

In April 2007, Sistema-Hals established Sapidus, a wholly-owned subsidiary in Cyprus.

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

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

The construction industry in general is subject to unique 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.

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

Management believes that the U.S. Dollar ("USD") is the functional currency of the Group, as the majority of its revenues, costs and capital expenditures are either priced, incurred, payable or otherwise measured in USD. In addition, the Group maintains a significant portion of its debt instruments in USD. To the extent settlements are required to be in RUB, the Group sets prices and values in USD and performs the settlements in RUB using the then prevailing exchange rate of the Central Bank of Russia.

As such, during the six months ended June 30, 2007 and 2006, the Group remeasured its assets, liabilities, income and expense items in USD. Monetary assets and liabilities were translated into USD at the rate in effect as of the balance sheet date; non-monetary assets and liabilities and income and expense items were translated at the rate prevailing on the date of the transaction. Exchange gains and losses arising from the remeasurement of monetary assets and liabilities not denominated in USD were included in gain/(loss) on foreign currency transactions in the statements of operations. The official exchange rates quoted by the Central Bank of Russia as of June 30, 2007 and December 31, 2006 were 25.82 and 26.33 rubles per 1 USD, respectively.

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

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

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

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, except for those investments in development of office buildings, apartments, condominiums, shopping centers and similar structures, where the criteria for revenue recognition have been met as of the balance sheet date. Such investments are accounted for by the percentage-of-completion method.

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

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

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

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

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

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

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

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

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

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 June 30, 2007 approximated their carrying value as reflected in the balance sheet. 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 the Group's long-term loans and notes payable to Sistema and its subsidiaries is not practicable to estimate based on the related party nature of the underlying transactions. The fair value of investments in shares of associates was not determined due to quoted market prices not being readily available and valuations not being obtained due to the excessive costs involved.

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

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

Investments in marketable debt and equity securities are classified as available-for-sale and stated at fair value based on market quotes. Unrealized gains/(losses), net of income taxes, are recognized in other comprehensive income. For the six months ended June 30, 2007, unrealized gains/(losses) on marketable securities were not significant. Interest income on debt securities is recognized in the statement of operations.

Investments in associates – The Group's share in net assets and net income/(loss) of Amiral B.V., Telecom Development and Kamenny Ostrov, in all of which the Group holds 20-50% of the voting shares and has the ability to exercise significant influence over their operating and financial policies ("affiliates"), is accounted for using the equity method of accounting. During the six months ended June 30, 2007 and 2006, the Group's share in the net income/(loss) of these entities was insignificant.

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

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

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

Non-reclaimable VAT on real estate investments is capitalised 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 will be amortized on a straight-line basis from the date when the project starts generating revenues until the development period expires. Development rights as of June 30, 2007 and December 31, 2006, comprise rights to develop residential property in the Western Kuntsevo district of Moscow. The development period for this project expires in 2012. Amortization of other finite-life intangible assets is computed on a straight-line basis.

Impairment of long-lived assets – The Group periodically evaluates the recoverability of the carrying amount of its long-lived assets in accordance with SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group compares undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, the Group records impairment losses to write the asset down to fair value, measured by the estimated discounted net future cash flows expected to be generated from the use of the assets. Management does not believe there should be any impairment charge recorded relating to the Group’s investments in long-lived assets as of June 30, 2007 and December 31, 2006.

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 RF. The standard income tax rate in the RF for the six months ended June 30, 2007 and 2006 was 24%.

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

Accounting for uncertainty in income taxes – On January 1, 2007, the Group adopted the provisions of Financial Accounting Standards Board (‘‘FASB’’) Interpretation No. 48 (‘‘FIN 48’’), “Accounting for Uncertainty in Income Taxes — an interpretation of SFAS No. 109”. FIN 48 creates a single model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN 48 resulted in a cumulative effect adjustment to the opening balance of retained earnings as of

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

January 1, 2007, of USD 2,171 thousand. As of June 30, 2007, the Group included accruals for unrecognized income tax benefits totaling USD 4,273 thousand as a component of accrued liabilities.

The changes in unrecognized tax benefits during the six months ended June 30, 2007 were as follows:

Balance at January 1, 2007	2,171
Additions based on tax positions related to the current year	2,173
Additions to tax positions from prior years	685
Reductions to tax positions from prior years	(756)
Balance at June 30, 2007	**4,273**

The Group recognizes accrued interest related to unrecognized tax benefits and penalties in income tax expenses. During the six months ended June 30, 2007, the Group recognized approximately USD 153 thousand and USD 681 thousand, respectively, in interest and penalties. At January 1, 2007 and June 30, 2007, the Group accrued USD 366 thousand and USD 1,200 thousand, respectively, for interest and penalties.

As of the date of these financial statements, the tax years ended December 31, 2004, 2005 and 2006 remained subject to examination by the Russian tax authorities.

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

Stock-based compensation – The Group accounts for stock-based compensation in accordance with 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 capital projects. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. For the six months ended June 30, 2007 and 2006, capitalized borrowing costs were USD 12,610 thousand and USD 3,779 thousand, 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 they are 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. Distributable retained earnings of the Group are based on amounts extracted from the statutory financial statements of Sistema-Hals and differs from amounts 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 period. 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.

Comprehensive income – Comprehensive income consists of net income and other comprehensive income. Other comprehensive income refers to gains and losses that are not included in net income, but rather are recorded directly in shareholders' equity.

Recent accounting pronouncements – In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, an amendment to SFAS No. 133, Accounting for Derivative Instruments and Hedging activities and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS 155 addresses application of SFAS 133 to beneficial interests in securitized financial assets and permits to remeasure fair value for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, requires to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, and clarifies certain other derivatives classification issues. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that starts after September 15, 2006. Its adoption did not have a material impact on the Group's financial position and results of operations.

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

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R) ("SFAS 158"). SFAS 158 requires companies with publicly traded equity securities that sponsor a postretirement benefit plan to fully recognize, as an asset or liability, the overfunded or underfunded status of their benefit plan(s). The funded status is measured as the difference between the fair value of the plan's assets and its benefit obligation. SFAS 158 also requires companies to measure their plan assets and benefit obligations as of the year-end balance sheet date. SFAS 158 is becoming effective for fiscal years ending after December 15, 2006; the provision to require measurement at the entity's year-end balance sheet date will be effective for fiscal years ending after December 15, 2008. The Group is currently assessing the effect of the pronouncement on the financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which permits an entity to measure certain financial assets and financial liabilities at fair value. SFAS 159 offers an irrevocable option to carry the vast majority of financial assets and liabilities at fair value, with changes in fair value recorded in earnings. The Statement's objective is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes, without having to apply complex hedge accounting provisions. SFAS 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Group is currently evaluating the provisions of SFAS 159 to determine whether it will elect the fair value option for eligible items.

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

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Cash and cash equivalents on deposit with:		
Third parties	2,841	7,542
Moscow Bank of Reconstruction and Development ("MBRD"), a subsidiary of Sistema	86,248	254,410
Total	**89,089**	**261,952**

The Group had USD 71,000 thousand and USD 240,771 thousand of demand deposits classified as cash equivalents as of June 30, 2007 and December 31, 2006, respectively. The weighted average interest rate on demand deposits as of June 30, 2007 and December 31, 2006 was 7.3% and 5.4% respectively.

4. TRADE RECEIVABLES, NET

Trade receivables, net of provision for doubtful debts, as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Trade receivables from third parties	9,893	27,616
Trade receivables from Sistema subsidiaries	49,495	7,319
Less: provision for doubtful debts	(362)	(194)
Total	**59,026**	**34,741**

As of June 30, 2007 trade receivables from Sistema subsidiaries included the following:

- USD 37,971 thousand from Sistema K-Invest as a result of the sale of Nostro (for details refer to Note 22 "Related Party Transactions");
- USD 9,254 thousand from Sistema for reimbursement of the Group's construction costs related to the 13, Mokhovaya St. project;
- USD 2,270 thousand from MTS and other subsidiaries of JSFC Sistema for maintenance of their offices.

5. TAXES RECEIVABLE

Taxes receivable as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
VAT receivable	55,520	34,133
Other taxes receivable	7,169	4,722
Total	**62,689**	**38,855**

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

6. OTHER RECEIVABLES, NET

Other receivables, net of provision for doubtful debts as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Advances to and other receivables from third parties	23,997	7,358
Prepaid expenses	4,188	4,328
Other receivables from Sistema subsidiaries	2,873	663
Less: provision for doubtful debts	(116)	(2,578)
Total	**30,942**	**9,771**

Management assesses the realizability of other receivables on a regular basis. This assessment identified advances paid in prior reporting periods for construction of residential property for which the receipt of services is unlikely. Accordingly, the Group has fully provided for those advances as of June 30, 2007 and December 31, 2006.

A provision for doubtful debts at December, 31, 2006 includes a provision against an advance given for project Yelninskaya, 15, in amount of USD 2,512 thousand. The project was completed as of June, 30, 2007, and the contractor did not fulfill its obligations. As at June 30, 2007 the advance was written off against provision.

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

Deposits, loans receivable and investments in debt and equity securities as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Investments in marketable debt securities	51,284	64,974
Investments in marketable equity securities	31,460	-
Loans and notes receivable from:		
- subsidiaries of Sistema	35,563	64,211
- associates of Sistema	2,718	3,464
- third parties	71,248	25,210
Time deposits in MBRD	5,824	6,996
Total	**198,097**	**164,855**

The Group’s investments in marketable debt and equity securities comprise debt and equity securities of Russian issuers, unrelated to the Group. The Group determines the appropriate classification of its investments in marketable debt and equity securities at the time of purchase and reevaluates such designation at each balance sheet date. As of June 30, 2007, the Group’s marketable debt and equity securities have been classified as available-for-sale.

In December 2006, the Group has transferred a portfolio of its investments in debt and equity securities into the trust managed by MBRD. As at June 30, 2007, the portfolio includes investments in marketable equity securities in the amount of USD 1,314 thousand, marketable debt securities in the amount of USD 34,616 thousand and promissory notes in the amount of USD 30,933 thousand. The trust management agreement expires in 2007 but is automatically prolonged, unless any of the parties issues a cancellation notice. The Group's yield on the portfolio is limited to 8.5% per annum plus 1% of any amounts in excess of 8.5% per annum. The Group bears risks of loss on the portfolio. Interest income from debt securities in the portfolio for the six months ended June 30, 2007 amounted to USD 3,513 thousand and was recorded in the statement of operations.

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

In the six months ended June 30, 2007, the Group transferred a portfolio of investments into the trust managed by Renaissance Capital. As at June 30, 2007, the portfolio of investments managed by Renaissance Capital includes investments in marketable debt securities in the amount of USD 18,620 thousand and investments in marketable equity securities in the amount of USD 30,146 thousand.

The weighted average interest rates on loans and notes receivable from Sistema subsidiaries, associates and third parties as of June 30, 2007 were 10.0%, 13.0% and 11.0%, respectively. Substantially all loans and notes receivable held by the Group as of June 30, 2007 mature within one year from that date.

The Group's time deposits in MBRD mature in 2007. The weighted average interest rate for time deposits as of June 30, 2007 was 5.0%.

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

Costs and estimated earnings in excess of billings on uncompleted contracts as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Accumulated costs and earnings	40,982	25,578
Less: amounts billed	(15,941)	(12,497)
Total	**25,041**	**13,081**

9. REAL ESTATE INVESTMENTS, NET

Real estate investments, net of accumulated depreciation as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Real estate developed for sale	**408,183**	**270,892**
Income producing properties		
Buildings and constructions	96,959	66,140
Less: accumulated depreciation	(8,190)	(6,599)
	88,769	**59,541**
Total	**496,952**	**330,433**

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

The depreciation charge for the six months ended June 30, 2007 and 2006 amounted to USD 2,063 thousand and USD 1,175 thousand, respectively.

During the six months ended June 30, 2007, the Group acquired a 67.6% interest in Kamelia Health Resort, which owns land in the city of Sochi, for USD 6,904 thousand (see also Note 19), a 75% interest in Sib-Brok (Ukraine) for USD 561 thousand, which owns a plot of land in Yalta, and a 100% stake in Vilina, which owns a plot of land in Moscow, for USD 7,243 thousand. The newly acquired assets are accounted for as real estate developed for sale.

10. 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, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	**December 31, 2006**
Buildings used for administrative purposes	4,006	2,454
Plant and equipment	2,727	2,260
Other assets	2,813	3,446
	9,546	8,160
Less: accumulated depreciation	(3,088)	(2,683)
Total	**6,458**	**5,477**

Depreciation charge for the six months ended June 30, 2007 and 2006 amounted to USD 670 thousand and USD 463 thousand, respectively.

11. DEVELOPMENT RIGHTS AND OTHER INTANGIBLE ASSETS, NET

Development rights and other intangible assets, net of accumulated amortization as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	**December 31, 2006**
Development rights – Kuntsevo properties	43,156	43,156
Other intangible assets	268	391
	43,424	43,547
Less: accumulated amortization	(6,884)	(3,512)
Total	**36,540**	**40,035**

Amortization charged for the six months ended June 30, 2007 and 2006 amounted to USD 3,321 thousand and USD 76 thousand, respectively.

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

Development rights granted to Kuntsevo-Invest in accordance with the Decree of the Moscow City Government relate to the program for reconstruction of residential property in the Western Kuntsevo district of Moscow. Under the program, as subsequently amended, the Group was committed to complete construction of 381.4 thousand square meters of residential living space to be sold in the market (“commercial buildings”) and of additional 173.3 thousand square meters of residential living space to be transferred to the Moscow City Government (“municipal buildings”). Kuntsevo-Invest entered into an investment agreement with CJSC Inteko, pursuant to which Inteko undertook to (i) develop, fund and construct approximately 50% of the commercial buildings and (ii) fund the development and construction of approximately 50% of the municipal buildings under the program. As of June 30, 2007, the Group’s remaining commitment under the program was to complete 157.1 thousand square meters of commercial buildings and 70.3 thousand square meters of municipal buildings.

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

Year ended June 30,	
2008	7,308
2009	7,308
2010	7,308
2011	7,308
2012	7,308
Total	**36,540**

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

12. INVESTMENTS IN ASSOCIATES

Investments in associates as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Sibmost	2,400	2,400
Detsky Mir	6,095	-
Other	169	399
Total	**8,664**	**2,799**

The Group does not have the ability to exercise significant influence over Sibmost’s operations, and therefore accounted for the investment in 25% of Sibmost common shares using the cost method in the financial statements for the six months ended June 30, 2007 and 2006.

In June 2007, the Group purchased from a variable interest entity, whose primary beneficiary is Sistema, 4.7% of Detsky Mir common shares for USD 6,095 thousand. Detskiy Mir is a subsidiary of Sistema.

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

13. PAYABLES TO SUPPLIERS AND SUBCONTRACTORS

Payables to suppliers and subcontractors as of June 30, 3007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Payables to third parties	35,619	30,729
Payables to Sistema subsidiaries	1,648	2,748
Total	**37,267**	**33,477**

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

Billings in excess of costs and estimated earnings on uncompleted contracts as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Amounts billed	125,910	97,274
Less: accumulated costs and earnings	(76,163)	(71,911)
Total	**49,747**	**25,363**

15. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Accrued expenses and other liabilities to third parties	73,513	23,484
Other liabilities to Sistema and its subsidiaries	8,435	1,646
Total	**81,948**	**25,130**

Accrued expenses and other liabilities to thirds parties as of June 30, 2007 include USD 25,168 thousand of rights for acquired land, USD 13,202 thousand of accrued interest, USD 6,095 thousand payable for acquired 4.7% interest in Detsky Mir.

Other liabilities to Sistema and its subsidiaries include USD 6,043 thousand payable to Sistema for loan guarantees, USD 348 thousand of interest payable to Sistema subsidiaries and USD 2,044 thousand of other liabilities to Sistema.

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

16. CONSTRUCTION OBLIGATIONS

Upon acquisition of Kuntsevo-Invest, the Group assumed obligations to construct two residential buildings (15, Elninskaya St. and 9, Aviatorov St.). As of June 30, 2007, construction of those buildings was fully completed.

17. LOANS AND NOTES PAYABLE

The Group's loans and notes payable as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Loans and notes payable to third parties		
Deutsche Bank AG	140,000	140,000
Nomura International plc	100,000	100,000
UBS AG	100,000	100,000
Other	23,849	27,867
	363,849	367,867
Loans and notes payable to Sistema and its subsidiaries	9,696	10,100
Total loans and notes payable	**373,545**	**377,967**
Current portion of loans and notes payable	364,749	362,560
Non-current portion of loans and notes payable	8,796	15,407

In August, September and October 2006, Sistema-Hals entered into one-year loan facilities with Deutsche Bank AG, Nomura International plc and UBS AG in the amounts of USD 140,000 thousand, USD 100,000 thousand and USD 100,000 thousand, respectively. The facilities were extended for the Group's general operational needs and refinancing of its existing debt facilities and bear interest rate of 8.65%, 8.45% and 8.65%, respectively. The debt was guaranteed by Sistema. The guarantee fee payable by the Group was 3% per annum. Subsequent to June 30, 2007, all of the above loans were fully repaid in accordance with the repayment schedule.

The interest rates on loans and notes obtained by the Group from Sistema and its subsidiaries are fixed and range from 0% to 15%.

The weighted average interest rate on loans outstanding as of June 30, 2007 and December 31, 2006 was 11.6% and 11.7%, respectively.

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

The schedule of repayment of debt is as follows:

Year ended June 30,	
2008	364,749
2009	6,815
2010	1,931
Thereafter	50
Total	**373,545**

In December 2006, the Group entered into an agreement with Eurohypo AG to open a credit facility to finance the development of the Hals Mart ('Leto') retail and entertainment complex in Saint-Petersburg. The amount of the facility is the lower of USD 106,400 thousand and 70% of budgeted costs for financing of the development. The facility bears interest rate of LIBOR plus 4.5% and may be prolonged up to 12 years. The facility amount can be extended up to USD 187,500 thousand. To obtain the facility the Group must comply with certain conditions precedent. As of June 30, 2007 the conditions precedent were not fulfilled. In the third quarter of 2007, the Group was able to comply with conditions on loan agreement. The amount of cash received under the agreement as of the date of these financial statements is USD 5,398 thousand. The effective interest rate is floating and as of the date of these financial statements is 11.67%.

18. CAPITAL TRANSACTIONS

The authorized share capital of Sistema-Hals as of June 30, 2007 and December 31, 2006 comprised 13,087,525 common shares, of which 11,217,094 shares were issued as of June 30, 2007, 10,398,246 shares were outstanding. In the six months ended June 30, 2007, the amount of outstanding common shares increased by 403,815 as the stock bonus was granted. Additional paid-in capital increased in the six months ended June 30, 2007 by USD 3,479 thousand relating to reimbursement of initial public offering costs.

19. TRANSFERS FROM SISTEMA

In the six months ended June 30, 2007, Sistema-Hals sold its 100% stake in Nostro, which owns a building located at 75, Sadovnicheskaya st., Moscow, for USD 50,000 thousand to MBRD (see Note 22). Part of the excess of the sale price over the carrying value of the investment in the amount of USD 27,500, and represented a return of a cash transfer to Sistema, recorded at acquisition of Nostro shares by the Group in 2006 and was recorded in the statement of changes in equity for the six months ended June 30, 2007 as a transfer from Sistema.

In March 2007 Sistema-Hals acquired from parties under common control a 67.58% stake in Kamelia Health Resort in the city of Sochi, which is currently being renovated as a multifunctional complex that will include a 5-star hotel, luxury apartments and a full internal infrastructure. The excess of purchase price over the historical value of the assets in Sistema books in amount of USD 4,580 thousand was recorded as a transfer to Sistema.

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

20. OPERATING EXPENSES

Operating expenses for the six months ended June 30, 2007 and 2006 comprised the following:

	Six months ended June 30,	
	2007	**2006**
Cost of sales of development projects	89,437	45,926
Stock-based compensation (see Note 26)	97,966	-
Payroll and other employee-related costs	18,726	11,280
Depreciation and amortization	6,054	1,714
Rent of premises and land	1,277	830
Advertising and marketing	1,120	248
Repairs and maintenance	938	1,182
Taxes other than income taxes	914	135
Consulting services	853	467
Security expenses	825	506
Insurance	755	51
Utilities and energy costs	311	472
Bad debt expense/(reversal)	168	(87)
Other	2,311	1,903
Total	**221,655**	**64,627**

21. INCOME TAXES

The Group's provision for income taxes for the six months ended June 30, 2007 and 2006 was as follows:

	Six months ended June 30,	
	2007	**2006**
Current tax expense	7,515	2,299
Deferred tax expense	2,726	2,449
Total	**10,241**	**4,748**

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

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

	Six months ended June 30,	
	2007	**2006**
Income tax (benefit)/ provision computed on income before taxes at statutory rate	(20,019)	9,304
Adjustments due to:		
Stock-based compensation	23,512	-
Other non-deductible items	4,491	664
Non-taxable items	(21)	(30)
Share of profit on Pokrovka 40 development project, retained by the controlling shareholder	-	(5,340)
Taxable losses not carried forward	-	874
Change in unrecognized tax benefits	2,103	-
Currency exchange and translation differences	175	(724)
Total	**10,241**	**4,748**

Temporary differences between the Russian statutory tax accounts and these financial statements give rise to the following deferred tax assets and liabilities as of June 30, 2007 and 2006.

	June 30, 2007	December 31, 2006
Deferred tax assets		
Other	1,832	1,089
Less: valuation allowance	(1,213)	(1,089)
Total deferred tax assets	**619**	**-**
Deferred tax liabilities		
Development rights	(8,718)	(9,561)
Capitalized costs	(4,266)	-
Revenue recognition	(11,866)	(11,100)
Other	(958)	(843)
Total deferred tax liabilities	**(25,808)**	**(21,504)**

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

22. RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2007 and 2006, the Group entered into the following transactions with Sistema and its subsidiaries:

	Six months ended June 30,	
	2007	**2006**
Sale of Nostro shares (Note 19)	50,000	-
Services provided	8,421	3,492
Services purchased	(129)	(148)
Other expenses	(2,140)	-
Interest income	8,131	444
Interest costs	(770)	(6,244)

Site management services provided:

Revenues from site management services provided to Sistema and its subsidiaries in the six months ended June 30, 2007 and 2006 were USD 7,241 thousand and USD 3,287 thousand, respectively.

Agreements to act as a developer:

In the six months ended June 30, 2007 and 2006, the Group had agreements with Detsky Mir, Sistema Mass Media and MGTS, 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, 2007 amounted to USD 886 thousand.

Rental revenues:

Certain single-family houses owned by Mosdachtrest are leased to Sistema's related parties.
The Group's revenues from these leases amounted to USD 294 thousand and USD 205 thousand for the six months ended June 30, 2007 and 2006 respectively.

Services purchased

Services purchased by the Group from Sistema mostly include connection services from MTS.

Other expenses:

The Group paid USD USD 916 thousand of guarantee fees to Sistema in the six months ended June 30, 2007.

Interest costs:

In the six months ended June 30, 2007 and 2006, costs of the Group's borrowings from MBRD amounted to USD 770 thousand and USD 6,244 thousand, respectively.

Interest income:

Interest income for the six months ended June 30, 2007 includes USD 3,513 thousand of income received from trust managed by MBRD and USD 4,618 thousand from a deposit in MBRD.

Interest income from a deposit in MBRD in the six months ended June 30, 2006 amounted to USD 444 thousand .

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

23. GUARANTEES AND PLEDGES

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

Pledges – As of June 30, 2007, common shares of the Group's entities have been pledged under borrowings from MBRD as follows:

	Number of shares pledged	Number of shares pledged as a percentage of total shares
Mosdachtrest	10,946	17%
Landshaft	39	39%
Rosturstroy	204	51%

As of June 30, 2007, the Group has also pledged title to apartments with a fair value of USD 4,971 thousand and USD 385 thousand under obligations to Ordynka and Remstroytrest-701, respectively.

As of June 30, 2007, Sistema has guaranteed borrowings to the Group from Deutsche Bank AG, Nomura International plc and UBS AG in the amount of USD 340,000 thousand.

24. COMMITMENTS AND CONTINGENCIES

a) Taxation environment

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include VAT, income tax, unified social tax, together with others. The government's policy on 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. Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. Management believes that it has adequately provided for tax liabilities; however, the risk remains that relevant authorities could take a different position with regard to interpretive issues.

b) Russian environment and current economic situation

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

c) Industry regulation

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

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

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

d) Legal proceedings

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

In 2004, Amiral B.V., the Group's associate, entered into a contract with the three companies that own Hotel Sport to redevelop the hotel. Under the contract, Amiral agreed to destroy the existing hotel and construct a new mixed-use hotel, retail and business center on the site. The project was initially approved by a decree of the Moscow City Government and the Hotel Sport building was subsequently demolished. However, in 2006 the Moscow City Government cancelled its previous decree based on the failure of the co-owners to develop the land plot in a timely manner after the original building had been destroyed. As a result, the development of the project has been suspended. In August 2006, two of the co-owners filed claims in the Moscow Arbitration Court against the Moscow City Government seeking to invalidate the cancellation of the decree. As of the date of these financial statements, a final ruling on this lawsuit has not been issued.

e) Commitments under construction contracts

The Group has entered into agreements with third parties for construction of objects which will require capital outlays subsequent to June 30, 2007. A summary of significant commitments under construction contracts as of June 30, 2007 is provided below:

Leningradsky 39 – The Group has contracted for construction works, including foundations, shell and core, utilities and other general construction expenditures. Commitments under these contracts amounted to USD 78,471 thousand as of June 30, 2007. In addition, in connection with this project, the Group undertook obligations to provide the Central Army Sports Club ("CSCA") with 17,437 sq.m. of residential housing.

MGTS properties – The Group entered contractual agreements for reconstruction of the certain MGTS buildings. Commitments under these contracts amounted to USD 9,388 thousand as of June 30, 2007.

Mosdachtrest properties – The Group has contracted for construction works related to Mosdachtrest properties. Commitments under these contracts amounted to USD 39,274 thousand as of June 30, 2007.

Aurora project – The Group has contracted for construction works, including construction of the roads, gas and electricity networks. Commitments under these contracts amounted to USD 7,239 thousand as of June 30, 2007.

Western Kuntsevo properties – The Group has hired a contractor to perform general construction works. Commitments under these contracts amounted to USD 27,145 thousand, including USD 20,550 thousand, which relates to Rublevka 111A Project as of June 30, 2007.

Zdravnitza Novaya (Rozhnovka) – The Group entered contractual agreements with Electrosetevaya Company for a technological connection to transmission links. Commitments under the contract amounted to USD 4,388 thousand as of June 30, 2007.

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

f) Operating leases

With a few exceptions, land in Moscow is owned by the Moscow Government. The lease of land in Moscow is subject to a separate regulatory regime administered by the Government. As a general rule, such land lease rights are granted by the Government on the basis of an auction or tender, typically in exchange for either an upfront payment or ongoing consideration in the form of periodic lease payments. Periodic lease payments under land lease agreements in effect for the six months ended June 30, 2007 and 2006 have not been significant.

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

g) Commitment to maintain production at Yalta Fish Processing Plant

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

h) Environmental regulations

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

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

25. SEGMENT INFORMATION

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

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

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

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, 2007	**Real estate development**	**Project and construction management**	**Real estate asset management**	**Facility management**	**Total**
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 tax expense	(5,754)	(2,100)	(2,221)	(166)	(10,241)
Income/(loss) before income tax and minority interests	(95,215)	10,249	7,756	464	(76,746)
Segment assets	971,668	69,794	137,398	5,583	1,184,443
Capital expenditures	170,946	183	17,942	720	189,791

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

As of and for the six months ended June 30, 2006	**Real estate development**	**Project and construction management**	**Real estate asset management**	**Facility management**	**Total**
Net sales to external customers	77,660	13,296	11,242	4,422	106,620
Intersegment sales	418	67	186	601	1,272
Interest income	892	374	-	-	1,266
Interest expense, net of amounts capitalized	(2,647)	(100)	(316)	-	(3,063)
Depreciation and amortization	(192)	(181)	(1,336)	(5)	(1,714)
Operating income	32,889	4,858	4,291	325	42,363
Income tax expense	(2,669)	(1,091)	(912)	(76)	(4,748)
Income/(loss) before income tax and minority interests	31,316	4,395	3,553	(498)	38,766
Segment assets	321,637	41,012	82,632	4,800	450,081
Capital expenditures	46,708	1,151	14,653	363	62,875

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,	
	2007	**2006**
Total segment operating income/(loss)	(91,067)	42,363
Intersegment eliminations	(815)	(370)
Other income/(loss), net	(5,065)	268
Interest income	12,526	846
Interest expense, net of amounts capitalized	(3,201)	(2,600)
Gain/(Loss) on foreign currency transactions	4,321	(4,819)
Gain on sale of equity investee	-	3,078
Loss on sale of interests in a subsidiary	(110)	-
Income/(loss) before income tax and minority interests	**(83,411)**	**38,766**

	June 30, 2007	**June 30, 2006**
Total segment assets	1,184,443	450,081
Intersegment eliminations	(170,945)	(32,540)
Total assets	**1,013,498**	**417,541**

26. STOCK-BASED COMPENSATION

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

Within the framework of the Program on June 25, 2007 Sistema-Hals granted stock bonuses of 403,815 common shares (3.6% of total issued shares) to the Group's top managers (280,427 shares – 2.5% of total issued shares), and directors (123,388 shares - 1.1% of total issued shares). The fair value of |the awards as of the grant date approximated USD 68,032 thousand and USD 29,934 thousand, respectively, and was included in operating expenses for the six months ended June 30, 2007 (see Note 20).

Stock options entitle participants of the Program to acquire a specific number of shares of Sistema-Hals, at a price determined and agreed in advance. Sistema-Hals reserved 235,560 (2.1% of total issued shares) shares for the Program. Options will be granted to the participants during the following 4 year period in equal amounts each year. The vesting period of the options is one year. Within the framework of the Program, in July 2007, Sistema-Hals granted stock options for a total of 47,672 shares (0.325% of total issued shares) to certain members of the top management. The exercise price for these options is 205 US Dollars (calculated as 10.25 US Dollars for 1 GDR where 1 share represents 20 GDRs). These stock options vest in July 2008.

27. SUBSEQUENT EVENTS

In July 2007, Sistema-Hals acquired an additional 29.97% interest in Kamelia Health Resort for USD 4,330 thousand, which resulted in an increase in the interest of Sistema-Hals in this company to 97.55%.

In July 2007, the Group acquired a 51%-stake in a Ukrainian company "Alliance Bud" (Kyiv) for USD 20,000 thousand. Alliance Bud has a long-term lease right for a land plot of 14,016 sq. meters, and owns another land plot of 1,041 sq. meters**.**

In July 2007, 100% of shares in Avinta-Realty were acquired for USD 14,636 thousand. Avinta-Realty owns a building in Moscow at Khalturinskaya Street. The acquisition is a part of the NIIDAR project, which includes development of a multifunctional complex.

In July 2007, the Group acquired 51% of shares in RTI-Estate for USD 31,382 thousand. RTI-Estate owns a building in Moscow at 8 Marta Street.

In August 2007, the Group sold its 50% stake in Kamenny Ostrov for USD 14,080 thousand.

In August 2007, Sistema-Hals signed an agreement with VTB for a loan facility of USD 500,000 thousand for the period of 5 years with effective interest rate of 8.5% per annum. These credit resources were used to refinance loans from Deutsche Bank AG, Nomura International Plc and UBS AG, as well as to finance the Group's investment program.

In September 2007, the Group acquired a 74.9% interest in LLC "GORKI-8", owner of land and properties in Odintsovsky region, for USD 100,366 thousand.