JSC SISTEMA-HALS
AND SUBSIDIARIES

Consolidated Financial Statements
Years Ended December 31, 2009 and 2008

JSC SISTEMA-HALS AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC Sistema-Hals:

We have audited the accompanying consolidated balance sheets of JSC Sistema-Hals ("Sistema-Hals") and subsidiaries (collectively – the "Group") as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Deloitte & Touche

May 5, 2010
Moscow, Russia

JSC SISTEMA-HALS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2009 AND DECEMBER 31, 2008
(Amounts in thousands of U.S. dollars)

	Notes	December 31, 2009	December 31, 2008*
ASSETS			
Cash and cash equivalents	4	5,216	55,798
Trade receivables, net	5	53,901	122,834
Other receivables, net	6	63,454	28,257
Loans and notes receivable	7	11,851	61,495
Assets of discontinued operations	3	-	156,025
Taxes receivable	8	66,104	61,617
Costs and estimated earnings in excess of billings on uncompleted contracts	9	74,310	192,327
REAL ESTATE INVESTMENTS, NET			
Real estate developed for sale	10	721,416	849,559
Income producing properties, net	10	112,335	238,068
Total		833,751	1,087,627
Buildings for administrative purposes, plant and equipment, net	11	5,557	7,038
Development rights and other intangible assets, net	12	15,810	29,673
Investments in associates and joint ventures	13	62,286	78,044
Debt issuance costs, net of accumulated amortization		843	1,680
Deferred tax assets	21	24,201	13,328
TOTAL ASSETS		**1,217,284**	**1,895,743**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Payables to suppliers and subcontractors	14	41,097	79,529
Billings in excess of costs and estimated earnings on uncompleted contracts	15	17,456	14,387
Accrued expenses and other liabilities	16	132,375	74,677
Taxes payable		5,516	12,559
Loans and notes payable	17	1,301,565	1,465,004
Deferred tax liabilities	21	62,977	35,900
Liabilities of discontinued operations	3	-	21,735
TOTAL LIABILITIES		1,560,986	1,703,791
COMMITMENTS AND CONTINGENCIES	24	-	-
SHAREHOLDERS' EQUITY			
Share capital		20,492	20,492
Treasury stock		(18)	(1,600)
Additional paid-in capital		652,243	527,280
Accumulated other comprehensive loss		(29,145)	(12,446)
Accumulated deficit		(954,065)	(375,798)
Total Sistema-Hals' shareholders' equity	18	(310,493)	157,928
NONCONTROLLING INTEREST		(33,209)	34,024
TOTAL SHAREHOLDERS' (DEFICIT)/EQUITY		(343,702)	191,952
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,217,284**	**1,895,743**

*-The comparative information for the year ended December 31, 2008 reflects restatements for presentation of discontinued operations in the prior year (Note 3).

See notes to consolidated financial statements.

JSC SISTEMA-HALS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Amounts in thousands of U.S. dollars, except for share and per share amounts)

	Notes	2009	2008*
Revenues		64,028	274,563
Operating expenses	20	(444,545)	(423,200)
OPERATING LOSS		(380,517)	(148,637)
OTHER INCOME/(EXPENSES):			
Other expenses, net	17	(58,483)	(9,728)
Interest income		18,956	11,968
Interest expense		(162,100)	(82,693)
Loss on foreign currency transactions		(19,310)	(138,513)
Loss from associates and joint ventures		(4,685)	(11,446)
(Loss)/Gain on disposal of a subsidiary	3	(24,546)	939
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAX AND NONCONTROLLING INTERESTS		(630,685)	(378,110)
Income tax benefit/(expense)	21	18,968	(8,979)
LOSS FROM CONTINUING OPERATIONS BEFORE NONCONTROLLING INTERESTS		(611,717)	(387,089)
Net loss/(income) attributable to the noncontrolling interests		35,493	(6,485)
LOSS FROM CONTINUING OPERATIONS		(576,224)	(393,574)
(Loss)/Income from discontinued operations, net of income tax and noncontrolling interest	3	(2,043)	19,202
Loss from disposal of discontinued operations, net of income tax effect	3	-	(6,725)
NET LOSS		**(578,267)**	**(381,097)**
Weighted average number of common shares outstanding:			
Basic and diluted		8,153,855	10,377,318
Loss per share, basic and diluted, U.S. dollars:			
Loss from continuing operations		(0.71)	(0.36)
Loss from discontinued operations		(0.00)	(0.00)
Net loss per share		(0.71)	(0.36)

*-The comparative information for the year ended December 31, 2008 reflects restatements for presentation of discontinued operations in the prior year (Note 3).

See notes to consolidated financial statements.

JSC SISTEMA-HALS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Amounts in thousands of U.S. Dollars)

	2009	2008
OPERATING ACTIVITIES		
Net loss	**(578,267)**	**(381,097)**
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	23,786	23,980
Gain on disposal of property, plant and equipment	(12)	(219)
Noncontrolling interests	(35,493)	6,485
Loss from disposal of discontinued operations	-	6,725
Loss/(Gain) from discontinued operations	2,043	(1,803)
Loss/(Gain) on disposal of interest in subsidiaries and affiliates	55,713	(1,012)
Loss/(Gain) on sale of real estate investment	50,059	(20,530)
Stock-based compensation	(1,419)	(422)
Deferred income tax benefit	(16,203)	(2,318)
Bad debt (recovery)/expense	(3,172)	42,832
Provision for losses for construction contracts	-	25,389
Foreign currency transactions loss	20,846	147,810
Amortization of debt issuance cost	845	32,882
Impairment of real estate investments	289,498	41,838
Impairment of investments in associats and joint ventures	-	4,878
Impairment of costs and estimated earnings in excess of billings on uncompleted contract	117	4,408
Loss on early extinguishment of debt	51,126	-
Loss from affiliates	4,685	11,446
Changes in operating assets and liabilities:		
Decrease in trade receivables	3,030	5,607
Increase in other receivables	(16,135)	(16,098)
Increase in taxes receivable	(2,332)	(37,280)
(Increase) in costs and estimated earnings in excess of billings /decrease in billings in excess of costs and estimated earnings on uncompleted contracts	(10,783)	(151,921)
(Decrease)/Increase in payables to suppliers and subcontractors	(34,464)	69,182
Increase in accrued expenses and other current liabilities	52,636	14,005
(Decrease)/Increase in taxes payable	(6,372)	7,585
Net cash used in operating activities	**(150,268)**	**(167,648)**

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Amounts in thousands of U.S. Dollars)

	2009	2008
INVESTING ACTIVITIES		
Payments for real estate investments	(91,385)	(518,459)
Proceeds from sale of real estate investments	25,128	123,645
Proceeds from disposal of property, plant and equipment	3,700	1,537
Payment for plant and equipment and intangible assets	(3,747)	(6,191)
Payments for loans and notes receivable	(3,635)	(9,450)
Proceeds from loans and notes receivable issued	42,146	49,308
Short-term deposits	(10,981)	(11,238)
Repayment of short-term deposits	-	21,874
Long-term deposits	-	(11,229)
Payments for shares in associates	-	(1,338)
Proceeds from sale of subsidiaries, net of cash disposed	1,233	(6,746)
Proceeds from discontinued operations, net of cash disposed	38,527	-
Proceeds from sale of shares in associates	2,244	3,490
Net cash provided by (used in) investing activities	**3,230**	**(364,797)**
FINANCING ACTIVITIES		
Purchase of treasury stock	(333)	(2,232)
Principal payments on long-term borrowings	(125,948)	(138,651)
Proceeds from long-term borrowings	137,038	386,621
Principal payments on short-term borrowings	(115,341)	(67,305)
Proceeds from short-term borrowings	204,921	370,083
Capital contribution from Sistema	-	5,177
Dividends paid to noncontrolling shareholders of subsidiaries	-	(986)
Net cash provided by financing activities	**100,337**	**552,707**
Effects of foreign currency translation on cash and cash equivalents	(6,411)	(7,333)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(53,112)	12,930
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**58,328**	**45,398**
CASH AND CASH EQUIVALENTS, END OF YEAR	**5,216**	**58,328[(1)]**
SUPPLEMENTAL INFORMATION		
Income tax paid	-	16,604
Interest paid	1,143	89,764
NON CASH TRANSACTIONS		
Amounts owed for capital expenditures	5,953	4,448
Payable related to acquisition of investments	-	12,368
Transfer of Gorki-8 real estate assets (Note 17)	112,932	-
Redemption of debt to Sistema (Note 18)	120,672	-
Treasury stock redemption against loan payable to Sistema (Note 18)	47,266	-

[(1)]-Including cash and cash equivalents of entities within the facility management and asset management business segments disposed of in the current year. As of December 31, 2008 the cash and cash equivalents of disposed segments was USD 2,530.

See notes to consolidated financial statements.

JSC SISTEMA-HALS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Amounts in thousands of U.S. dollars)

	Common stock	Treasury stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income/(loss)	Total equity attributable to shareholders	Equity attributable to the noncontrolling interests	Total equity
Balances at January 1, 2008	**20,492**	**(1,576)**	**529,910**	**121**	**-**	**548,947**	**27,060**	**576,007**
Reversal of stock-based compensation (Note 25)	-	-	(422)	-	-	**(422)**	-	**(422)**
Acquisition of treasury stock (Note 18)	-	(24)	(2,208)	-	-	**(2,232)**	-	**(2,232)**
Effect from change in functional currency, net of income tax effect of USD 2,023 and noncontrolling interest of USD 6,067	-	-	-	-	59,730	**59,730**	-	**59,730**
Transfers from Sistema	-	-	-	5,178	-	**5,178**	-	**5,178**
Acquisition of noncontrolling interest	-	-	-	-	-	-	8,448	**8,448**
Sale of subsidiaries	-	-	-	-	-	-	(8,156)	**(8,156)**
Comprehensive loss:								
Net loss	-	-	-	(381,097)	-	**(381,097)**	6,485	**(374,612)**
Translation adjustment, net of tax of USD nil	-	-	-	-	(72,176)	**(72,176)**	187	**(71,989)**
Total comprehensive loss	**-**	**-**	**-**	**(381,097)**	**(72,176)**	**(453,273)**	**6,672**	**(446,601)**
Balances at December 31, 2008	**20,492**	**(1,600)**	**527,280**	**(375,798)**	**(12,446)**	**157,928**	**34,024**	**191,952**
Reversal of stock-based compensation (Note 25)	-	-	(1,419)	-	-	**(1,419)**	-	**(1,419)**
Acquisition of treasury stock (Note 18)	-	(24)	(309)	-	-	**(333)**	-	**(333)**
Sale of treasury stock (Note 18)		1,606	45,660			**47,266**		**47,266**
Redemption of debt to Sistema, net of income tax of USD 24,134 (Note 18)	-	-	96,538	-	-	**96,538**	-	**96,538**
Loss on sale of discontinued operations to common control entity, net of income tax USD 2,689	-	-	(15,507)	-	-	**(15,507)**	-	**(15,507)**
Acquisition of noncontrolling interest in RTI-Estate	-	-	-	-	-	**-**	664	**664**
Sale of subsidiaries	-	-	-	-	-	**-**	(29,705)	**(29,705)**
Comprehensive loss:								
Net loss	-	-	-	(578,267)		**(578,267)**	(35,493)	**(613, 760)**
Translation adjustment, net of tax of USD nil	-	-	-	-	(16,699)	**(16,699)**	(2,699)	**(19,398)**
Total comprehensive loss	**-**	**-**	**-**	**(578,267)**	**(16,699)**	**(594,966)**	**(38,192)**	**(633,158)**
Balances at December 31, 2009	**20,492**	**(18)**	**652,243**	**(954,065)**	**(29,145)**	**(310,493)**	**(33,209)**	**(343,702)**

See notes to consolidated financial statement.

1. DESCRIPTION OF THE BUSINESS

JSC Sistema-Hals ("Sistema-Hals" or the "Company") and subsidiaries (together – the "Group") are engaged in real estate development, primarily focused on the "Class A" and "Class B" buildings of the Moscow office market, shopping centers, high-end housing, single family houses, apartment buildings and land development. The Group's revenues are derived principally from the following activities:

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

The Group previously also performed Asset Management and Facility Management activities. These segments were disposed in 2009 (see Note 3).

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

In April 2009, AFK Sistema ("Sistema") signed an agreement to sell the shares of Sistema-Hals to Bank VTB ("VTB"). According to the agreement, in April 2009 VTB acquired from Sistema a 19.5% share in Sistema-Hals for RUB 30 and received a call option to acquire an additional 31.5% share for RUB 30. As a result of this transaction VTB's ownership amounted to 19.5%. In December, 2009, the option was exercised and VTB increased its share in Sistema-Hals up to 51%. The share of Sistema in Sistema-Hals' capital decreased from 69.4% to 19.5% as a result of these transactions. Further, in December 2009 Sistema acquired 8.1% of Sistema-Hals' treasury shares, and increased its stake in the Group's capital up to 27.6%.

Conditions in the Russian real estate market deteriorated in the latter part of 2008, and have remained challenging in 2009. At December 31, 2009, the Group has an accumulated deficit of USD 954,065 and recognized a loss of USD 578,267 for the year then ended. The management of the Group continues to take measures to increase revenues and reduce expenses and losses as described below. In the current market conditions the Group remains dependant on support from its major shareholders. During the next year the Group is due to repay debt in the amount of USD 384,179, a significant portion of which relates to bonds series 1 and 2 and loans received from VTB, Raiffeisen Bank and Ferrostroy, in the amounts of USD 165,305, USD 181,963, USD 20,665 and USD 7,675 respectively.

The Group's ability to complete projects currently under development and to fund its contractual commitments/co-investment contracts, requires a significant amount of capital and liquidity.

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

- Management assessed the Group's portfolio of projects and has prioritized those that it believes are more strategic to the Group, and suspended other activities in order to reduce its cash requirements;
- During 2009 the Group implemented a program to significantly restructure its debt portfolio. Certain borrowings were repaid through settlement using property assets. Other amounts were repaid using new facilities obtained from third parties and/or additional borrowings from VTB. VTB's loans now account for approximately 64% of the Group's total loans and notes payable (see Note 17);
- An expenditure reduction program has minimized operating and administrative costs in both the latter part of 2008 and into 2009;
- The Group received a letter of financial support from VTB Bank confirming that VTB will make all efforts in order to not allow a default of the Goup on its obligations up to June 30, 2011.

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

Management believes, based on the actions undertaken, that it will have adequate liquidity to continue to fund its liabilities and operations and continue as a going concern for the next year.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of consolidation – The consolidated financial statements include the accounts of Sistema-Hals and the entities that it controls or where it is determined to be the primary beneficiary. Control is determined primarily based on voting powers. The primary beneficiary for variable interest entities is determined based on when the Group absorbs a majority of the entity's losses, receives a majority of the entity's expected residual returns, or both. All significant transactions within the Group, balances and unrealized gains and losses on such transactions have been eliminated in these financial statements.

The ownership interest of Sistema-Hals and the proportion of its voting power in its major subsidiaries as of December 31, 2009 and 2008 were as follows:

	Ownership interest and voting power	
Operating entities	**December 31, 2009**	**December 31, 2008**
Beiging-Invest	100%	90%
Bolshoy City	100%	100%
Hals-Stroy	100%	100%
IRT	100%	100%
Kuntsevo-Invest	100%	100%
Sapidus	100%	100%
SIB-BROK	100%	75%
TRK Kazan	100%	100%
Lubyanka-development	100%	-
Sistema-Hals Nord-West	76%	76%
Gorki-8	75%	75%
Istochnik	75%	75%
RTI-Estate	51%	-
Yalta Fish Plant	-	98%
City-Hals	-	100%
Landshaft-2	-	100%
Mosdachtrest	-	58%

The Group also consolidated Triada Invest under the provisions of ASC 810 "Consolidation" as Triada Invest is a variable interest entity in which the Group is considered the primary beneficiary. Triada Invest has an insignificant amount of equity and a majority of its financing was obtained from the Group.

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

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

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

The construction industry in general is subject to risks in respect to the means of financing, the legal and political risks and the financial risks associated with construction projects which transpire over a prolonged period of time. The Group is also reliant on a limited number of general contractors and subcontractors to undertake its commitments for construction in the timeframe required to avoid penalties and other associated costs.

Credit risk – The Group is exposed to credit risk which is the risk that the other party to a financial instrument will fail to discharge its obligation and cause a financial loss for the Group. The main credit risk exposure is associated with trade accounts receivable, other receivables and loans and notes receivable. The Group has a relatively small number of significant value receivables. As of December 31, 2009 and 2008 the allowance for doubtful trade and other receivables and loans and notes receivable amounted to USD 24,273 and USD 42,257 (see Notes 5, 6 and 7).

Liquidity risk – The Group is exposed to liquidity risk which is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due.

Foreign Currency Translation – The functional currency of the substantial majority of the Group's operations is the Russian ruble because the majority of revenues, costs and real estate investments, debt and trade liabilities were either priced, incurred, payable or otherwise measured in Russian rubles.

The Group has retained the U.S. dollar as its reporting currency. Management consider that the U.S. Dollar is a more relevant presentation currency for international users of the consolidated financial statements of the Group. The financial statementsare translated into the reporting currency using the current rate method.

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

Foreign Currency Transactions – Monetary assets and liabilities in foreign currencies are translated into the functional currency of the relevant subsidiaries at the rate of exchange ruling at each balance sheet date. Transactions in foreign currencies are translated into the relevant functional currency at the rate of exchange ruling at the date of the transaction. Transaction gains and losses, are recognized as foreign currency transactions gains/losses in the statement of operations.

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

The Group records revenues as follows:

(i) Property construction services

The Group provides project construction services to mid-size and large corporate entities. When the Group acts as a contractor under construction contracts, the Group recognizes revenue on fixed-price contracts using the percentage-of-completion method. Under this method for revenue recognition, the Group estimates the progress towards completion to determine the amount of revenue and profit to recognize on all significant contracts. The Group generally utilizes an efforts-expended, cost-to-cost approach in applying the percentage-of-completion method under which revenue is earned in proportion to total costs incurred divided by total costs expected to be incurred.

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

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

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

(ii) Sale of completed real estate development

The Group derives revenue through the sale of completed commercial and residential properties. When the Group undertakes real estate development projects, it recognizes revenues from sales of real estate when a) a sale is consummated; b) the buyer's initial and continuing investments are adequate to demonstrate a commitment to pay; c) the Group's receivable is not subject to future subordination; d) the Group has transferred to the buyer the usual risks and rewards of ownership and does not have a substantial continuing involvement with the project. Revenue is recognized when (a) the parties are bound by the terms of a contract; (b) all consideration has been exchanged; (c) any permanent financing for which the Group is responsible has been arranged; and (d) all conditions precedent to closing have been performed.

Revenues from development of office buildings, apartments, condominiums, shopping centers and similar structures are recognized, in accordance with ASC 360 – 20 "Property, Plant and Equipment – Real estate sales", 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; and (d) aggregate sales proceeds and costs can be reasonably estimated. The application of the percentage-of-completion method with regards to these development properties is consistent with the method applied for property construction services as described above.

The Group also sells completed commercial buildings through the sale of the Group's equity interest in the companies which holds such property. Revenue from the sale of equity interests in the properties developed by the Group are recognized when (a) the buyer is independent of the Group, (b) collection of the sales price is reasonably assured, (c) the Group will not be required to support the operations of the property or its related obligations to an extent greater than its proportionate interest.

Other investments in real estate developed for sale where the sale is not consummated are accounted for under the deposit method. Under the deposit method, until the conditions to fully recognize a sale are met, payments received from the buyer are recorded as a liability and no profit is recognized.

(iii) Rental income from properties held as investments

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

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

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

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

The inputs are categorized into the following fair value hierarchy:

Level 1 Quoted prices for identical instruments in active markets.

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

Level 3 Significant inputs to the valuation model are unobservable.

Fair value of financial instruments – The Group's financial instruments primarily comprise cash and cash equivalents, deposits, loans receivable, investments in debt and equity securities, receivables, payables and debt. The estimated fair value of short-term financial instruments as of December 31, 2009 approximated their carrying value as reflected in the balance sheet due to the short maturity of those instruments. The fair value of long-term loans and notes payable approximate the carrying amount of those financial instruments. The fair value of significant investments in associates and joint ventures is presented in Note 13 to these consolidated financial statements.

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

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

Investments in marketable debt and equity securities are classified as available-for-sale and are stated at fair value based on market quotes. Unrealized gains/(losses), net of income taxes, are recognized in other comprehensive income. Interest income on debt securities is recognized in the statement of operations.

Investments in private companies are carried at cost, less provisions for other than temporary impairment in value.

Investments in associates and joint ventures –The Group's investments in entities in which it holds 20-50% of the voting shares and has the ability to exercise significant influence over their operating and financial policies ("affiliates") and the entities, in which the Group shares in joint control ("joint ventures"), are accounted for using the equity method of accounting. Under the equity method of accounting, the Group records its investments in equity-method investees in the consolidated balance sheet under "Investments in associates and joint ventures" and records its share of the investees' earnings or losses together with other-than-temporary impairments in value as a component of operating income. In the years ended December 31, 2009 and 2008, the Group's share in the net loss of these entities amounted to USD 3,812 and USD 11,446, respectively.

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

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

Non-reclaimable VAT on real estate investments is capitalized as it is a cost necessarily incurred in the completion of the relevant project.

Real estate investments – Real estate held for sale is stated at cost. The cost of real estate held for sale includes acquisition, development, construction and carrying costs, and other related costs through the development stage. Commercial leasing assets, which are held for use, are stated at cost less accumulated depreciation. The Group capitalizes interest on funds used in developing properties from the date of initiation of development activities through the date the property is substantially complete and ready for sale or lease. The Group recorded capitalized interest in 2009 and 2008 of USD 39,885 and USD 52,894, respectively.

The Group capitalizes improvements that increase the value of commercial leasing properties and have useful lives greater than one year. Costs related to repairs and maintenance are expensed as incurred.

The Group performs an impairment test when events or circumstances indicate that an asset's carrying amount may not be recoverable. Events or circumstances that the Group considers indicators of impairment include significant decreases in market values, adverse changes in regulatory requirements (including environmental laws) and current period or projected operating cash flow losses from rental properties. Impairment tests for properties to be held and used, including properties under development, involve the use of estimated future net undiscounted cash flows expected to be generated from the use of the property and its eventual disposition. If projected undiscounted cash flow from properties to be held and used is less than the related carrying amount, then a reduction of the carrying amount of the long-lived asset to fair value is required. Measurement of the impairment loss is based on the fair value of the asset. Generally, the Group determines fair value using valuation techniques such as discounted expected future cash flows. Impairment tests for properties held for sale, including undeveloped and developed properties, involve management estimates of fair value based on estimated market values for similar properties in similar locations and management estimates of costs to sell. If estimated fair value less costs to sell is less than the related carrying amount, then a reduction of the carrying amount of the asset to fair value less costs to sell is required.

Buildings used for administrative purposes, plant and equipment – Buildings used for administrative purposes, plant and equipment with a useful life of more than one year are capitalized at historical cost. Cost includes major expenditures for improvements and replacements which extend useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance are charged to the statements of operations as incurred.

Buildings used for administrative purposes, plant and equipment that are retired or otherwise disposed of are eliminated from the balance sheet along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is included in the determination of net income.

Plant and equipment is depreciated on the straight-line basis over 3 to 5 years. Buildings used for administrative purposes are depreciated on the straight-line basis over 20 to 40 years.

Development rights and other intangible assets – Development rights acquired by the Group are stated at acquisition cost. The costs of development rights are amortized on a straight-line basis from the date when the project starts generating revenues until the development period expires. Development rights as of December 31, 2009 and 2008, comprise rights to develop residential property in the Western Kuntsevo district of Moscow. The development period for this project is expected to be completed in 2012. Amortization of other finite-life intangible assets is computed on a straight-line basis over a period of four years.

Impairment of long-lived assets other than goodwill and investments – The Group evaluates the recoverability of the carrying amount of its long-lived assets whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable. The Group compares undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, the Group records impairment losses to write the asset down to fair value, measured by the estimated discounted net future cash flows expected to be generated from the use of the assets. In the years ended December 31, 2009 and 2008, the Group recognized an impairment charge relating to such assets of USD 289,615 and USD 51,071, respectively.

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

Construction obligations – Construction obligations represent obligations to construct apartments assumed as a result of the acquisition of rights to develop residential property in the Western Kuntsevo district of Moscow.

Income taxes – Income taxes have been computed in accordance with the laws of the countries of domicile of the Group entities. The standard income tax rate in the RF for the year ended December 31, 2009 was 20% (2008: 24%).

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

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

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

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

Retirement benefit and social security costs – The Group contributes to the RF state pension fund, social insurance fund and medical insurance fund on behalf of all of its 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 the cost of equity instruments, such as stock options or restricted stock, awarded to employees for services received in the statement of operations. The cost of the equity instruments is measured based on the fair value of the instruments on the date they are granted and is recognized over the period during which the employees are required to provide services in exchange for the equity instruments.

Borrowing costs – The Group capitalizes interest on borrowings during the active construction period of its development projects. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. For the years ended December 31, 2009 and 2008, capitalized borrowing costs were USD 78,770 and USD 59,520, respectively. Other borrowing costs were recognized as an expense in the period in which they were incurred.

Noncontrolling interests – Noncontrolling interests represent the share in the book value of the net assets of the Group's entities proportional to equity interests in those entities owned, directly or indirectly, by shareholders outside of the Group.

Dividends and distributions – Dividends and distributions to shareholders are recognized at the date they are declared. The dividends are distributed in accordance with statutory legislation that allows distribution of dividends up to the amount of distributable retained earnings based on the statutory financial statements of Sistema-Hals. As of December 31, 2009 Sistema-Hals recognized an accumulated deficit of USD 160.5 million (unaudited) in its statutory financial statements which would preclude the payment of dividends by Sistema-Hals. The accumulated deficit recognized in the statutory financial statements differs from the amount of accumulated deficit calculated on the basis of U.S. GAAP.

Earnings per share – Basic earnings per share of common stock are computed by dividing net income by the weighted average number of common shares outstanding for the year. Diluted earnings per share of common stock reflects the maximum potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock and would then share in the net income of the Group. Earnings per share is disclosed separately for continuing and discontinued operations.

Effects of Adopted Accounting Pronouncements

The FASB Codification – In June 2009, the FASB issued ASC 105 "Generally Accepted Accounting Principles" (formerly Statement of Financial Accounting Standards ("SFAS") No. 168 "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles"). ASC 105 established the codification as the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. New accounting standards issued subsequent to June 30, 2009 are communicated by the FASB through Accounting Standards Updates ("ASU"). The new codification is effective for financial statements issued for fiscal years and interim periods ending after September 15, 2009 and was adopted by the Group in the third quarter of 2009. The adoption of ASC 105 had no effect on the Group's financial statements.

Fair Value Measurement and Disclosures – In February 2008, the FASB issued additional guidance on fair value measurement that delayed the application of ASC 820 "Fair Value Measurement and Disclosures" (formerly SFAS No. 157 "Fair Value Measurements") for all non-financial assets and liabilities that are measured at fair value on a non-recurring basis. Such guidance was effective for interim and annual periods beginning after November 15, 2008; therefore, the Group has only partially applied ASC 820. Beginning January 1, 2009, the Group has also applied ASC 820 to all non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. Such application had no material effect on the Group's financial statements.

In March 2008, the FASB issued additional guidance which requires enhanced disclosures about derivative instruments and hedging activities to enable investors to better understand their effects on an entity's financial statements (ASC 815). The new guidance is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 and was adopted by the Group on January 1, 2009. The adoption of the new guidance had no material effect on the Group's financial statements.

In October 2008, the FASB issued additional guidance which clarifies the application of the FASB guidance on fair value measurement in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The new guidance was effective upon issuance, including prior periods for which financial statements have not been issued, and therefore was effective for the financial statements for the year ended December 31, 2008. The adoption of the new guidance had no material effect on the Group's financial statements.

In April 2009, the FASB issued guidance that requires enhanced disclosures, including interim disclosures, on financial instruments, determination of fair value in turbulent markets, and recognition and presentation of other-than-temporary impairments (ASC 820). This guidance is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of this guidance had no material effect on the Group's financial statements.

In August 2009, the FASB issued ASU 2009-05, "Measuring Liabilities at Fair Value", which provides additional guidance on fair value measurement of liabilities. The new guidance provides clarification on the measurement and reporting of a liability in circumstances in which a quoted price in an active market for the identical liability is not available. This guidance is effective for the interim and annual reporting periods beginning after August 2009. The adoption of this guidance had no material effect on the Group's financial statements.

Business Combinations – In December 2007, the FASB issued the guidance (ASC 805) which significantly changes the accounting for business combinations. Under the new guidance, an acquiring entity is required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. Adoption of the new guidance has changed the accounting treatment for certain specific acquisition related items including: (1) expensing acquisition related costs as incurred; (2) valuing noncontrolling (minority) interests at fair value at the acquisition date; and (3) expensing restructuring costs associated with an acquired business. The new guidance also includes a substantial number of new disclosure requirements. The new guidance is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. Retrospective application and early adoption of the new guidance is prohibited. The adoption of these provisions did not have a material impact on the Group's financial statements.

In April 2009, the FASB issued guidance on accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies (ASC 805). It provides guidance on initial recognition and subsequent measurement, accounting for and disclosure of such assets and liabilities. This guidance is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of the new guidance had no impact on the Group's financial statements.

Noncontrolling Interest – In December 2007, the FASB issued the guidance which establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary (ASC 810). The new guidance requires that a noncontrolling interest in a subsidiary (minority interest) is reported as equity in the consolidated financial statements separately from the parent company's equity. Among other requirements, the new guidance requires consolidated net income to include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of operations, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. The guidance requires retroactive adoption of the presentation and disclosure requirements for existing noncontrolling (minority) interests. All other requirements are to be applied prospectively. The new guidance is effective on January 1, 2009. The adoption of the new guidance resulted in (i) the reclassification of noncontrolling interests to equity; (ii) presentation of net income and other comprehensive income/(loss) gross of amounts attributable to noncontrolling shareholders of the subsidiaries of the Group; and (iii) reclassification of cash spent on acquisition of the noncontrolling interests in existing subsidiaries from investing to financing section of the statement of cash flows.

Subsequent Events – In May 2009, the FASB issued guidance on subsequent events which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued (ASC 855). This guidance is based on the same principles as currently exist in auditing standards and was issued by the FASB to include accounting guidance that originated as auditing standards into the body of authoritative literature issued by the FASB. The standard addresses the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The guidance is effective for financial statements issued for fiscal years and interim periods ending after June 15, 2009. The adoption of this guidance had no material impact on the Group's financial statements.

Distributions to shareholders - In January 2010, the FASB issued ASU 2010-1, Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash ("ASU 2010-1") that amends Topic 505, Equity, and Topic 260, Earnings per share, of the FASB Codification. ASU 2010-1 clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash is considered a share issuance that is reflected in earnings-per-share prospectively and is not a stock dividend for the purpose of applying Topic 505, Equity, and Topic 260, Earning per share. ASU 2010-1 is effective for interim and annual reporting periods ending on or after December 15, 2009, and should be applied on a retrospective basis.

New Accounting Pronouncements

Consolidation of Variable Interest Entities ("VIEs") – In June 2009, the FASB issued guidance that amends the consolidation guidance that applies to variable interest entities (ASC 810). The amendments significantly affect the overall consolidation analysis under the existing guidance. Accordingly, an enterprise needs to reconsider its previous conclusions, including (1) whether an entity is a VIE, (2) whether the enterprise is the VIE's primary beneficiary, and (3) what type of financial statement disclosures are required. The guidance is effective for the Group as of January 1, 2010. Early adoption is prohibited. Management believes that the adoption of this guidance will not have a significant impact on the Group's financial statements.

Consolidation – In January 2010, the FASB issued ASU 2010-02 "Consolidation (ASC 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary – A Scope Clarification" related to accounting and reporting for decreases in ownership of a subsidiary. This guidance clarifies the scope of the requirements surrounding the decrease in ownership and situations where the guidance does not apply. This guidance also expands the disclosure requirements for deconsolidation of a subsidiary or de-recognition of a group of assets. The Group will adopt the provisions of this guidance, as required. Management believes that the adoption of this guidance will not have a significant impact on the Group's financial statements.

Fair Value Measurement and Disclosures – In January 2010, the FASB issued ASU 2010-06, "Fair Value Measurements and Disclosures (ASC 820): Improving Disclosures about Fair Value Measurements" that requires separate disclosure of significant transfers between Level 1 and Level 2 fair value measurement inputs and a description of the reasons for the transfers and amends existing disclosure requirements in regards of level of disaggregation and inputs and valuation techniques. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009. The Group will adopt this guidance from January 1, 2010. The adoption of these provisions did not have a material impact on the Group's financial statements.

3. DISCONTINUED OPERATIONS AND DISPOSAL OF SUBSIDIARY

Discontinued operations

In May 2009, Sistema-Hals sold its share in OJSC Mosdachtrest (assets included land plots and cottages) and CJSC Landshaft (assets included land plots) to Sistema for the amount of USD 37,167. These companies together constituted the Asset Management business segment of the Group. The sale was accounted for as a common control transaction and the difference between the cash consideration received and the carrying value of the net assets sold resulted in a decrease in equity of USD 13,340, net of income tax of USD 2,325.

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

In July 2009, the Group sold a 100% stake in CJSC Citi-Hals to Sistema for the amount of USD 1,834. This company constituted the Facility Management business segment. The sale was accounted for as a common control transaction, which resulted in a decrease in equity of USD 2,167, net of income tax of USD 364 for the difference between the carrying value of the net assets sold and the cash consideration received from Sistema.

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

As a result of these transactions, real estate development is the Group's only reporting segment as of December 31, 2009.

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

	2009	2008
Revenues	13,364	87,394
Operating expenses	(14,150)	(58,170)
Operating income	(786)	29,224
Other loss	(1,840)	1,316
Income tax expense	(189)	(6,278)
Noncontrolling interest	772	(5,060)
(Loss)/Income from discontinued operations	**(2,043)**	**19,202**

The assets and liabilities and non-controlling interest of discontinued operations as of December 31, 2008 consisted of the following:

	December 31, 2008
Cash and cash equivalents	2,530
Trade receivables, net	4,289
Other receivables, net	3,849
Deposits, loans receivable and investments in debt and equity securities	1,292
Taxes receivable	14,369
Costs and estimated earnings in excess of billings on uncompleted contracts	497
Real estate developed for sale	123,683
Buildings used for administrative purposes, plant and equipment, net	4,147
Development rights and other intangible assets, net	2
Investments in associates and joint ventures	75
Deferred tax assets	1,292
Total assets of discontinued operations	**156,025**
Payables to suppliers and subcontractors	5,432
Accrued expenses and other liabilities	8,860
Taxes payable	3,704
Loans and notes payable	1,383
Deferred tax liabilities	2,356
Total liabilities of discontinued operations	**21,735**
Noncontrolling interest	32,527

The above assets and liabilities and non-controlling interest of discontinued operations as of December 31, 2008 exclude net intergroup liabilities of USD 47,255.

Disposal of Subsidiary

In August 2009, the Group disposed of its investment in the shares of Landshaft-2 to unrelated parties, therefore selling all of the land plots in the Aurora cottage settlement. The loss on disposal amounted to USD 24,546.

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

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2009 and 2008 consisted of the following:

	December 31, 2009	December 31, 2008
Cash and cash equivalents on deposit with:		
Third parties	288	10,890
Related parties	4,928	44,908
Total	**5,216**	**55,798**

The Group had USD 1,058 and USD 29,782 of deposits as of December 31, 2009 and 2008. The weighted average interest rate on demand deposits as of December 31, 2009 and 2008 was 2% and 8%, respectively.

5. TRADE RECEIVABLES, NET

Trade receivables, net of allowance for doubtful debts, as of December 31, 2009 and 2008 consisted of the following:

	December 31, 2009	December 31, 2008
Mirax Group	-	18,965
Brysongate	-	15,000
Trade receivables from other third parties	2,284	4,986
Total trade receivables from third parties	**2,284**	**38,951**
Saraya Russia, a joint venture partner (refer Note 13)	20,000	20,000
Apsys, a joint venture partner (refer Note 13)	50,391	50,391
RTI-Radio, a Sistema subsidiary	33	46,598
Trade receivables from other related parties	1,193	859
Total trade receivables from related parties	**71,617**	**117,848**
Less: allowance for doubtful debts	(20,000)	(33,965)
Total	**53,901**	**122,834**

In the year ended December 31, 2009, the Group increased its allowance for bad debts in relation to the accounts receivable from Saraya Russia in the amount of USD 20,000, as the Group could not obtain the relevant construction permissions related to the initial sale of a 50% investment in the Kamelia project till the end of December, 2009. As a result, Saraya Russia is not obliged to pay the receivable while still retaining its share in the project.

In 2008, the Group sold the shares in EDLA to Brysongate for USD 23,200. As of December 31, 2008, the Group evaluated the amount of USD 15,000 due from Brysongate as impaired.

In the year ended December 31, 2008, the Group created an allowance for the receivable from Mirax in the amount of USD 20,000 which resulted from the sale of investments into the Kostyanskiy – 13 project.

In the year ended December 31, 2009 the Group reversed the allowance on Brysongate and Mirax in the amount of USD 1,659 and USD 18,965, respectively, as these amounts were recovered.

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

6. OTHER RECEIVABLES, NET

Other receivables, net of allowance for doubtful debts, as of December 31, 2009 and 2008 consisted of the following:

	December 31, 2009	December 31, 2008
Prepaid expenses	3,164	3,320
Advances to and other receivables from third parties	18,677	8,724
Other receivables from related parties	33,568	8,776
Interest receivable from related parties	9,996	8,037
Interest receivable from third parties	22	1,019
Less: allowance for doubtful debts	(1,973)	(1,619)
Total	**63,454**	**28,257**

7. LOANS AND NOTES RECEIVABLE

Deposits, loans receivable and investments in debt and equity securities as of December 31, 2009 and 2008 consisted of the following:

	December 31, 2009	December 31 2008
Loans and notes receivable from:		
- third parties	2,672	30,925
- related parties	11,479	37,243
Total	**14,151**	**68,168**
Less: allowance for doubtful debts from third parties	(2,300)	(6,673)
Total	**11,851**	**61,495**

The weighted average interest rates on loans and notes receivable from third parties as of December 31, 2009 and 2008 were nil % and 2%, respectively. The weighted average interest rates on loans and notes receivable from related parties as of December 31, 2009 and 2008 were 12% and 11%, respectively.

In the year ended December 31, 2008, the Group recognized an allowance for bad debts relating to loans and notes receivables from third parties in the amount of USD 6,673. In 2009, the Group collected the amount outstanding from a third party, and recognised the recovery in the amount of USD 3,291.

8. TAXES RECEIVABLE

Taxes receivable as of December 31, 2009 and 2008 consisted of the following:

	December 31, 2009	December 31, 2008
VAT receivable	45,275	33,244
Income taxes receivable	10,272	12,253
Other taxes receivable	10,557	16,120
Total	**66,104**	**61,617**

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

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

Costs and estimated earnings in excess of billings on uncompleted contracts as of December 31, 2009 and 2008 consisted of the following:

	December 31, 2009	December 31 2008
Accumulated costs and earnings	214,923	294,551
Less: amounts billed	(136,307)	(97,816)
Less: allowance	(4,306)	(4,408)
Total	**74,310**	**192,327**

As at December 31, 2009, the allowance relating to accumulated costs and earnings in excess of billings amounted to USD 4,306 (2008: USD 4,408). Management has assessed this as the amount to be non-recoverable from the customer.

10. REAL ESTATE INVESTMENTS, NET

Real estate investments, net of accumulated depreciation as of December 31, 2009 and 2008 consisted of the following:

	December 31, 2009	December 31, 2008
Real estate developed for sale	951,484	886,733
Less: impairment	(230,068)	(37,174)
	721,416	**849,559**
Income producing properties		
Buildings and cottages	186,275	260,648
Less: impairment	(65,135)	(4,664)
Less: accumulated depreciation	(8,805)	(17,916)
	112,335	**238,068**
Total	**833,751**	**1,087,627**

The depreciation charge for the years ended December 31, 2009 and 2008 amounted to USD 10,264 and USD 5,678, respectively.

The Group made additional investments in real estate for future development. These investments primarily consisted of the following:

Project	Share	2009 USD	2008 USD
Buildings at Krasnobogatirskaya Str. in Moscow (NIIDAR project)	100%	28,191	-
Detsky Mir store building near Lubyanka Square in Moscow	100%	37,167	-
Land plot (Odintsovsky Region, Soloslovo)	100%	-	74,294
Building at Novodanilovskaya Naberezhnaya in Moscow	100%	-	108,737

In May 2009, the Group acquired from Sistema the Central Detsky Mir toy store building in Moscow, for USD 37,167, Sistema's carrying value for the toy store building.

In June 2009 the Group acquired 100% stake in LLC Ordynka, which owns Buildings at Krasnobogatyrskaya Street in Moscow, for USD 28,191.

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

In the year ended December 31, 2008, the Group recognized an impairment charge relating to its investments in real estate developed for sale and income producing property in the amount of USD 37,174 and USD 4,664, respectively. This impairment was related to the NIIDAR project in the amount of USD 16,706, the Khamovniki project in the amount of USD 6,842, and the Vrubelevskii Spusk project in the amount of USD 4,358. These impairments resulted from the decrease in the market value of such properties as determined by the 2008 independent valuation. These impaired assets are part of the Group's Real Estate Development segment.

As of December 31, 2009, the Group performed an impairment test of its real estate assets. The fair value in the valuation was estimated using level 2 inputs in accordance with the Fair Value Hierarchy. As a result of the test, the Group recognized an impairment loss of USD 241,351 for certain properties. Also the Group recognized an impairment loss related to the Gorki-8 assets of USD 35,381 before transfer of such assets to InvestTorgBank as part of its debt settlement (Note 17), and USD 12,883 related to other assets impaired during the year. The fair value of these assets was determined using the present value of the expected cash flows.

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

Buildings used for administrative purposes, plant and equipment, net of accumulated depreciation, as of December 31, 2009 and 2008 consisted of the following:

	December 31, 2009	December 31, 2008
Buildings used for administrative purposes	3,700	2,797
Plant and equipment	1,395	1,828
Other assets	2,782	4,327
	7,877	8,952
Less: accumulated depreciation		
Buildings used for administrative purposes	(582)	(587)
Plant and equipment	(692)	(724)
Other assets	(1,046)	(603)
	(2,320)	(1,914)
Net carrying value:		
Buildings used for administrative purposes	3,118	2,210
Plant and equipment	703	1,104
Other assets	1,736	3,724
Total	**5,557**	**7,038**

The depreciation charge for the years ended December 31, 2009 and 2008 amounted to USD 1,279 and USD 2,793, respectively.

During the year ended December 31, 2009 there was a disposal of fixed assets with a gross book value of USD 7,740 (2008: USD 1,270) and accumulated depreciation of USD 4,040 (2008: USD 559). The group recognized a gain on disposal of USD 12 (2008: USD 219).

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

12. DEVELOPMENT RIGHTS AND OTHER INTANGIBLE ASSETS, NET

Development rights and other intangible assets, net of accumulated amortization as of December 31, 2009 and 2008 consisted of the following:

	December 31, 2009	December 31, 2008
Development rights – Kuntsevo properties	44,750	46,065
Other intangible assets	1,464	1,512
	46,214	47,577
Less: accumulated amortization:		
Development rights – Kuntsevo properties	(29,967)	(17,805)
Other intangible assets	(437)	(99)
	(30,404)	(17,904)
Net balance value:		
Development rights – Kuntsevo properties	14,783	28,260
Other intangible assets	1,027	1,413
Total	**15,810**	**29,673**

The amortization charge for the years ended December 31, 2009 and 2008 amounted to USD 12,243 and USD 8,473, respectively.

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

Kuntsevo-Invest entered into an investment agreement with CJSC Inteko, pursuant to which Kuntsevo-Invest and CJSC Inteko were jointly (50/50) responsible for the program and its risks and rewards. During the year ended December 31, 2007, CJSC Inteko transferred its risks and rewards for the program to PIK Group.

Under the current program related to these development rights, the Group remains committed to complete construction of 301.5 thousand square meters of residential living space to be sold in the market (“commercial buildings”) and an additional 140.6 thousand square meters of residential living space to be transferred to the Moscow City Government (“municipal buildings”).

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

2010	13,009
2011	2,547
2012	254
Total	**15,810**

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.

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

13. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures as of December 31, 2009 and 2008 consisted of the following:

	Percentage of owenership	December 31, 2009	December 31, 2008
Joint venture with Apsys	50%	40,217	46,880
Joint venture with Saraya Russia	50%	21,463	19,518
Soyuzkomint	50%	-	10,000
Other	50%	606	1,646
Total		**62,286**	**78,044**

In the year ended December 31, 2008 the Group recognized an impairment charge relating to its investment in the joint venture with Apsys and the investment in Soyuzkomint in the amount of USD 4,878 and USD 600, respectively, resulting from an impairment of the underlying projects as per the valuation as of that date. As of December 31, 2009, no additional impairment was recorded.

Although the carrying value of the Group's equity investment in Saraya Russia exceeds its fair value at December 31, 2009 and 2008, the Group has recorded no impairment as it does not represent an other than temporary impairment.

In February 2009, the Group sold its 50% share in LLC Soyuzkomint for the amount of USD 10,000.

The joint venture with Apsys is for development of a retail and entertainment complex, TRK Leto, in Saint-Petersburg. The joint venture with Saraya Russia is for development of a hotel and recreation services complex in Kamelia, Sochi.

The fair value of the Group's share in investments in associates and in joint ventures as of December 31, 2009 and 2008 is estimated as follows:

	December 31, 2009	December 31, 2008
Joint venture with Apsys	40,217	46,880
Joint venture with Saraya Russia	20,630	13,185
Soyuzkomint	-	10,000

The summarized information on assets, liabilities, and results of operations of the investees, is as follows:

	December 31, 2009	December 31, 2008
Assets	289,772	215,300
Liabilities	(206,844)	(171,555)
Loss from operations	(9,369)	(19,742)

The Group's share of the above assets, liabilities and results of operations is 50%.

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

14. PAYABLES TO SUPPLIERS AND SUBCONTRACTORS

Payables to suppliers and subcontractors by project as of December 31, 2009 and 2008 consisted of the following:

	December 31, 2009	December 31, 2008
Nakhimovskiy 4 and Dnepropetrovskaya 25	17,665	27,458
Leningradsky 39	1,014	11,267
Yartcevskaya 27B	228	6,665
Rublevskoe 111	552	3,645
TRK Leto	1,373	3,036
Other third parties	15,803	27,089
Related parties	4,462	369
Total	**41,097**	**79,529**

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

Billings in excess of costs and estimated earnings on uncompleted contracts as of December 31, 2009 and 2008 consisted of the following:

	December 31, 2009	December 31 2008
Amounts billed	128,925	92,372
Less: accumulated costs and earnings	(111,469)	(77,985)
Total	**17,456**	**14,387**

16. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities as of December 31, 2009 and 2008 consisted of the following:

	December 31, 2009	December 31 2008
Accrued interest expense	112,168	19,135
Other accrued expenses and other liabilities to third parties	12,494	9,142
Other liabilities to related parties	7,713	6,610
Advances received for sale of Aviacionny and Lomonosovsky projects	-	17,164
Payable for 50% interest in Soyuzkomint	-	10,755
Provision for termination payments to employees	-	8,653
Advances received for sale and rent of summer houses in the Moscow Region	-	3,218
Total	**132,375**	**74,677**

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

17. LOANS AND NOTES PAYABLE

Loans and notes payable as of December 31, 2009 and 2008 consisted of the following:

	Currency	Maturity	Interest rate (Actual at December 31, 2009)	December 31, 2009	December 31, 2008
Loans and notes payable to related parties					
VTB	RUB	2012	15.0%	646,690	665,704
VTB	USD	2010	MOSPRIME+5.12 %	132,257	136,145
VTB	RUB	2013	9.5%	109,817	-
VTB	RUB	2010	15.0%	25,011	-
VTB	RUB	2010	10.15%	24,695	-
Bonds 1	RUB	2014	15.0%	99,176	-
Bonds 2	RUB	2014	12.0%	66,128	-
Finekskort M	RUB	2009	0.0%	-	106,016
East-West United Bank	RUB	2009	11.5%	-	69,917
East-West United Bank	USD	2011	12.6%	-	70,500
MBRD	RUB	2010	13% and 15%	-	33,358
MBRD	USD	2009	LIBOR+2% and 15%	-	5,106
Elvistorg	RUB	2009	10.5%	-	20,422
MGTS	RUB	2009	11.0%	-	16,688
Other	RUB	Various	Various	5,876	6,194
				1,109,650	**1,130,050**
Loans and notes payable to third parties					
Merrill Lynch International	USD	2011	LIBOR+5.35%	70,000	70,000
Vnesheconombank	USD	2014	9.0%	63,187	56,000
GazPromBank	USD	2011	12.5%	26,000	26,000
Raiffeisenbank	RUB	2010	MOSPRIME+5.5%	20,665	34,036
Alfabank	USD	2009	13.0%	-	76,500
Alfabank	USD	2009	From LIBOR+5.5 % to LIBOR+6.0%	-	13,501
InvestTorgBank	RUB	2011	18.5%	-	19,319
InvestTorgBank	USD	2011	17.0%	-	3,500
Other				12,063	36,098
				191,915	**334,954**
Total				**1,301,565**	**1,465,004**

As at December 31, 2010, the carrying value of the loans and notes payable approximates to the fair value.

The schedule of repayment of debt as at December 31, 2009 is as follows:

Year ended December 31,	
2010	384,179
2011	96,000
2012	646,690
2013	109,817
2014	63,317
2015	1,562
Total	**1,301,565**

VTB Bank

2008
In August and November 2007, the Group signed two agreements with VTB for loan facilities of *USD 500,*000 and USD 200,000, respectively, to provide financing to repay loans from Deutsche Bank AG, Nomura International plc and UBS AG, as well as to finance the Group's investment program and operational activities. The loan facilities are payable in 60 months.

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

- The USD 500,000 and USD 200,000 were converted into rubles borrowings at the rate of the Russian Central Bank as of December 2, 2008 (RUB 27.94 for 1 US dollar).
- The interest rate on the ruble borrowings was set at 15% compared to the previous rate of 6.22% (effective rate was 8.5%) for the USD 500 million loan and LIBOR+5.12% per annum for the USD 200 million loan.
- Covenants on these borrowings were modified to waive all financial covenants (financial ratios and indicators) for FY2008.

This modification was treated as a debt extinguishment and as a result, the Group wrote off the remaining unamortized debt issuance costs associated with this loan of USD 25,428. This was included in interest expense in the consolidated income statement.

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

2009
The two original agreements with VTB for loan facilities of USD 500,000 and USD 200,000 were further modified in 2009. The financial covenants on these borrowings were waived for FY 2009-2010. The future covenants are being negotiated with VTB and will go into effect in FY 2011.

In June 2009, the Group signed new credit agreements with VTB for loan facilities of RUB 800 million and RUB 1,069 million. The facilities mature in 2010 and carry a fixed interest rate of 15%. The loan facilities were obtained to refinance the loan from Alfabank and to finance the Group's operating activities.

In December 2009, modifications to the credit terms under the RUB 1,069 million loan agreement resulted in an increase of the loan facilities to RUB 2,674 million, and a decrease of the interest rate from 15% to 9.5% and amended the maturity date till June 2013.

In October 2009, the Group signed a new USD 46.3 million credit agreement with VTB with the fixed interest rate of 10.15%. The loan facilities were used to finance the Group's Leto shopping mall development project.

For information about pledges under the loan facilities refer to Note 23 “Guarantees and pledges”.

Ruble Bond Public Offering Series 1 and 2

In April 2009 the Group placed its ruble bond public offering series 1 and 2 in the amount of RUB 3 billion (the equivalent of USD 99,176) and RUB 2 billion (USD 66,128) securities with a par value RUB 1,000 each. The bonds mature in 2014. Upon placement, the coupon rates were 15% and 12%, respectively. The proceeds of the bond issue were used for debt restucturing. See Note 27, which describes the extinguishment of the bonds subsequent to year-end.

Finekskort M

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

2009
The promissory notes were redeemed in April 2009 (see Note 18).

East-West United Bank S.A

2008
In December 2008, the Group obtained a loan from East-West United Bank S.A in the amount of USD 70,500 with an interest rate of 12.6% and matures in three years. Also, in December 2008 the Group issued promissory notes to East-West United Bank S.A. in the amount of RUB 2,054 million (USD 69,917 at the exchange rate as of December 31, 2008) with an interest rate of 11.5%, and maturity in December 2009.

2009
The Group fully repaid/redeemed the promissory notes in December 2009.

MBRD

2008
At December 31, 2008, the Group had USD 5,106 outstanding from loans issued in 2007. Additionally, in December 2008, the Group issued promissory notes in the amount of USD 885 million (USD 30,138 at the exchange rate as of December 31, 2008) to MBRD. The promissory notes mature in July 2009 and bear a fixed interest rate of 13%.

2009
In the year ended December 31, 2009 the Group fully repaid/redeemed the loans from MBRD.

Elvistorg

2008
In May 2008, the Group issued promissory notes to Elvistorg. As of December 31, 2008, the amount of RUB 600 million (USD 20,422) was outstanding. The promissory notes were bearing an interest rate of 10.5%.

2009
The promissory notes were repaid/redeemed during 2009.

MGTS

2008
In November 2007, the Group obtained a loan from MGTS in the amount of USD 16,688, repayable on December 31, 2009 with the fixed interest rate of 11%. The facilities were extended for reconstruction of MGTS buildings.

2009
In December 2009, the loan was fully repaid.

Merrill Lynch International

2008
In June and September 2008, the Group obtained USD 57,500 and USD 32,500, respectively, under a loan facility from Merrill Lynch International. The maximum amount of the credit facility is USD 90,000, and was extended for the financing of the acquisition of the building at Novodanilovskaya Naberezhnaya in Moscow. The Group paid USD 1,350 as commission under the credit facility. The Group obtained a bank guarantee from Gazprombank for the credit facility and is obliged to pay USD 4,532 annually for it. The effective interest rate of the credit facility is LIBOR+5.35%.

2009
As of December 31, 2009, the Group had USD 70,000 outstanding under this credit facility. The loan is repayable in 24 months.

Vnesheconombank

2008
In September 2007, the Group acquired Gorki-8, which had a loan agreement with Vnesheconombank in the amount of USD 56,000 extended for the acquisition of 79 cottages with corresponding land plots in the Moscow Region. The interest rate is 9%, and the loan is repayable in July 2014. In accordance with the loan agreement the first interest payment is due in the year 2011, including the accrued interest expense for the period 2007 – 2010.

2009
As of December 31, 2009, the Group had USD 63,187 outstanding under this credit facility.

GazPromBank

2008
In June 2008, the Group signed a loan agreement with GazPromBank for a loan facility of USD 26,000 for the financing of the acquisition of the building at Novodanilovskaya Naberezhnaya in Moscow, and for refinancing of loans from MBRD. The interest rate under the loan facility is 12.5%

2009
As of December 31, 2009, the Group had USD 26,000 outstanding under this credit facility. The loan is repayable in 24 months.

Raiffeisenbank

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

2009
In August 2009, the terms of the loan agreement were modified and the loan agreement was extended. The outstanding loan was repayable in December 2010.

Alfabank

2008
In August 2007, the Group signed a loan agreement with Alfabank for a loan facility of USD 20,000. The floating interest rate varied from LIBOR +5.5% to LIBOR +6.0%. As of December 31, 2008, the outstanding amount under this loan facility was USD 13,501.

In April and February 2008, the Group obtained two tranches in the amounts of USD 35,000 and USD 41,500 under a loan facility from Alfabank. The maximum amount of the loan facility is USD 88,800 and bears a fixed interest rate of 13%. The amount outstanding under this loan facility as of December 31, 2008, was USD 76,500.

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

2009
The Group repaid the three loan facilities during 2009.

InvestTorgBank

2008
In April and in June 2008, the Group obtained several tranches in the total amount of USD 22,819 under a loan facility from InvestTorgBank. The loan facility was obtained for construction of residential apartments in the Soloslovo (Odintsovsky region). The loan facility was repayable within 36 months and bore fixed interest rates of 17% and 18.5%.

2009
According to the agreement with InvestTorgBank settled in October 2009, the Group transferred the title for real estate property with a book value of USD 112,932 pledged under the loan facilities to repay the loan in full. The Group was experiencing cash flow difficulties and the lack of bank financing opportunities required the Group to transfer the assets as debt settlement. The Group recorded a loss on debt extinguishment of USD 54,720, recorded within other expenses in the consolidated income statement.

18. EQUITY

At January 1, 2008, Sistema Hals had 11,217,094 common shares issued and 10,387,029 shares outstanding. In the year ended December 31, 2008, the amount of outstanding common shares decreased by 11,217 shares, as shares were repurchased from a former employee for USD 2,232. The payment was made at market value.

In the year ended December 31, 2009, the Group purchased additional shares from management, resulting in an increase in treasury stock of 11,217 shares.

In December 2009, the Group sold treasury stock of 841,282 shares to Sistema (see Note 1) for the amount of USD 47,266. The difference between the consideration received, which was through the redemption of debt payable to Sistema, and the par value of the shares sold, was accounted for as a reduction to additional paid-in capital of USD 45,660.

The reconciliation of the beginning and closing balances of the number of shares authorized, issued and outstanding for the years ended December 31, 2009 and 2008 is as follows:

	Total shares authorized and issued	Treasury stock	Total shares authorized, issued and outstanding
As of January 1, 2008	**11,217,094**	**(830,065)**	**10,387,029**
Acquisition of treasury stock	-	(11,217)	(11,217)
As of December 31, 2008	**11,217,094**	**(841,282)**	**10,375,812**
Acquisition of treasury stock	-	(11,217)	(11,217)
Sale of treasury stock	-	841,282	841,282
As of December 31, 2009	**11,217,094**	**(11,217)**	**11,205,877**

In September 2009, the Group redeemed long-term and short-term notes with a total face value of approximately USD 120,672 held by Sistema, including those held by Finekskort M (see Note 17). The Group redeemed the notes at an amount lower than the face value, resulting in a gain on redemption of the notes. The Group accounted for the gain on extinguishment as an increase to additional paid-in capital.

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

19. SIEMENS PROJECT

In 2003, the Group entered into a fixed price contract with Siemens to develop an office building in Moscow. Starting in 2006, the Group noted that due to a significant growth in prices of materials, labor and other construction costs, the total cost of the project would exceed the original estimate and exceed the revenue to be earned on the contract. As such in 2007, the Group initiated negotiations with Siemens to reach an agreement that would allow the Group to recover the costs projected to be in excess of the original budget. The negotiations continued through 2008. No agreement was reached due to the worsening economic environment.

At the commencement of the project, Siemens paid an advance of EUR 64 million to the Group, which was guaranteed by Deutsche Bank. In October 2008, Siemens drew on the guarantee, which Sistema subsequently repaid to Deutsche Bank. The Group suspended construction in November 2008. Although the Group was continuing negotiations with Siemens, the Group accounted for its best estimate of the probable contract loss of USD 24,833 as of December 31, 2008 (see Note 20).

In 2009, the agreement with Siemens was terminated and no revenue was recognized in relation to the project. The building related to this project, with an approximate cost of USD 103.3 million, was reclassified from Costs and estimated earnings in excess of billings on uncompleted contracts to Real estate developed for sale in the balance sheet.

20. OPERATING EXPENSES

Operating expenses for the years ended December 31, 2009 and 2008 comprised the following:

	2009	2008
Cost of sales	112,599	209,084
Impairment of long-lived assets	289,615	51,071
Depreciation and amortization	23,786	16,944
Payroll and other employee-related costs	7,467	35,539
Taxes other than income taxes	2,358	2,866
Consulting services	2,069	5,411
Repairs and maintenance	267	3,676
Rent of premises and land	240	1,443
Security expenses	236	647
Banking services	148	4,413
Advertising and marketing	43	1,518
Provision for losses on construction contracts	-	24,833
Provision for payments to the employees	-	9,170
Nostro contract price reduction	-	4,119
Stock-based compensation benefit	(1,419)	(422)
Allowance for doubtful accounts	(3,172)	41,795
Other	10,308	11,093
Total	**444,545**	**423,200**

21. INCOME TAXES

The Group's provision for income taxes related to continuing operations for the years ended December 31, 2009 and 2008 was as follows:

	2009	2008
Current tax benefit/(expense)	2,765	(7,034)
Deferred tax benefit/(expense)	16,203	(1,945)
Income tax benefit/(expense)	**18,968**	**(8,979)**

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

The provision for income taxes reflected in continuing operations is different from that which would be obtained by applying the statutory income tax rate of 20% to income before income tax and noncontrolling interests. The items causing this difference are as follows:

	2009	2008
Income tax loss computed on income before taxes at statutory rate	126,137	90,746
Adjustments due to:		
Stock-based compensation	(78)	(101)
Other non-deductible items	(20,495)	(7,340)
Excess of the amount for financial reporting basis over the tax basis of assets disposed	(37,744)	-
Effect of non-standard income tax rates	(10,762)	5,103
Other non-taxable items	1,095	2,778
Change in valuation allowance for deferred tax asset	(42,885)	(86,068)
Change in unrecognized tax benefits	3,591	(2,844)
Currency exchange and translation differences	109	(5,989)
Effect from change in income tax rate	-	(5,264)
Total	**18,968**	**(8,979)**

Temporary differences between the Russian statutory tax accounts and these financial statements give rise to the following deferred tax assets and liabilities as of December 31, 2009 and 2008.

	December 31, 2009	December 31, 2008
Deferred tax assets		
Provisions	18,220	20,684
Tax losses carried forward	72,501	45,663
Depreciation	3,550	1,042
Other	16,239	12,505
Less: valuation allowance	(86,309)	(66,566)
Total deferred tax assets	**24,201**	**13,328**
Deferred tax liabilities		
Borrowing costs capitalized	(19,348)	(14,479)
Revenue recognition	(8,997)	(10,971)
Development rights	(4,118)	(5,652)
Redemption of debt to Sistema	(24,014)	-
Other	(6,500)	(4,798)
Total deferred tax liabilities	**(62,977)**	**(35,900)**

Effective January 1, 2009, the RF government changed the income tax rate from 24% to 20% which resulted in a USD 5,264 decrease in deferred income tax expense.

Substantially all tax loss carryforwards will expire in 2019 in accordance with statutory tax legislation.

As of December 31, 2009, the Group included accruals for unrecognized income tax benefits totaling USD 3,684 as a component of accrued liabilities (of which approximately USD 804 relates to penalties and USD 124 relates to fines).

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

The Group recognizes accrued interest related to unrecognized tax benefits and penalties in income tax expenses.

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

A reconciliation of the beginning and ending amounts of unrecognized income tax benefits, excluding interest and penalties, for the years ended December 31, 2009 and 2008 is as follows:

	2009	2008
Balance at January 1,	**5,558**	**4,052**
Additions based on tax positions related to the current year	2,365	5,537
Reduction of tax positions of disposed subsidiaries	(3,188)	-
Reductions of tax positions of prior years due to the expiration of statute of limitations	(1,848)	(2,848)
Currency translation effect	(130)	(1,183)
Balance at December 31,	**2,757**	**5,558**

The Group considers it reasonably possible that approximately USD 950 of unrecognized tax benefit (including interest and penalties) will be reversed within the next year, due to the expiration of the statute of limitations.

As of the date of these financial statements, the tax years ended December 31, 2007, 2008 and 2009 remained subject to examination by the Russian tax authorities.

22. RELATED PARTY TRANSACTIONS

In the years ended December 31, 2009 and 2008, the Group entered into the following transactions with VTB (accounted for as a related party starting April 2009) and Sistema Group:

	2009	2008
Revenues from development projects	-	53,967
Services provided	1,733	3,393
Services purchased and other expenses	(3,796)	(14,549)
Interest income	10,991	4,218
Interest costs	(108,476)	(18,517)

Revenues from development projects – In the year ended December 31, 2008, the Group sold a complex of buildings at 8 Marta Street and its 51% share in OJSC “RTI-Estate”, which owns a building at 8 Marta Street (building 10, construction 12) to OJSC “RTI-Radio”, a subsidiary of Sistema, for USD 53,967. On August 21, 2009 the Group signed an amendment to the agreement with RTI Radio cancelling the original sale, and RTI Radio returned the buildings and shares to Sistema-Hals. Due to a decrease in the fair value of the buildings, the Group recognized an impairment loss in 2009 in the amount of USD 6,000.

Agreements to act as a developer – In the years ended December 31, 2009 and 2008, the Group had agreements with Detsky Mir, Sistema Mass Media, MGTS, Pekin and NIIDAR, subsidiaries of Sistema, to act as a developer for projects to redevelop properties owned by these entities. The revenues from such services for the years ended December 31, 2009 and 2008 amounted to USD 228 and USD 1,648, respectively.

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

In the year ended December 31, 2008, the Group incurred costs in relation to guarantees granted by Sistema to third parties amounted to USD 4,071.

Interest income – In the years ended December 31, 2009 and 2008 interest income from a deposit in MBRD amounted to USD 6,968 and USD 2,840, respectively.

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

Interest costs – In the years ended December 31, 2009 and 2008, interest costs of the Group's borrowings included interest paid or payable to the following related parties:

	2009	**2008**
VTB	77,795	-
EWUB	17,764	13,855
Sistema Finance Investmens	4,248	-
MBRD	3,938	1,612
Sistema	2,536	-
MGTS	2,181	2,451
Finekskort-M	-	403
Other	14	196
Total	**108,476**	**18,517**

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 December 31, 2009, common shares of the Group's entities have been pledged as follows:

	Number of shares pledged	**Number of shares pledged as a percentage of total shares**
Lubyanka-Development	22,004,320	100%
Sistema-Temp	4,680,000	100%
Kuntsevo-Invest	5,000	100%
Beiging-Invest	1,350	90%
Telekom-Development	400	50%
EZNCh	100	100%
Promresurs	100	100%
Remstroytrest	100	100%

The Group pledged land plots in the Odintsovsky Region (Soloslovo) with a pledge value of USD 106,557 as security under the credit line from VTB in the amount of USD 238,254 (RUB 7.0 billion). As of December 31, 2009, the credit line used by the Group amounted to USD 151,697.

As of December 31, 2009, the Group has pledged 40 cottages (13,184.9 sq. m) and land plots (10,695 sq. m) in the Moscow Region as security under the loan from Vnesheconombank in the amount of USD 56,000.

The Group has granted guarantees and pledged title to apartments for the credit line obained from MBRD by Ferro-Sroy, the co-developer, in the amount of USD 12,123 under the Nakhimovsky project.

As of December 31, 2009, the Group has pledged 3 buildings on Krasnobogatyrskaya Street as security under the loan from Raiffeisen Bank in the amount of USD 33,300.

The Group has granted guarantees for the credit obtained from Eurohypo by Gals-Invest-Development in the amount of USD 187,500 and pledged an intra-group loan in the amount of USD 51,054. As of December 31, 2009, the credit used by Gals-Invest-Development amounted to USD 44,152.

24. COMMITMENTS AND CONTINGENCIES

Taxation environment

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax (“VAT”), corporate income tax and payroll (social) taxes, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government’s implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia that are more significant than typically found in countries with more developed tax systems. Management believes that the Group is in compliance with the tax laws affecting its operations; however, the risk remains that governmental authorities could take differing positions with regard to interpretative issues.

During the years ended December 31, 2009 and 2008, the Group entered into a number of investing activities in another tax jurisdiction, their tax effect is described as “effect of non-standard income tax rates” in Note 21 “Income taxes”. While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, it is possible that the tax authorities in the Russian Federation could take a differing position with regard to certain interpretive tax issues relating to the aforementioned tax savings. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

Industry regulation

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

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

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

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.

Commitments under construction contracts

The Group has entered into agreements with third parties for construction of objects which will require capital outlays subsequent to December 31, 2009. A summary of significant commitments under construction contracts as of December 31, 2009 is provided below:

Western Kuntsevo properties – The Group hired a contractor to perform general construction works. Commitments under these contracts amounted to USD 59,248 in relation to Elninskaya 28A.

Povarskaya 8 – The Group entered contractual agreements for construction of office premises. Commitments under these contracts amounted to USD 89,812 as of December 31, 2009.

TRK Leto – The Group entered contractual agreements for construction of a retail and entertainment complex in Saint-Petersburg. Commitments under these contracts amounted to USD 69,886 as of December 31, 2009.

Detsky Mir Lubyanka – The Group entered contractual agreements for reconstruction works under the project. Commitments under the contract amounted to USD 251,818 as of December 31, 2009.

Moscow City Government – The Group has a commitment to develop the municipal buildings upon the completion of commercial buildings in the Kuntsevo district (Note 12). However, the Group's commitments will only arise upon the fulfillment by the Government of its obligations to relocate citizens, and for registration of rent agreements on the land for construction. During completion of the project, the Group will recognize its commitment to the Moscow City Government in relation to the municipal buildings, the amount of which is not quantified at year-end as the obligation has not yet arisen.

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.

Environmental regulations

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

25. STOCK-BASED COMPENSATION

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

Within the framework of the Program on June 25, 2007 Sistema-Hals granted ordinary stock bonuses of 403,815 common shares (3.6% of total issued shares) to the Group's top managers, 280,427 shares (2.5% of total issued shares), and directors 123,388 shares (1.1% of total issued shares).

Within the framework of the Program, in July 2007, Sistema-Hals granted stock options of 235,556 shares (2.1% of total issued shares) to certain members of the top management. The options are contingent on the continued employment of the grantees with the Group. According to the terms of the plan, the grantees are entitled to buy options in four installments at a price determined and agreed in advance. The exercise price for these options is USD 201 (calculated as USD 10.05 for 1 GDR, where 1 share represents 20 GDRs). The stock price as of the grant date amounted to USD 236.

The Group recognized the expense for stock-based compensation on a straight-line basis over the vesting period.

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

The following table summarizes information about non-vested common stock options in the years ended December 31, 2009 and 2008:

	Number of shares	Exercise price (per share), USD	Grant date fair value of options (per share), USD
Outstanding as of January 1, 2008	145,820	201	47.43
Forfeited	(112,169)	201	47.43
Outstanding as of December 31, 2008	33,651	201	47.43
Cancelled	(33,651)	201	47.43
Outstanding as of December 31, 2009	**-**	**-**	**-**

The fair value of options granted was estimated using the Black-Scholes pricing model using the following assumptions:

Risk-free rate	4.97%
Expected dividend yield	0%
Expected volatility	26.2%
Expected option life (years)	4 tranches of 1 year each (2007-2010)
Grant date fair value of options (per share)	USD 47.43

The compensation benefit under the stock option plan of USD 422 was recognized in the consolidated statement of operations during the year ended December 31, 2008 (see Note 20).

The stock option plan was cancelled by the Board of Directors as of December 31, 2009. As a result, the Group reversed USD 1,419 of previously recognized compensation expense in the consolidated statement of operations (see Note 20) and recognized a decrease in additional paid-in-capital.

26. RISK MANAGEMENT

Interest rate risk

A portion of the debt used to finance much of the Group's operations is exposed to interest rate fluctuations. The Group does not use any derivatives to manage interest rate risk exposure.
The majority of the Group's financial liabilities are at fixed rates and, accordingly, interest rate risk is limited. Additionally, as of December 31, 2009, the 64% of the Group's outstanding loans are with its parent company, VTB.

Credit risk and exposure

The Group is exposed to counterparty credit risk in the event of non-performance by counterparties to various agreements and sales transactions. The Group manages such risk by evaluating the financial position and creditworthiness of such counterparties. As of December 31, 2009, there were no significant concentrations of credit risk with any individual counterparty or group of counterparties.

Foreign currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. The Group does not use derivatives to manage its foreign currency risk exposure.

Tax risks

The Russian economy, while deemed to be of market status, continues to display certain traits consistent with that of an emerging market. These characteristics have in the past included higher than normal inflation, insufficient liquidity of the capital markets, and the existence of currency controls. The continued success and stability of the Russian economy will be subject to the Russian governments' continued actions with regard to legal and economic reforms.

Russia currently has a number of laws related to various taxes imposed by governmental authorities. Applicable taxes include VAT, corporate income tax, and payroll taxes, together with others. The policies on implementation of these regulations are often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia that are more significant than typically found in countries with more developed tax systems.

Management believes that it has adequately provided for tax liabilities in the Group's consolidated financial statements; however, the risk remains that relevant authorities could take a different position with regard to interpretive issues.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all its liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations. If actual available cash is below the forecasted amount, the Group has guaranteed financing from its parent, VTB.

27. SUBSEQUENT EVENTS

During January and February 2010, the Group agreed with VTB Bank the following changes to the credit terms of the agreements signed with the Bank in 2007 – 2008 as follows:

- Interest rate decreases from 15% to 9.5%; and
- VTB provided the Group with a grace period for outstanding from February - March 2009 interest payments till the loans maturity dates.

In April 2010 the Group signed a credit agreement with VTB Bank for USD 80,000, with a maturity date of July 2010. This loan bears an interest rate of 9.5%. The Group utilized these funds to purchase a 50% share in Ekvivalent for USD 80,000.

In April 2010, the Russian bonds series 1 and 2 were fully redeemed. The redemption was financed by a loan obtained from VTB in 2009 for which credit facilities were extended in April 2010 up to the amount of USD 387,821.

In April 2010 the Group signed an agreement for 50% investment purchase in the Kamelia project.

Sistema-Hals management has evaluated subsequent events through May 5, 2010, the date when its financial statements were issued.