

News

SISTEMA-HALS DELIVERS 75% GROWTH IN CONSOLIDATED REVENUES FOR THE FIRST SIX MONTHS OF 2008

MOSCOW, RUSSIA - September 11, 2008 - Sistema-Hals (LSE, MICEX, RTS: HALS), one of the largest real estate development companies in Russia and the CIS, today announces its unaudited consolidated financial results for the first half of 2008 in accordance with US GAAP.

In the six months to June 30, 2008, Sistema-Hals' consolidated revenues increased by 75% to USD 227.1 million, up from USD 129.8 million in the first half of 2007. Consolidated OIBDA for the first six months of 2008 increased to USD 27.8 million, compared to a negative amount of OIBDA of USD 85.8 million in the same period last year.

Financial Highlights

	6m 2008 (USD '000)	6m 2007 (USD '000)
Revenues	227,100	129,773
Operating expenses	(210,399)	(221,655) ¹
Operating income / (loss)	16,701	(91,882)
OIBDA ²	27,829	(85,828)
Net income / (loss)	8,663	(99,572)

Sistema-Hals also announces the result of an independent valuation of its project portfolio carried out by Cushman & Wakefield Stiles & Riabokobyenko (C&WS&R). As at 1 July 2008, Sistema-Hals' stake in properties and projects was valued at USD 3.768 million. This compares to a valuation at 1 January 2008 of USD 3.746 million.

Commenting on the financial and operational results for the first half of 2008, Sergey Shmakov, CEO of Sistema-Hals, said:

"Sistema-Hals has had an excellent first half of 2008 with strong growth across the businesses resulting in a significant increase in revenues during the period. During 2008, the Company has continued to focus its efforts on rebalancing the portfolio with the aim of increasing the share of premium projects, boosting project sizes, improving portfolio management efficiency and increasing future rental income. Today's results provide a strong endorsement of this strategy."

He added: "As part of the on-going rebalancing of the portfolio we have made a number of important project acquisitions, but at the same time we have also sold some non-core assets and as a result, the uplift in the valuation of the portfolio has been less than in previous periods. Going forward, however, this process will leave the portfolio well positioned to generate significant value in an increasingly competitive marketplace."

Real Estate Development:

Sistema-Hals' consolidated revenue from Real Estate Development grew by 106.9 % year-on-year to USD 181.4 million in the first six months of 2008. This growth was driven by several factors including the sale of the Rochdelskaya 22 project; revenues recognized from the sale of a complex of buildings at 8 Marta Street, continuing sales of units in on-going residential projects including "Dnepropetrovskaya", "Nahimovskiy", "Michurinskiy", and "Rublevskoe Highway".

OIBDA of the Real Estate Development division amounted to USD 15.0 million in the first six months of 2008 compared to the negative amount of USD 105.6 million in the first six months of 2007.

The Real Estate Development division accounted for 79.9% of total revenues for the first six months of 2008.

Project and Construction Management:

Revenues from this division generally consist of fees from municipal governments, including the Moscow and St. Petersburg city governments.

Project Construction Management revenues amounted to USD 8.1 million in the first six months of 2008 compared to USD 14.6 million for the same period of 2007 due to a decrease in government orders.

OIBDA of the Project Construction Management division amounted to USD 1.7 million in the first six months of 2008 compared to USD 8.5 million in the first six months of 2007.

The Project and Construction Management division represented 3.6% of total revenues in the first six months of 2008.

Asset Management:

Asset Management revenues increased by 19.0% to USD 21.3 million in the first six months of 2008 compared to the first six months of 2007, primarily due to an increase in house sales and rental revenues from single family houses. The Serebryany Bor settlement remained the most significant source of rental revenues in the first six months of 2008.

OIBDA of the Asset Management division amounted to USD 12.3 million in the first six months of 2008 compared to USD 11.6 million in the first six months of 2007.

The Asset Management division represented 9.4% of total revenues in the first six months of 2008.

Facility Management:

The Facility Management division reported year-on-year revenue growth of 69.8% to USD 16.3 million in the first six months of 2008. The growth was primarily due to an increase in revenues from services provided to subsidiaries of JSFC Sistema.

OIBDA of the Facility Management division amounted to negative USD 1.2 million in the first six months of 2008 compared to USD 0.5 million in the first six months of 2007.

This division represented 7.1% of total revenues for the period.

Operating expenses

Total operating expenses for the first six month ended 30 June, 2008 amounted to USD 210.4 million, compared to USD 221.7 million last year:

- Cost of sales was USD 154.8 million (USD 91.7 in the first half of 2007);
- Selling, general and administrative expenses (SG&A) were USD 44.5 million (USD 123.9 in the first half of 2007). There was a one-off non-cash expense on a stock option bonus plan for the Company's management and members of the Board of Directors in the amount of USD 98.0 million for 6m 2007;
- Depreciation and amortization charges increased to USD 11.1 million (USD 6.1 million in the same period previous year).

OIBDA

Consolidated OIBDA for the first 6 months 2008 increased to USD 27.8 million, compared to a negative amount of consolidated OIBDA of USD 85.8 million in the same period last year. An OIBDA margin for the first six months of 2008 amounted to 12.2%.

Income Tax

Income tax expense totaled USD 17.7 million during the period compared to USD 10.2 million in the first half of 2007. The increase in income tax expense was led by the growth in taxable profit.

Net Income

The Company's consolidated net income for the first half of 2008 amounted to USD 8.7 million compared to a consolidated net loss of USD 99.6 million in the same period last year.

Valuation of Sistema-Hals' share in real estate property and development projects

	01.01.2008	01.07.2008	% change
Projects in portfolio	103	108	4.9%
Value of the Company's share in projects (USD million)	3.746mln	3.768mln	1%

The value of Sistema-Hals' share in properties and projects grew by 1% in the period from January 1, 2008 to July 1, 2008, according to an independent appraisal carried out by Cushman & Wakefield Stiles & Riabokobylko (C&WS&R).

C&WS&R determined that the total market value of 100% ownership in 108 projects and properties amounted to USD 4,651 million on July 1, 2008, of which Sistema-Hals' share (after minority interests) amounted to USD 3,768 million.

In its previous report, C&WS&R valued 100% of Sistema-Hals' portfolio of properties and projects at USD 4,645 million as of January 1, 2008, with the share directly owned by the Company valued at USD 3,746 million.

The increase in the number of projects in the valuation is due to expanding our assets (Novodanilovskaya) and additions to the land bank (Narvskaya, Novokosino, Strogino).

Sistema-Hals' key business segments are real estate development, project and construction management, asset management and facility management. C&WS&R appraises only real estate and projects that are part of Sistema-Hals' Development and Asset Management divisions.

The above appraisal represents the aggregate current value of various properties and projects in the real estate sector and cannot be seen as an appraisal of the project portfolio within the context of its sale as a whole.

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 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 proceeded. As of today the Company estimates current results of the negotiations as positive but the final agreement has not been reached so far. 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. So no losses in relation to this project are provided for as at June 30, 2008.

Subsequent events

In July 2008 Central Detsky Mir was closed for the restoration and reconstruction.

Also in July 2008, the independent rating agency Moody's confirmed Sistema-Hals in foreign-currency credit rating at B1 with the outlook stable.

Conference call

Sistema-Hals will host a conference call today (11 September) at 5.00 PM Moscow local time, 14.00 PM London local time and 9.00 AM New York local time to present and discuss these results. Participants may dial into the call on the following numbers:

Participant Telephone Numbers: +44 (0)20 7806 1962 UK Local
+1 718 354 1391 US Local
+7 495 789 8156 Russia Local

PIN: 4679120

Appendices:

1. Unaudited consolidated profit and loss statements for the six months ended June, 2008 and 2007 according to US GAAP
2. Unaudited consolidated balance sheets as of June 30, 2008 and as of December 31, 2007 according to US GAAP
3. Unaudited consolidated cash flow statements for the six months ended June, 2008 and 2007 according to US GAAP
4. Non-GAAP financial measures

The information contained in the press release may contain forward-looking statements regarding future events or the future financial performance of Sistema-Hals. You can identify forward looking statements by terms such as "expect", "believe", "anticipate", "estimate", "intend", "will", "could", "may" or "might" the negative of such terms or other similar expressions. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. We do not intend to update these statements to reflect events and circumstances occurring after the date thereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, general economic conditions, our competitive environment, risks associated with operating in Russia, rapid technological and market change in our industries, as well as many other risks specifically related to Sistema-Hals and its operations. Many of these factors are beyond the Company's ability to control or predict. Given these and other uncertainties, readers are cautioned not to place undue reliance on any of the forward-looking statements contained herein or otherwise. The Company does not undertake any obligation to release publicly any revisions to these forward-looking statements (which are made as of the date hereof) to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as may be required under applicable laws.

¹ Including a one-off non-cash expense on an approved stock option bonus plan for the Company's Management and Members of the Board of Directors USD 98.0 million for 6m 2007.

² Here and below, please see Appendix 4 to this statement for a full definition and calculation of OIBDA.

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Appendix 1

OJSC "Sistema-Hals"

Unaudited consolidated profit and loss statements for the six months ended June, 2008 and 2007 according to US GAAP

(USD '000)	6m 2008	6m 2007
Revenues	227,100	129,773
Operating expenses, incl.:	(210,399)	(221,655)
Cost of sales	(154,746)	(91,680)
Selling, general and administrative (excluding depreciation and	(44,525)	(123,921)
Depreciation and amortization	(11,128)	(6,054)
Operating income/(loss)	16,701	(91,882)
Other expenses, net	(2,228)	(4,149)
Interest income	7,006	12,526
Interest expense, net of amounts capitalised	(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)
Minority interests	(2,474)	(5,920)
Net income/(loss)	8,663	(99,572)

Appendix 2

OJSC "Sistema-Hals"

Unaudited consolidated balance sheets as of June 30, 2008 and December 31, 2007 according to US GAAP

Other receivables, net	51,158	33,460
Deposits, loans receivable and investments in debt and equity securities	113,579	129,613
Costs and estimated earnings in excess of billings on uncompleted contracts	143,113	119,040
REAL ESTATE INVESTMENTS, NET		
Real estate developed for sale	1,029,244	856,883
Income producing properties, net	406,064	155,736
Total	1,435,308	1,012,619
Buildings used for administrative purposes, plant and equipment, net	15,085	10,702
Development rights and other intangible assets, net	39,999	33,229
Investments in associates	56,137	51,355
Debt issuance costs net of accumulated amortization	36,732	36,866
Deferred tax assets	12,664	11,014
TOTAL ASSETS	2,222,086	1,755,090
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Payables to suppliers and subcontractors	119,773	58,229
Billings in excess of costs and estimated earnings on uncompleted contracts	41,887	31,664
Accrued expenses and other liabilities	104,879	67,092
Taxes payable	13,857	11,937
Loans and notes payable	1,215,851	977,837
Deferred tax liabilities	47,722	32,324
TOTAL LIABILITIES	1,543,969	1,179,083
COMMITMENTS AND CONTINGENCIES	-	-
MINORITY INTERESTS	28,510	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	94,983	-
Retained earnings	8,786	121
TOTAL SHAREHOLDERS' EQUITY	649,607	548,947
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,222,086	1,755,090

Appendix 3

OJSC "Sistema-Hals"

Unaudited consolidated cash flow statements for the six months ended June, 2008 and 2007 according to US GAAP

(USD '000)	6m 2008	6m 2007
OPERATING ACTIVITIES:		
Net income	8,663	(99,572)
Adjustments to reconcile net income to net cash (used in) /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 in excess of billings) / billings in excess of costs on uncompleted	(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)

Issuance of loans and notes receivable	(33,759)	(72,717)
Repayment of loans and notes receivable issued	3,184	5,917
Short-term deposits	-	(50,000)
Repayments of 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)
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 offering costs	-	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)/INCREASE 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

Appendix 4

Non-GAAP financial measures

This results statement includes financial information prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), as well as other non-GAAP financial information. The non-GAAP financial information should be considered as an addition to, but not as a substitute for, information prepared in accordance with US GAAP.

OIBDA is operating income before depreciation and amortisation, and the OIBDA margin is defined as OIBDA as a percentage of net revenues. These measures are included in this results statement in order to provide additional information regarding the Group's ability to meet future debt service payments, capital expenditure and working capital requirements, and as a metric to evaluate profitability. OIBDA is not a measure of financial performance under US GAAP, and is not an alternative to operating income as a measure of operating performance, or to cash flows from operating activities as a measure of liquidity. While depreciation and amortization are considered operating costs under US GAAP, these items primarily represent the non-cash current period allocation of costs arising from the acquisition or development of long-term assets in prior periods. OIBDA is commonly used as a criterion for evaluation of operating performance by credit and equity investors and analysts. The calculation of OIBDA may be different from the calculation used by other companies and comparability may therefore be limited. OIBDA can be reconciled to the Company's unaudited consolidated financial statements as follows:

	6m 2008	6m 2007
	(mln USD)	(mln USD)
Operating profit	16.7	(91.9)
Add: Depreciation and amortization	11.1	6.1
OIBDA	27.8	(85.8)

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