

SISTEMA-HALS RELEASES UNAUDITED CONSOLIDATED FINANCIAL RESULTS FOR 2008

MOSCOW, RUSSIA – April 28, 2009 - Sistema-Hals (LSE, MICEX, RTS: HALS), a major Russian real estate company, announced today its unaudited consolidated financial results for 2008 in accordance with US GAAP.

Key financials for 2008

- The consolidated revenue changed from \$423.6 million in the year ended 31 December 2007 to \$362.0 million in the year ended 31 December 2008.
- In 2008, operating expenses were up to \$486.4 million compared to \$391.0 million in 2007 due to raising provisions for the Siemens Tower project (\$25.4 million), and for impairment of real estate investments and for doubtful debts and receivables (\$93.9 million).
- OIBDA declined and amounted to a negative value of \$100.5 million in 2008 as compared with positive OIBDA of \$47.2 million in 2007.
- In 2008, the Group recognized a loss in the amount of USD 138.4 million due to significant appreciation of the US dollar against the ruble during the year.
- The Company recognized a net loss of \$381.1 million in 2008 in comparison with net income of \$34.7 million reported in 2007.
- As of December 31, 2008 total assets increased by 8.0% to \$1,895.7 million compared to total assets in the amount of \$1,755.1 million as of December 31, 2007.

Andrei Solovyov, Sistema-Hals CFO commented: “The real estate and development industry was one of the sectors worst hit by the global financial crisis which had a negative impact on our financial and operational results in the traditionally strong Q4 and therefore in FY 2008. The liquidity crisis and limited access to credit facilities have forced us to adopt a package of anti-crisis measures in December 2008. The key measures were a substantial reduction in the development program and administrative and commercial expenses. Today our next immediate priorities are debt restructuring and raising capital to finance the projects under the adjusted production program. We expect that those measures will enable us to overcome the current crisis and maintain the projects portfolio for further development in the medium term future”.

The overview of our financial condition and results following below should be looked at together with our consolidated financial reports based on US GAAP and notes thereto. This press-release contains forecasts including elements of risk and uncertainty. The actual results of our operations may vary significantly from forecasted results due to a number of factors.

In November 2008, Sistema-Hals sold its interest in Sistema-Hals PSO (51%) and Organizator OOO (51%). In this connection, the comparable information was adjusted in order to account for discontinued operations, as if the enterprises were retired as of the beginning of the earliest fiscal years mentioned in the reports.

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

	01.01.2009	01.07.2008	Change (%)
Projects in portfolio	104	108	(3.7)
Value of the Company's share in projects (\$ million)	2,049	3,768	(45.6)

The value of Sistema-Hals' share in properties and projects decreased by 45.6% in the period from July 1, 2008 to January 1, 2009 according to an independent appraisal carried out by Cushman & Wakefield Stiles & Riabokobylo (C&WS&R). C&WS&R determined that the total market value of 100% ownership in 104 projects and properties amounted to \$2,576 million on January 1, 2009 of which Sistema-Hals' share (after minority interests) amounted to \$2,049 million.

In its previous report, C&WS&R valued 100% of Sistema-Hals' portfolio of properties and projects at \$4,651 million as of July 1, 2008, with the share directly owned by the Company valued at \$3,768 million.

The decrease in the number of projects in the valuation is due to the sale of several assets.

Sistema-Hals' key business segments are Real estate development, 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.


UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Years ended December 31		Change (%)
	2008 ('000 \$)	2007	
Revenues	361,957	423,645	(14.6)
Operating expenses	(486,429)	(391,040)	24.4
Operating (loss)/income	(124,472)	32,605	-
Other expenses, net	(10,419)	(1,597)	552.4
Interest income	12,026	14,162	(15.1)
Interest expense, net of amounts capitalized	(82,722)	(12,695)	551.6
(Loss)/gain on foreign currency transactions	(138,410)	15,158	-
(Loss)/income from affiliates	(11,446)	214	-
Gain on sale of a subsidiary	1,012	113	795.6
(Loss)/income from continuing operations before income tax and minority interests	(354,432)	47,960	-
Income tax expense	(15,257)	(11,449)	33.3
(Loss)/income from continuing operations	(376,174)	30,353	-
Income from discontinued operations, net of income tax effect and minority interest	1,803	4,328	(58.3)
Net (loss)/income	(381,097)	34,681	-

Revenues

The 2008 revenue was down \$61.7 million, or 14.6%, from \$423.6 million to \$362.0 million. The table below shows our revenues by segments, including as a percentage of the total revenue.

	Years ended December 31				Change (%)
	2008 ('000 \$)	% of total (%)	2007 ('000 \$)	% of total (%)	
Real estate development	274,314	75.8	356,045	84.0	(23.0)
Asset management	54,525	15.1	44,830	10.6	21.6
Facility management	33,118	9.1	22,770	5.4	45.4
Total	361,957	100.0	423,645	100.0	(14.6)

The revenue was down in the Development segment. The revenue from sales of properties, projects and shares in projects decreased, which was partly offset by an increase in sales of residential space. Primarily, lower revenue is due to reduced demand for projects or properties during the liquidity crisis. For more information please see section entitled "Analysis by segments".

Operating expenses

Operating expenses were up \$95.4 million, or 24.4%, in 2008. The table below shows our operating expenses by segments, including as a percentage of the total operating expenses.

	Years ended December 31				Change (%)
	2008 ('000 \$)	% of total (%)	2007 ('000 \$)	% of total (%)	
Real estate development	422,841	86.9	348,359	89.1	21.4
Asset management	28,798	5.9	19,637	5.0	46.7
Facility management	34,790	7.2	23,044	5.9	51.0
Total	486,429	100.0	391,040	100.0	24.4

The operating expenses increased mostly due to greater expenses in the Development segment of \$74.5 million, a 21.4% growth. This is due to recognition of a loss on the Siemens Tower project, recognition of a loss from impairment of real estate investments, and the accrual of a provision for doubtful accounts.

The table below shows operating expenses by type of expenditure.

	Years ended December 31				Change (%)
	2008 (‘000 \$)	% of total (%)	2007 (‘000 \$)	% of total (%)	
Cost of sales	254,647	52.4	222,509	56.9	14.4
Selling, general and administrative expenses	84,339	17.3	153,980	39.4	(45.2)
Provision for losses on construction contract “Siemens Tower”	25,389	5.2	-	-	-
Impairment of real estate investments	51,124	10.5	-	-	-
Provision for doubtful debts	42,831	8.8	-	-	-
Depreciation and amortization	23,980	4.9	14,551	3.7	64.8
Other operating expenses, net	4,119	0.8	-	-	-
Total	486,429	100.0	391,040	100.0	24.4

Cost of sales

In 2008, the cost of sales grew from \$222.5 million to \$254.6 million, or 14.4%, as compared with 2007, which is due to differences in the make-up of sales during the reporting periods.

Selling, general and administrative expenses

Selling, general and administrative expenses went down 45.2% in 2008 and amounted to \$84.3 million. In the 3rd quarter of 2007 we incurred expenses on the approved compensation program for the management and the Board members of the Company totaling \$99.8 million. The decrease in administrative expenses was partly offset by increased labor costs, which climbed by \$14.5 million, including an accrued provision for severance payments in the amount of \$9.2 million.



OIBDA¹

	Years ended December 31		Change (%)
	2008 (‘000 \$)	2007	
Operating (loss)/income	(124,472)	32,605	-
Deprecation and amortization	23,980	14,551	64.8
OIBDA	(100,492)	47,156	-
OIBDA margin	(27.8)%	11.1%	-

OIBDA declined and amounted to a negative value of \$100.5 million in 2008 as compared with positive OIBDA of \$47.2 million in 2007.

Operating (loss)/income

Operating income declined by \$157.1 million compared with \$32.6 million in 2007, which resulted in a loss of \$124.5 million.

The table below shows our operating (loss)/profit by segments, including as a percentage of the total operating outcome.

	Years ended December 31				Change (%)
	2008 (‘000 \$)	% of total (%)	2007 (‘000 \$)	% of total (%)	
Real estate development	(148,527)	119.3	7,686	23.6	-
Asset management	25,727	(20.7)	25,193	77.3	2.1
Facility management	(1,672)	1.3	(274)	(0.8)	510.2
Total operating (loss)/income	(124,472)	100.0	32,605	100.0	-

The Company declared an operating loss in 2008 in the amount of \$124.5 million. The greatest loss occurred in the Development segment and was caused by an increase in operating expenses. For more information please refer to “Analysis by segments” section.

(Loss)/gain on foreign currency transactions

Loss on foreign currency transactions amounted to \$138.4 million as of December 31, 2008 as compared with gains in the amount of \$15.2 million as of December 31, 2007. The loss recognized in 2008 is attributable mainly to the realization of the foreign currency exchange loss from the conversion of the USD denominated loan from VTB into rubles and revaluation of other

¹ This report includes financial information prepared in accordance with the US GAAP, as well as other financial numbers, which are mentioned as not related to US GAAP. The indicators, which are not US GAAP-based financial numbers, should be considered in addition to the indicators prepared in accordance with US GAAP, not as alternative to them.

OIBDA is defined as operating profit before deduction of depreciated fixed assets and depreciation of intangible assets. We disclose OIBDA, because we see it as an informative tool for the investor, which shows our ability to service the debt in the future, provide requisite amount of capital investment and working capital, as well as efficiency of our business activities. OIBDA does not show US GAAP-compliant financial results and is not an alternative to net revenue as a yardstick for measuring the outcome of operating activities or money generated by operating activities as a measuring stick of liquidity. Whereas the depreciation of fixed assets and amortization of non-tangible assets are viewed by the US GAAP standards as operating expenses, these expenses are, for the most part, noncash distribution of the cost of noncurrent assets acquired or created during previous periods for current expenses. OIBDA is widely used by investors in shares and debt securities and by analysts for assessment of operating indicators. OIBDA calculations may differ from calculations used by other companies; therefore, the ability to compare the numbers may be limited. OIBDA is calculated on the basis of unaudited consolidated reporting by the Company.

USD-denominated loans outstanding as of December 31, 2008 as a result of the significant appreciation of the US dollar against the ruble during the year.

Income tax expense

Income tax expense grew by \$3.8 million, or by 33.3%, from \$11.4 in 2007 to \$15.3 million in 2008.

Net (loss)/ income from continuing operations

Due to the above-listed reasons, the net loss from continuing operations amounted to \$376.2 million in 2008 as compared with a net profit from continuing operations in the amount of \$30.4 million in 2007.

Net (loss)/ income

Taking into account the sale of the subsidiaries (Sistema-Hals PSO and Organizator OOO), the Company declared a net loss of \$381.1 million for 2008 as compared with a net profit of \$34.7 million in 2007.

Analysis by segments

Real estate development

Activities of the real estate development segment include identification of investment opportunities, performance of feasibility studies, obtaining necessary construction permits, project financing and marketing activities. Revenues of the segment primarily consist of revenues generated from the sale of completed projects, as well as revenues from development and construction contracts.

The table below shows an excerpt from the profit and loss statement of the Development segment.

	Years ended December 31		Change (%)
	2008 (‘000 \$)	2007	
Revenues	274,314	356,045	(23.0)
Operating expenses	(422,841)	(348,359)	21.4
Operating (loss)/income	(148,527)	7,686	-

Revenue

The table below shows revenue by the Development segment broken down by the property category.

	Years ended December 31				Change (%)
	2008 (‘000 \$)	% of total (%)	2007 (‘000 \$)	% of total (%)	
Residential	132,359	48.3	63,578	17.9	108.2
Class B office	55,021	20.1	51,063	14.3	7.8
Sales of projects	29,791	10.9	64,052	18.0	(53.5)
Class A office	25,399	9.3	1,700	0.5	1,394.1
Land&Communications	22,215	8.1	23,191	6.5	(4.2)



	Years ended December 31				
	2008 ('000 \$)	% of total (%)	2007 ('000 \$)	% of total (%)	Change (%)
Other	9,529	3.5	6,070	1.7	57.0
Retail&Entertainment Complex	-	-	86,391	24.3	-
Hotel	-	-	60,000	16.9	-
Total revenues	274,314	100.0	356,045	100.0	(23.0)

The revenue generated by the Development segment in 2008 was down \$81.7 million, or 23.0%, to \$274.3 million as compared with \$356.0 million in 2007.

The revenue from construction of residential property increased by \$68.8 million from \$63.6 million in 2007 to \$132.4 million in 2008:

- In 2008 and 2007, the revenue for the 111a, Rublevskoye Hwy project was declared at \$51.8 million and \$12.1 million, respectively. The construction completion level was estimated at 95.5% as of the end of 2008.
- In 2008 and 2007, the revenue for the Nakhimovsky and Dnepropetrovskaya projects was declared at \$40.1 million and \$12.2 million, respectively. The construction was 100% complete as of the end of 2008.
- In 2008 and 2007, the revenue for the 39, Michurinsky project was declared at \$30.8 million and \$12.0 million, respectively. The construction was 82.4% complete as of the end of 2008.
- In 2008 and 2007, the revenue for the 27B, Yartsevskaya St. was declared at \$6.6 million and \$27.3 million, respectively. The construction was 95.7% complete as of the end of 2008.

Revenue from construction of Class B office buildings increased by \$4.0 million from \$51.1 million in 2007 to \$55.0 million in 2008. In 2008, the revenue came from the sale of buildings in 8 Marta St. In 2007, the revenue was declared from leasing out a building located at 75, Sadovnicheskaya St. and subsequent sale of this building.

Revenue from projects dropped \$34.3 million from \$64.1 million in 2007 to \$29.8 million in 2008. The revenue was recognized on the following projects:

- in 2007 - from selling the 13, Kostyansky project (\$50.0 million) and 50% of interest in the Kamenny Ostrov project (\$14.1 million);
- in 2008 - from selling the Rochdelskaya project (\$29.8 million).

Revenue from construction of Class A office buildings increased by \$23.7 million to \$25.4 million in 2008 from \$1.7 million in 2007. The revenue in 2008 for the Siemens Tower project was declared in the amount equal to construction costs incurred in 2008. As of the end of 2008, the construction was completed at 44.1%. For more information please see section entitled "Operating expenses" below.

Revenue from selling land plots was down \$1.0 million from \$23.2 million in 2007 to \$22.2 million in 2008. This revenue came from selling plots of land in Avrora residential complex, Moscow region, and plots of land in Gorki-8 project, of the Rublevo-Uspenskoye Highway. In 2008, the sales of land plots located in Avrora residential complex were down to \$16.6 million as compared with \$23.2 million in 2007. Also during the year under review, the Group started selling properties in Gorky-8, with the revenue amounting to \$5.6 million.

Revenue from other sales increased through the lease of townhouses located in Gorky-8. Revenue from leases amounted to \$3.4 million in 2008.



Operating expenses

Operating expenses of the Development segment grew by \$74.5 million, or 21.4%, from \$348.4 million in 2007 to \$422.8 million in 2008. First and foremost, this growth is due to the following factors:

- a provision for loss on the SiemensTower project in the amount of \$25.4 million;
- accrual of a provision for loss on impairment of noncurrent assets in the amount of \$51.1 million;
- accrual of an allowance for doubtful debts and receivables of \$42.8 million.

In 2003, the Group entered into a fixed price contract with Siemens to develop an office building in Moscow. During 2006 to 2008, 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. No agreement has been reached though the negotiations are continuing. In April 2009, the Board of Directors decided to recognize in the financial statements for 2008 a prudent provision for the estimated loss on the contract in the amount of \$25.4 million.

Fixed assets depreciation charge in the Development segment grew by \$7.8 million, or 85.6%, from \$9.1 million in 2007 to \$16.9 million in 2008. The key contribution to the increase was made by:

- \$3.5 million of annual amortization for apartments and residential buildings in Gorky-8, which was commissioned in the 3rd quarter of 2007;
- \$2.3 million of amortization for the building located at 10, Novodanilovskaya Nab., commissioned in the 3rd quarter of 2008.

Operating (loss)/ income

As compared with operating income in the amount of \$7.7 million in 2007, losses from core business in 2008 amounted to \$148.5 million. Given the above factors, the Company's income in the Development segment fell by \$156.2 million in 2008.

Asset management

Activities of the real estate asset management segment primarily include renting of residential and commercial properties that we have developed or acquired. Revenues of the segment include rental revenues and 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 to real estate are recognized generally upon completion of the sale transaction.

The table below shows an excerpt from the profit and loss statement of the Asset management segment.

	<u>Years ended December 31,</u>		Change
	2008	2007	
	('000 \$)		(%)
Revenues	54,525	44,830	21.6
Operating expenses	(28,798)	(19,637)	46.7
Operating (loss)/income	25,727	25,193	2.1
Operating margin	47.2%	56.2%	(16.0)



Revenue

Revenue of the Asset management segment grew by \$9.7 million, or 21.6%, from \$44.8 million in 2007 to \$54.5 million in 2008. The table below shows revenue generated by the Asset management segment broken down by real estate categories.

	Years ended December 31,				Change (%)
	2008 (‘000 \$)	% of total (%)	2007 (‘000 \$)	% of total (%)	
Sales of rental residential properties	34,156	62.6	24,726	55.2	38.1
Rentals of residential properties, including:	16,427	30.1	11,924	26.6	37.8
Serebryany Bor	12,017	-	8,555	-	40.5
Other	4,410	-	3,369	-	30.9
Utilities	3,700	6.8	1,502	3.4	146.3
Offices (rentals)	242	0.4	499	1.1	(51.5)
Land sales	-	-	6,179	13.8	(100)
Total revenues	54,525	100	44,830	100	21.6

Revenue from sales of rental residential properties increased by \$9.4 million, or 38.1%, from \$24.7 in 2007 to \$34.2 million in 2008. The bulk of the revenue from sales of rental residential properties comes from selling land plots in Kuchino (\$9.9 million), Serebryany Bor (\$6.2 million), Udelnaya (\$5.7 million), Zdravnitsa (\$5.0 million), and Zavety Ilyicha (\$3.5 million).

Revenue from rentals of residential properties owned by Mosdachtrest OAO, subsidiary of the Group, was up \$4.5 million, or 37.8%, from \$11.9 million in 2007 to \$16.4 million in 2008. The main source of revenue from leasing out premises includes cottages located in Serebryany Bor. Revenue from cottage leases in Serebryany Bor grew in 2008 by 40.5% through partial commissioning of the second-phase cottages.

Revenue from utility services grew by \$2.2 million, or 146.3%, from \$1.5 million in 2007 to \$3.7 million in 2008. This revenue comes from Landshaft ZAO, subsidiary of the Group, which engages in landscaping services and provides utility and other services in Zhukovka residential complex, Moscow region. The revenue got a boost primarily through payments received from homeowners in Zhukovka for monthly landscape services provided to them and for improvements in electrical power supply facilities.

Revenue from leasing offices in 2008 was down from \$0.5 million to \$0.2 million on reductions in the size of areas leased out to external tenants.

Revenue from selling land plots in Landshaft ZAO ceased in 2008.

Operating expenses

Operating expenses of the Asset management segment climbed by \$9.2 million, or 46.7%, from \$19.6 million in 2007 to \$28.8 million in 2008. The increase in operating expenses corresponds with the increase in revenue, as well as due to an increase in the cost of services provided by suppliers of the Sistema-Hals Group.

Operating income

Operating income of the Asset management segment increased by \$0.5 million, or 2.1%, from \$25.2 million in 2007 to \$25.7 million in 2008. The operating income margin slumped from 56.2%



in 2007 down to 47.2% in 2008, which is due to more significant increase in expenses versus increase in revenue.

Facility management

Activities of the facility management segment include the provision of site management services, including security, cleaning, staffing, technical support, repair and renovation, as well as general building maintenance. These services are generally provided on a contractual basis for a specific period of time. Revenues are recognized as the services are provided to the customer.

The table below shows an excerpt from the profit and loss statement for Facility management segment.

	Years ended December 31,		Change (%)
	2008	2007	
	('000 \$)		
Revenues	33,118	22,770	45.4
Operating expenses	(34,790)	(23,044)	51.0
Operating (loss)/income	(1,672)	(274)	510.2
Operating margin	(5.0)%	(1.2)%	319.6

Revenue

Revenue from the Facility management segment grew by \$10.3 million, or 45.4%, from \$22.8 million in 2007 to \$33.1 million in 2008. The revenue was up due to greater proceeds from, mainly, repairs and maintenance of the offices of AFK Sistema OAO, MTS OAO, and Detsky Mir OAO.

Operating expenses

Operating expenses of the Facility management segment increased by \$11.7 million, or 51.0%, from \$23.0 million in 2007 to \$34.8 million in 2008. Primarily, this growth is due to expenses related to an increased number of serviced facilities in 2008.

Operating loss

Operating loss of the Facility management segment grew by \$1.4 million, or 510.2%, from \$0.3 million in 2007 to \$1.7 million in 2008.

UNAUDITED CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2008 AND DECEMBER 31, 2007

	December 31, 2008 ('000 \$)	% of total assets (%)	December 31, 2007 ('000 \$)	% of total assets (%)	Change (%)
ASSETS					
Cash and cash equivalents	58,328	3.1	37,538	2.1	55.4
Trade receivables, net	127,123	6.7	207,073	11.8	(38.6)
Other receivables, net	32,106	1.7	31,740	1.8	1.2
Deposits, loans receivable and investments in debt and equity securities	62,787	3.3	129,021	7.4	(51.3)
Assets of discontinued operations	-	-	22,534	1.3	(100)
Taxes receivable	75,986	4.0	55,672	3.2	36.5



	December 31, 2008 (‘000 \$)	% of total assets (%)	December 31, 2007 (‘000 \$)	% of total assets (%)	Change (%)
Costs and estimated earnings in excess of billings on uncompleted contracts	192,824	10.2	119,040	6.8	62.0
REAL ESTATE INVESTMENTS, NET					
Real estate developed for sale	866,131	45.7	856,883	48.8	1.1
Income producing properties, net	345,179	18.2	155,736	8.9	121.6
Total	1,211,310	63.9	1,012,619	57.7	19.6
Buildings used for administrative purposes, plant and equipment, net	11,185	0.6	9,828	0.6	13.8
Development rights and other intangible assets, net	29,674	1.6	33,191	1.9	(10.6)
Investments in associates and joint ventures	78,119	4.1	48,955	2.8	59.6
Debt issuance costs, net of accumulated amortization	1,680	0.1	36,866	2.1	(95.4)
Deferred tax assets	14,620	0.8	11,014	0.6	32.7
TOTAL ASSETS	1,895,742	100	1,755,090	100	8.0
LIABILITIES AND SHAREHOLDERS' EQUITY					
LIABILITIES					
Payables to suppliers and subcontractors	84,960	4.5	57,546	3.3	47.6
Billings in excess of costs and estimated earnings on uncompleted contracts	14,387	0.8	31,664	1.8	(54.6)
Accrued expenses and other liabilities	83,537	4.4	62,551	3.6	33.6
Taxes payable	16,263	0.9	10,824	0.6	50.2
Loans and notes payable	1,466,387	77.4	977,837	55.7	50.0
Deferred tax liabilities	38,256	2.0	32,324	1.8	18.4
Liabilities of discontinued operations	-	-	6,337	0.4	(100)
TOTAL LIABILITIES	1,703,790	89.9	1,179,083	67.2	44.5
MINORITY INTERESTS	34,024	1.8	27,060	1.5	25.7
SHAREHOLDERS' EQUITY					
Share capital	20,492	1.1	20,492	1.2	0.0
Treasury stock	(1,600)	(0.1)	(1,576)	(0.1)	1.5
Additional paid-in capital	527,280	27.8	529,910	30.2	(0.5)
Accumulated other comprehensive loss (Accumulated deficit)/Retained earnings	(12,446)	(0.7)	-	-	-
	(375,798)	(19.8)	121	0.0	-
TOTAL SHAREHOLDERS' EQUITY	157,928	8.3	548,947	31.3	(71.2)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,895,742	100.0	1,755,090	100.0	8.0

Cash and cash equivalents

As of December 31, 2008, cash and cash equivalents were up \$20.8 million, or 55.4%, and amounted to \$58.3 million as compared with \$37.5 million as at December 31, 2007. This increase is due in part to the receipt of borrowed funds from VTB Bank OAO as part of a new credit line in the amount of 7 billion rubles made available to the Company in December 2008.


Real estate investments, net

The real estate investments, net increased by 19.6% and amounted to \$1,211.3 million as of December 31, 2008 as compared with \$1,012.6 million as of December 31, 2007. This increase is mainly due to acquisition of a premium land plot on the Rublevo-Uspenskoye Hwy (Gorky-8 project), acquisition of a business center on Novodanilovskaya embankment, and expenses involved in reconstruction of the Detsky Mir building in Lubyanka.

Loans and notes payable

Loans and notes payable grew by \$488.6 million, or 50.0%, and amounted to \$1,466.4 million as of December 31, 2008 as compared with \$977.8 million as of December 31, 2007.

As of the end of 2008, the short-term debt of the Group stood at \$414.2 million, whereas the long-term debt was \$1,052.2 million.

The table below shows our debt by type of currency as of December 31, 2008.

Currency	Amount (‘000 \$)	% of Total
Russian rubles	1,145,282	78.1
US dollars	321,105	21.9
Total	1,466,387	100.0

**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED
 DECEMBER 31, 2008 AND 2007**

	Year ended December 31		Change (%)
	2008	2007	
	(‘000 \$)		
Net cash used in operating activities	(167,647)	(161,342)	3.9
INVESTING ACTIVITIES:			
Payments for real estate investments	(518,459)	(713,416)	(27.3)
Proceeds from sale of real estate investments	123,645	68,254	81.2
Proceeds from disposal of property, plant and equipment	1,537	-	-
Payments for plant and equipment and intangible assets	(6,191)	(8,672)	(28.6)
Issuance of loans and notes receivable	(9,450)	(189,628)	(95.0)
Repayment of loans and notes receivable issued	49,308	143,597	(65.7)
Short-term deposits	(11,238)	(50,000)	(77.5)
Repayments of short-term deposits	21,874	146,896	(85.1)
Long-term deposits	(11,229)	-	-
Payments for shares in associates	(1,338)	(2,737)	(51.1)
Proceeds from sale of subsidiary, net of cash disposed	(6,746)	(362)	1 763.5
Proceeds from sale of shares in associate	3,490	25	13 860.0
Net cash used in investing activities	(364,797)	(606,043)	(39.8)
FINANCING ACTIVITIES:			
Purchase of treasure stock	(2,232)	(2,781)	(19.7)
Principal payments on long-term borrowings	(138,651)	(10,226)	1 255.9
Proceeds from long-term borrowings	386,621	729,201	(47.0)
Debt issuance costs	-	(40,000)	-
Principal payments on short-term borrowings	(67,305)	(438,609)	(84.7)



	Year ended December 31		Change (%)
	2008	2007	
	('000 \$)		
Proceeds from short-term borrowings	370,083	294,884	25.5
Cash transfers from Sistema	5,177	27,500	(81.2)
Cash transfers to Sistema	-	(5,658)	-
Dividends paid to minority shareholders of subsidiaries	(986)	(4,655)	(78.8)
Net cash provided by financing activities	552,707	549,656	0.6
Effects of foreign currency translation on cash and cash equivalents	(7,333)	1,175	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	12,930	(216,554)	-
CASH AND CASH EQUIVALENTS, beginning of the year	45,398²	261,952	(82.7)
CASH AND CASH EQUIVALENTS, end of the year	58,328	45,398	28.5

Net cash used in operating activities

Net cash used in operating activities amounted to \$167.6 million over the 12 months in 2008 as compared with \$161.3 million over the 12 months in 2007. The increase in the negative cash flow for operations is 3.9% due to increased payments to suppliers and subcontractors.

Net cash used in investing activities

Net cash used in investing activities amounted to \$364.8 million over the 12 months of 2008 as compared with \$606.0 million over the 12 months in 2007. The cash invested in real estate slumped by \$195.0 million in 2008 to \$518.5 million as compared with \$713.4 million in 2007. The issuance of loans and notes receivable was down 95.0% in 2008, or \$180.2 million.

Net cash provided by financing activities

Net cash provided by financing activities amounted to \$552.7 million over the 12 months of 2008 as compared with \$549.7 million over the 12 months of 2007. The proceeds from long-term borrowings fell by \$342.6 million in 2008. Payments for short-term borrowings were down \$371.3 million due to the significant pay outs in 2007.

Subsequent events

In February 2009, the Group sold its 50% share in Soyuzkomint LLC for \$10 million.

In February 2009, the Group increased its share in Sib-Brok LLC (a project company for elite apartments in Yalta) from 75% to 100%. The purchase price amounted to \$7.8 million.

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

In March–April 2009, the Group repaid part of the loan from Alfabank in the amount of \$68

² Including cash and cash equivalents of PSO Sistema-Hals and Organizator, two entities making up the project and construction management segment disposed in 2008. As of December 31, 2007 the cash and cash equivalents of these two entities was \$7,860.

million. The remaining loan in the amount of \$22 million was extended till the end of April in 2009.

In April 2009, the Group issued 5 million bond securities with a par value of 1,000 ruble each. The bonds Series 1 bear a coupon rate of 15%, the bonds Series 2 bear a coupon rate of 12%, and both Series mature in 2014. The bonds were issued at par value. The cash received as a result of the bonds issue was used to restructure the current debt of the Group.

According to the news officially released by AFK Sistema on 7 April 2009, "Sistema today announced that it has signed an agreement with JSC VTB Bank ("VTB") to sell a portion of its shares in Sistema-Hals. The transaction is being carried out in two stages. During the first stage completed today VTB acquired 19.5% stake in Sistema-Hals for RUB 30 and also received a call option to acquire a further 31.5% stake in the company for RUB 30. VTB may exercise its call option subject to receiving the necessary approvals from the regulatory authorities. Following the exercise of the call option, VTB will own 51% of Sistema-Hals."

Sistema-Hals ("the Company") is a leading diversified company in the Russian and CIS real estate market. The core businesses of Sistema-Hals are development, asset management and facilities management.

The Company was the first Russian property developer to list its shares on the main market of the London Stock Exchange. The Company's shares are also listed on the Moscow Interbank Currency Exchange and the Moscow Stock Exchange.

Since starting operations in 1994, Sistema-Hals has successfully completed about 40 projects with a total area in the region of 340,000 square metres, including the headquarters of DaimlerChrysler, the Hals Tower office building, the headquarters of Trubnaya Metallurgical Company and a hotel for the MaMaison chain (Orco Property Group).

At present Sistema-Hals is constructing the Leningradsky Towers complex, which comprises two buildings. It is also carrying out a complex redevelopment of the property portfolio of Moscow City Telephone Network, rebuilding the flagship Detsky Mir toy store near Lubyanka Square, and pursuing a series of other projects.

Sistema-Hals has assembled a balanced and diversified portfolio of assets in fast-growing sectors of the market. The Company's strategy is focused on building Class A and B office space, mixed-use retail and office complexes, business-class homes, residential estates and land development.

Cushman & Wakefield Stiles & Riabokobylko valued the Sistema-Hals share of properties and projects in its portfolio at \$2,049 million as at 1 January 2009.

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The information 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.