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NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A “QIB”), OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

Confirmation of your representation: In order to be eligible to view this document or make an investment decision with respect to the securities, you must be (1) a person that is outside the United States or (2) a QIB that is acquiring the securities for its own account or for the account of another QIB. By accepting the e-mail and accessing this document, you shall be deemed to have represented to us that you are outside the United States or that you are a QIB and that you consent to delivery of such document by electronic transmission. You are reminded that this document has been delivered to you on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this document to any other person. The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of Sistema-Hals JSC in such jurisdiction. Under no circumstances shall this document constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this document who intend to subscribe for or purchase the securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the document.

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1,850,821 Ordinary Shares

Offering of Ordinary Shares and Global Depositary Receipts

We are Sistema-Hals JSC, or Sistema-Hals, a leading Russian property development company engaged in real estate development, project and construction management, real estate asset management and facility management. We are offering 1,738,650 newly issued ordinary shares of Sistema-Hals with a nominal value of 50 rubles per share, in the form of global depositary receipts, or GDRs, with 20 GDRs representing one share. Investments Pension Company, PromTorgCenter and ALK Sistema-Leasing, collectively, the Selling Shareholders, are offering 112,171 ordinary shares. The GDRs are being offered in the United States to qualified institutional buyers, or QIBs, as defined in, and in reliance on, Rule 144A under the US Securities Act of 1933, or the Securities Act, and outside the United States and the Russian Federation in offshore transactions in reliance on Regulation S under the Securities Act, or Regulation S. The shares are being offered in the Russian Federation, in the United States to QIBs in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S.

We have granted to the underwriters, as named in “Subscription and Sale,” collectively, the Underwriters, an option, or the over-allotment option, exercisable within 30 days after the announcement of the offer price, to purchase up to an additional 168,256 ordinary shares in the form of GDRs at the offer price, solely to cover over-allotments in the offering.

Our existing ordinary shares have been admitted to list “V” on the Moscow Stock Exchange and the Moscow Interbank Currency Exchange, or MICEX, but are not traded. Prior to the offering described herein, there has been no market for the GDRs.

This document upon approval by the UK Financial Services Authority, or the FSA, comprises a prospectus relating to Sistema-Hals prepared in accordance with the Prospectus Rules of the FSA made under section 73A of the Financial Services and Markets Act 2000, or the FSMA. Application has been made (1) to the FSA, in its capacity as competent authority under the FSMA for a listing of 77,341,866 GDRs, consisting of up to 34,773,000 GDRs to be issued on or about November 8, 2006, or the Closing Date, and up to 42,568,866 additional GDRs to be issued from time to time against the deposit of shares (to the extent permitted by law) with The Bank of New York, as depositary, or the Depositary, to be admitted to the official list of the FSA, or the Official List and (2) to the London Stock Exchange plc, or the London Stock Exchange, for such GDRs to be admitted to trading on the London Stock Exchange’s regulated market for listed securities. Conditional trading in the GDRs on the London Stock Exchange is expected to commence on a when and if issued basis on or about November 3, 2006. Admission to the Official List and to trading on the regulated market is expected to take place on or about November 8, 2006. **All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if admission does not take place and will be at the sole risk of the parties concerned.** Application has also been made to have the Rule 144A GDRs designated eligible for The PORTAL Market, or PORTAL of the Nasdaq Stock Market, Inc. Trading in the GDRs on PORTAL is expected to commence on or about November 8, 2006.

Trading in the GDRs on the London Stock Exchange will be subject to cancellation until a report on the results of the issuance of the shares, or the placement report, is registered by the Russian Federal Service for the Financial Markets, or the FSFM, in respect of the newly issued shares of Sistema-Hals we are offering in the form of GDRs. If the placement report is not registered within 60 days after the Closing Date (or such later date that we agree with the Underwriters), the gross proceeds (without interest) of the offering of GDRs will be returned to the holders of the GDRs at or about the time of such cancellation, regardless of the then-prevailing market price of the GDRs, subject to applicable withholding taxes. However, the return of funds may be delayed due to Russian currency control, banking or securities regulations or practices and may be prevented if there is a change in such regulations or practices. The shares being offered by the Selling Shareholders will not be cancelled, and the proceeds of the offering of the shares by the Selling Shareholders will not be returned, in case the placement report is not registered. See “Registration of Placement Report.”

See “Risk Factors” beginning on page 6 to read about factors you should consider before buying the shares and GDRs. The GDRs are of a specialist nature and should only be bought and traded by investors who are particularly knowledgeable in investment matters.

The offering does not constitute an offer to sell, or solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The shares and the GDRs have not been and will not be registered under the Securities Act and may not be offered or sold within the United States, except to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A, or outside the United States to certain persons in offshore transactions in reliance on Regulation S. Prospective purchasers are hereby notified that sellers of the shares and the GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a discussion of certain restrictions on transfers of the shares and the GDRs, see “Description of the Global Depositary Receipts” and “Subscription and Sale.”

Offer price: \$214.00 per share and \$10.70 per GDR

The shares and the GDRs are offered by the Underwriters when, as and if delivered to and accepted by the Underwriters and subject to their right to reject orders in whole or in part. The GDRs will be evidenced by a Master Rule 144A GDR Certificate registered in the name of Cede & Co., as nominee for The Depositary Trust Company, or DTC, and a Master Regulation S GDR Certificate registered in the name of a nominee for The Bank of New York, London office, as common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System, or Euroclear, and Clearstream Banking, société anonyme, or Clearstream. It is expected that delivery of the GDRs will be made against payment therefore in US dollars in same day funds through the facilities of DTC, Euroclear and Clearstream on or about November 8, 2006. See “Settlement and Delivery.”

Joint Global Coordinators

Deutsche UFG

Nomura International

UBS Investment Bank

Co-Lead Managers

Aton Capital Group

Dresdner Kleinwort

Prospectus dated November 3, 2006

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

Each prospective investor, by accepting delivery of this prospectus, agrees to the following. This prospectus is being furnished by Sistema-Hals solely for the purpose of enabling a prospective investor to consider the purchase of the shares and GDRs. Any reproduction or distribution of this prospectus, in whole or in part, any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the shares and GDRs is prohibited, except to the extent that such information is otherwise publicly available.

None of the Underwriters makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this prospectus. This prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of Sistema-Hals, the Selling Shareholders or the Underwriters that any recipient of this prospectus should subscribe for or purchase the shares and GDRs. Each potential subscriber or purchaser of shares and GDRs should determine for itself the relevance of the information contained in this prospectus and its subscription or purchase of shares or GDRs should be based upon such investigation as it deems necessary.

This prospectus, including the financial information included herein, is in compliance with the Prospectus Rules made by the FSA which are compliant with the provisions of Directive 2003/71/EC, or the Prospectus Directive, for the purpose of giving information with regard to Sistema-Hals, the shares and GDRs.

Sistema-Hals accepts responsibility for the information contained in this prospectus, and having taken all reasonable care to ensure that such is the case, the information contained in this prospectus is, to the best of Sistema-Hals' knowledge, in accordance with the facts and contains no omissions likely to affect its import.

In making an investment decision regarding the shares and GDRs, you must rely on your own examination of Sistema-Hals and the terms of the offering, including the merits and risks involved. You should rely only on the information contained in this prospectus. None of Sistema-Hals, the Selling Shareholders or the Underwriters has authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this prospectus is accurate as of its date. Sistema-Hals' business, financial condition, results of operations, prospects and the information set forth in this prospectus may have changed since the date of this prospectus.

Sistema-Hals has included its own estimates, assessments, adjustments and judgments in preparing some market information, which has not been verified by an independent third party. Market information included herein is, therefore, unless otherwise attributed to a third party source, to a certain degree subjective. While Sistema-Hals believes that its own estimates, assessments, adjustments and judgments are reasonable and that the market information prepared by Sistema-Hals approximately reflects the industry and the markets in which it operates, there is no assurance that Sistema-Hals' own estimates, assessments, adjustments and judgments are the most appropriate for making determinations relating to market information or that market information prepared by other sources will not differ materially from the market information included herein.

You should not consider any information in this prospectus to be investment, legal or tax advice. You should consult your own counsel, accountant and other advisers for legal, tax, business, financial and related advice regarding purchasing the shares and GDRs. Sistema-Hals is not, and the Underwriters are not, making any representation to any offeree or purchaser of the shares and GDRs regarding the legality of an investment in the shares and GDRs by such offeree or purchaser under appropriate investment or similar laws.

Deutsche Bank AG, Nomura International plc and UBS Limited are acting exclusively for Sistema-Hals and no one else in connection with the offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the offering.

Sistema-Hals may withdraw the offering at any time, and Sistema-Hals, the Selling Shareholders and the Underwriters reserve the right to reject any offer to purchase the shares and GDRs, in whole or in part, and to sell to any prospective investor less than the full amount of the shares and GDRs

sought by such investor. The Underwriters and certain related entities may acquire a portion of the shares and GDRs for their own accounts.

The distribution of this prospectus and the offer and sale of the shares and GDRs may be restricted by law in certain jurisdictions. You must inform yourself about, and observe any such restrictions. See “Description of the Global Depositary Receipts” and “Subscription and Sale” elsewhere in this prospectus. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the shares and GDRs or possess or distribute this prospectus and must obtain any consent, approval or permission required for your purchase, offer or sale of the shares and GDRs under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. None of Sistema-Hals, the Selling Shareholders or the Underwriters is making an offer to sell the shares and GDRs or a solicitation of an offer to buy any of the shares and GDRs to any person in any jurisdiction except where such an offer or solicitation is permitted.

NOTICE TO CERTAIN INVESTORS

THE SHARES AND GDRS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE US SECURITIES AND EXCHANGE COMMISSION, OR THE SEC, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER US REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE SHARES AND GDRS OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

NOTICE TO UK AND EEA INVESTORS

This prospectus and the offering are only addressed to and directed at persons in member states of the European Economic Area (“EEA”), who are “qualified investors” within the meaning of Article 2(1)(e) of the Prospectus Directive (“Qualified Investors”). In addition, in the United Kingdom, this prospectus is only being distributed to and is only directed at (1) Qualified Investors who are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or high net worth entities falling within Article 49(2)(a)-(d) of the Order or (2) persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”). The shares and the GDRs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, (1) in the United Kingdom, relevant persons and (2) in any member state of the EEA other than the United Kingdom, Qualified Investors. This prospectus and its contents should not be acted upon or relied upon (1) in the United Kingdom, by persons who are not relevant persons or (2) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors.

This prospectus has been prepared on the basis that all offers of shares and GDRs other than the offers contemplated in the prospectus in the United Kingdom, once it has been approved by the competent authority in the United Kingdom and published in accordance with the Prospectus Directive, will be made pursuant to an exemption under the Prospectus Directive, as implemented in the member states of the EEA, from the requirement to produce a prospectus for offers of shares and GDRs. Accordingly any person making or intending to make any offer within the EEA of shares or GDRs should only do so in circumstances in which no obligation arises for Sistema-Hals or any of the Underwriters to produce a prospectus for such offer. None of Sistema-Hals, the Selling Shareholders or the Underwriters has authorized nor do they authorize the making of any offer of shares or GDRs through any financial intermediary, other than offers made by the Underwriters which constitute the final placement of shares and GDRs contemplated in this prospectus.

Each person in a Member State of the EEA which has implemented the Prospectus Directive (each, a Relevant Member State) who receives any communication in respect of, or who acquires any shares or GDRs to whom any offer is made under the offering will be deemed to have represented, acknowledged and agreed that it is a “qualified investor” within the meaning of Article 2(1)(e) of the Prospectus Directive; and in the case of any shares or GDRs acquired by it as a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the shares or GDRs acquired by it in the

offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Joint Global Coordinators has been given to the offer or resale; or where shares or GDRs have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those shares or GDRs to it is not treated under the Prospective Directive as having been made to such persons. Sistema-Hals, the Underwriters and their affiliates, and others will rely (and Sistema-Hals acknowledges that the Underwriters and their affiliates and others will rely) upon the truth and accuracy of the foregoing representations, acknowledgements and agreements. Notwithstanding the above, a person who is not a qualified investor and who has notified the Joint Global Coordinators of such fact in writing may, with the consent of the Joint Global Coordinators, be permitted to subscribe for or purchase shares or GDRs.

The Underwriters may rely on the truth and accuracy of the foregoing representations, acknowledgements and agreements and will not be responsible for any loss occasioned by such reliance.

For the purposes of this provision, the expression an “offer of shares or GDRs to the public” in relation to any shares or GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares or the GDRs to be offered so as to enable an investor to decide to purchase or subscribe the shares or the GDRs, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA 421-B”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO RUSSIAN INVESTORS

The GDRs have not been registered under the law of the Russian Federation “On the Securities Market” dated April 22, 1996, as amended, and are not being offered, sold or delivered directly in the Russian Federation or to any Russian residents except as may be permitted by Russian law.

NOTICE TO CANADIAN INVESTORS

Neither the shares nor the GDRs have been or will be qualified by prospectus for sale to the public in Canada under applicable Canadian securities laws and, accordingly, any offer or sale of the shares or GDRs in Canada will be made pursuant to an exemption from the applicable prospectus filing requirements, and otherwise in compliance with applicable Canadian laws. Investors in Canada should refer to “Subscription and Sale—Selling Restrictions—Canada” and Ontario purchasers in particular should refer to the subsection entitled “Rights of Action for Damages or Rescission (Ontario)” therein.

STABILIZATION

IN CONNECTION WITH THE OFFERING, UBS LIMITED (OR ANY AGENT OR OTHER PERSON ACTING FOR UBS LIMITED), AS STABILIZING MANAGER, MAY OVER-ALLOT OR EFFECT TRANSACTIONS INTENDED TO ENABLE IT TO SATISFY ANY OVER-ALLOCATIONS OR WHICH STABILIZE, MAINTAIN, SUPPORT OR OTHERWISE AFFECT THE MARKET PRICE OF THE GDRS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY COMMENCE ON OR AFTER THE ANNOUNCEMENT OF THE OFFER PRICE AND WILL END NO LATER THAN 30 DAYS THEREAFTER. SUCH TRANSACTIONS MAY BE EFFECTED ON THE LONDON STOCK EXCHANGE AND ANY OTHER SECURITIES MARKET, OVER THE COUNTER MARKET, STOCK EXCHANGE OR OTHERWISE. THERE IS NO ASSURANCE THAT SUCH TRANSACTIONS WILL BE UNDERTAKEN AND, EXCEPT AS REQUIRED BY LAW, UBS LIMITED DOES NOT INTEND TO DISCLOSE THE EXTENT OF ALLOTMENTS AND/OR STABILIZATION TRANSACTIONS UNDER THE OFFERING.

PRESENTATION OF FINANCIAL INFORMATION

The group's financial statements as of and for the three years ended December 31, 2003, 2004 and 2005 and as of and for the six months ended June 30, 2005 and 2006, have been prepared in accordance with US generally accepted accounting principles, or US GAAP, and are presented on a carve-out basis to include the historical operations of the real estate business segment of Sistema Joint Stock Financial Corporation, or Sistema, for such periods. In August 2006, Sistema completed the corporate reorganization of its real estate business segment by consolidating the ownership of the segment's entities under Sistema-Hals, except for Pokrovka 40 LLC, or Pokrovka 40, which remained majority owned by Sistema. Pokrovka 40 was established in April 2006 in order to effect the sale of the office complex we are developing at 40/3 Pokrovka Street, and it has been transferred to the buyer of the office complex. All significant transactions within the real estate business segment of Sistema, and balances and unrealized gains and losses on such transactions have been eliminated in these financial statements.

Our management has determined that the US dollar is the functional currency of the group, as the majority of our revenues, costs, capital expenditures and borrowings are either priced, incurred, payable or otherwise measured in US dollars. As a result, for the years ended December 31, 2003, 2004 and 2005, and the six months ended June 30, 2005 and 2006, the group remeasured its assets, liabilities, income and expense items in US dollars. Monetary assets and liabilities were translated into US dollars at the rate in effect as of the balance sheet date; non-monetary assets, liabilities, income and expense items were translated at the rate prevailing on the date of the transaction. Exchange gains and losses arising from the remeasurement of monetary assets and liabilities not denominated in US dollars were included in gains/(losses) on foreign currency transactions in the statements of operations. The translation of ruble-denominated assets and liabilities into US dollars for the purpose of the financial statements does not indicate that the group could realize or settle in US dollars the reported values of the assets and liabilities.

PRESENTATION OF MARKET VALUES

All real estate market values presented herein are from the report of Cushman & Wakefield Stiles & Riabokobylko, or C&W, an independent appraiser, dated October 2, 2006, a summary of which is included in this prospectus as Annex A and referred to herein as the "Valuation Report." C&W appraised 24 properties which are held as investment and 64 development projects in our pipeline. Our portfolio of properties and our pipeline are generally referred to herein as "properties." The valuations and a discussion of the valuation methodology and other assumptions and methodologies are contained in the Valuation Report. The properties have been valued as of June 30, 2006. Each property has been valued on the basis of "Market Value" in accordance with the Practice Statement contained in the RICS Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors, or the Red Book. In the Red Book, "Market Value" is defined as: "The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion." See "Business—Properties and Development Projects."

CURRENCIES AND EXCHANGE RATES

In this prospectus, references to “US dollars,” “USD” or “\$” are to the currency of the United States, references to “rubles” or “RUR” are to the currency of the Russian Federation and references to “euro,” “EUR” or “€” are to the currency of the member states of the European Union participating in the European Monetary Union.

The following tables show, for the periods indicated, certain information regarding the exchange rate between the ruble and the US dollar, based on the official exchange rate quoted by the Central Bank of Russia. These rates may differ from the actual rates used in the preparation of our financial statements and other financial information appearing in this prospectus.

Years ended December 31,	Rubles per US dollar			Period end
	High	Low	Average ⁽¹⁾	
2001	30.30	28.16	29.22	30.14
2002	31.86	30.14	31.39	31.78
2003	31.89	29.25	30.61	29.45
2004	29.45	27.75	28.73	27.75
2005	29.00	27.46	28.31	28.78

⁽¹⁾ The average of the exchange rates on the last business day of each full month during the relevant period.

Months	Rubles per US dollar	
	High	Low
January 2006	28.48	27.97
February 2006	28.26	28.10
March 2006	28.12	27.66
April 2006	27.77	27.24
May 2006	27.24	26.92
June 2006	27.10	26.71
July 2006	27.06	26.84
August 2006	26.84	26.67
September 2006	26.80	26.64

The exchange rate between the ruble and the US dollar quoted by the Central Bank of Russia on November 2, 2006 was 26.73 rubles per \$1.00. For the convenience of the reader, unless otherwise indicated, we have provided US dollar translations of ruble amounts herein using an exchange rate of 27.08 rubles per \$1.00, which was the official exchange rate quoted by the Central Bank of Russia on June 30, 2006. No representation is made that the ruble or US dollar amounts in this prospectus could have been converted into US dollars or rubles, as the case may be, at any particular rate or at all.

LIMITATION ON ENFORCEMENT OF CIVIL LIABILITIES

Our presence outside the United States and the United Kingdom may limit your legal recourse against us. We are incorporated under the laws of the Russian Federation. Almost all of our directors and executive officers named in this prospectus reside outside the United States and the United Kingdom, principally in the Russian Federation. Almost all of our assets and the assets of our directors and executive officers are located outside the United States and the United Kingdom, principally in the Russian Federation. As a result, you may not be able to effect service of process within the United States or the United Kingdom upon us or our directors and executive officers or to enforce US or UK court judgments obtained against us or our directors and executive officers in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of US securities laws. In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon US or UK securities laws.

Judgments rendered by a court in any jurisdiction outside the Russian Federation are likely to be recognized by courts in the Russian Federation if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country in

which the judgment is rendered, and/or a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgments.

There is no treaty between the United States and the Russian Federation or the United Kingdom and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. These limitations may deprive you of effective legal recourse for claims related to your investment in the GDRs. Under the terms of the Deposit Agreements (as defined in the “Description of the Global Depositary Receipts”), owners of GDRs agree that any dispute, controversy or cause of action against us and/or the Depositary arising out of the GDRs, the Deposit Agreements or any transaction contemplated therein, the shares or other deposited securities will be referred to and resolved by arbitration in accordance with the rules of the LCIA in proceedings in London, England, as more fully described in the Deposit Agreements. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards, but it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including limited experience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favor of foreign investors, Russian courts’ inability to enforce such orders and corruption. The possible need to re-litigate in the Russian Federation a judgment obtained in a foreign court on the merits may also significantly delay the enforcement of such judgment. Under Russian law, certain amounts may be payable by the claimant upon the initiation of any action or proceeding in any Russian court. These amounts in many instances depend on the amount of the relevant claim.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus are not historical facts and are “forward-looking” within the meaning of Section 27A of the Securities Act and Section 21E of the US Securities Exchange Act of 1934, or the Exchange Act. Forward-looking statements appear in various locations, including, without limitation, under the headings “Prospectus Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Industry Overview” and “Business.” We may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. In addition, this prospectus includes forward-looking information that has been extracted from third-party sources. Forward-looking statements include statements concerning our plans, expectations, projections, objectives, targets, goals, strategies, future events, future operating revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, our competitive strengths and weaknesses, our business strategy and the trends we anticipate in the industries and the political and legal environment in which we operate and other information that is not historical information.

Words such as “believe,” “anticipate,” “estimate,” “target,” “potential,” “expect,” “intend,” “predict,” “project,” “could,” “should,” “may,” “will,” “plan,” “aim,” “seek” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

The forward-looking statements contained in this prospectus are largely based on our expectations, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors, some of which are discussed below. Although we believe such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, management’s assumptions about future events may prove to be inaccurate. We caution all readers that the forward-looking statements contained in this prospectus are not guarantees of future performance, and we cannot assure any reader that such statements will be realized or the forward-looking events and circumstances will occur.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, many of which are beyond our control and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under “Risk Factors,” as well as those included elsewhere in this prospectus. You should be aware that a number of important factors

could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- changes in political, social, legal or economic conditions in Russia and the Commonwealth of Independent States, or the CIS, including significant declines in the Russian gross domestic product, or GDP, as well as sudden price declines in the natural resource sector;
- changes in the policies of the government of the Russian Federation, including the President and his administration, the Prime Minister, the government ministers and their offices and the Prosecutor General and his office;
- changes in the policies or leadership of the Moscow City Government;
- defaults under or non-renewal of leases by tenants;
- increased interest rates and operating costs, including the supply of, and the price for, construction materials in Russia and elsewhere in the CIS;
- our ability to service our existing indebtedness;
- our ability to fund our future operations and capital needs through borrowing or otherwise;
- our ability to implement successfully any of our business strategies;
- decreased rental rates or increased vacancy rates;
- changes in customer preferences;
- our ability to identify properties to acquire and successfully complete acquisitions, developments and dispositions;
- competition in the marketplace;
- changes in the regulation of real estate and the environment;
- changes in real property or other tax rates;
- changes in accounting standards or practices;
- inflation, fluctuations in exchange rates and the availability of foreign currencies; and
- our success in identifying other risks relating to our business and managing the risks of the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

AVAILABLE INFORMATION

For so long as any Rule 144A GDRs (as defined in “Description of the Global Depositary Receipts”) or the shares represented thereby, are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to Section 13 or Section 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted Rule 144A GDRs or to any prospective purchaser of such restricted Rule 144A GDRs designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act.

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Sistema-Hals is an open joint stock company under the laws of the Russian Federation. Sistema-Hals was incorporated as a closed joint stock company on January 21, 1994, and converted to an open joint stock company on May 30, 2006. We are registered in the Unified State Register of Legal Entities under principal state registration number 1027739002510. Our registered office is located at 35/4 Bolshaya Tatarskaya Street, Moscow 115184, Russian Federation. Our telephone number is +7 (495) 785-7742. Our Internet address is www.sistema-hals.ru. Information posted on this website and those of our affiliates and subsidiaries does not constitute a part of this prospectus.

Unless the context otherwise requires, references in the prospectus to “we,” “our,” “us” and the “group” refer collectively to Sistema-Hals and its subsidiaries and Pokrovka 40. References in this prospectus to “Moscow” are to the City of Moscow, which is one of the 88 regions of Russia. References to the “Moscow region” are to the Russian region immediately surrounding the City of Moscow, which is also one of the 88 regions of Russia. Unless the context otherwise requires, references to “properties” refer to real properties as well as to development projects where we may not currently have rights to the related real property. Unless the context otherwise requires, references to “shares” refer to the ordinary shares of Sistema-Hals.

Certain amounts that appear in this prospectus have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

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PROSPECTUS SUMMARY

Following the implementation of the relevant provisions of the Prospectus Directive in each member state of the EEA no civil liability will attach to those persons who are responsible for this summary in any such member state solely on the basis of this summary, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this prospectus. Where a claim relating to the information contained in this prospectus is brought before a court in a member state of the EEA, the claimant may, under the national legislation of that member state, be required to bear the costs of translating this prospectus before legal proceedings are initiated.

The following summary information should be read as an introduction to the more detailed information appearing elsewhere in this prospectus, including our financial statements and the accompanying notes beginning on page F-1. Any decision by a prospective investor to invest in the shares or GDRs should be based on consideration of the prospectus as a whole, including the information discussed in "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors," and not solely on this summarized information.

Overview

We are a leading Russian property development company engaged in real estate development, project and construction management, real estate asset management and facility management. Our development efforts are currently focused on Class A and Class B office buildings, shopping centers, mixed-use retail and office complexes, single-family houses, business class residential apartment buildings and land development. Since our establishment in 1994, we have completed more than 30 projects with a total area of over 250,000 sq.m, utilizing funding from internal and external sources. We select our real estate projects through a comprehensive internal approval process with significant decisions and approvals made by a number of committees, including our Board of Directors.

Our revenues are derived principally from the following activities: (1) selling, developing and redeveloping commercial and residential properties, as well as selling rights to land; (2) managing infrastructure and transportation projects; (3) managing and renting our portfolio of real estate properties, completed development projects and other properties held as investments; and (4) providing facility management services. For the year ended December 31, 2005 and the six months ended June 30, 2006, we had revenues of \$93.1 million and \$106.6 million, respectively.

Our portfolio of real estate properties and pipeline of development projects, all of which have been valued by C&W, consist of:

- Five commercial properties in Moscow and the Moscow region, as well as 14 residential settlements in Moscow and the Moscow region containing approximately 1,000 single-family houses. These settlements are owned by our subsidiary Mosdachtrest.
- 64 real estate projects either in the course of development or held for future development, including, among others, Leningradsky Towers, Peking Hotel, Detsky Mir and NIIDAR in Moscow and Hals Mart in St. Petersburg. We expect that these projects will require approximately \$3.0 billion of investments through 2013.
- 102.0 hectares of land in the Moscow region, held by five wholly owned subsidiaries, that we may sell or develop in the future.

In addition, we are considering approximately 40 potential projects, which are at various stages of evaluation and internal approval.

Competitive Strengths

Our main competitive strengths are the following:

- A leading position in the Russian real estate market;
- A diverse pipeline of 64 development projects and large land holdings;
- Strong name recognition, a well-established reputation and long-standing relationships with governmental authorities;
- Established financial history and transparency of business;
- Expertise in real estate development project management;

- Experienced management team; and
- Value-enhancing controlling shareholder.

Strategy

We aim to become the largest real estate developer and a leading real estate asset portfolio manager in Russia and elsewhere in the CIS. We intend to maximize returns on invested capital and further enhance our reputation through selective development of quality projects. To accomplish these goals, we intend to implement the following strategic initiatives:

- Continue to develop and, in some cases, retain for rental income, projects in our pipeline or source new projects;
- Redevelop significant properties within the Sistema group's real estate portfolio;
- Focus on high-growth real estate segments, such as Class A and Class B office buildings, shopping centers, mixed-use retail and office complexes, single-family houses, business class residential apartment buildings and land development;
- Seek out attractive investment opportunities in the Moscow region, other regions of Russia and elsewhere in the CIS; and
- Form alliances with strong financial and strategic partners.

Risk Factors

An investment in the shares and GDRs is subject to risks relating to our business and industry, economic, political, social and legal risks associated with the Russian Federation and risks arising from the nature of the shares and GDRs and the markets upon which they are expected to be traded, including risks associated with the following matters:

- The limited geographical diversification of our projects;
- The complicated procedure of obtaining governmental approvals and permits with respect to development and construction activities in Russia;
- The early stage of development of our key projects;
- The cyclical nature of the real estate market;
- Our dependence on relationships with the Russian and Moscow governmental authorities and contracts with such authorities;
- Our ability to successfully participate in the development of Big City;
- The restrictive covenants contained in our loan agreements, and the loan agreements and indentures of Sistema, our controlling shareholder;
- The ability of Sistema to take actions that may conflict with the interests of holders of our shares and GDRs;
- Real estate book values and appraisals may not accurately reflect the market value of our properties;
- Foreign currency exchange rate fluctuations and Russian currency control laws;
- Our accounting systems and internal controls may be inadequate to ensure timely and accurate financial reporting;
- Potential economic, political or social instability in Russia;
- Weaknesses in the Russian legal system;
- The ability of holders of GDRs to exercise the rights attached to the underlying shares;
- The failure of the offering to result in a liquid or active market for the shares or GDRs and volatility of their price; and
- The inability of investors to deposit shares into the GDR program in order to receive GDRs.

Selected Financial Information

The table below shows certain financial information for the group as of and for the years ended December 31, 2003, 2004 and 2005 and as of and for the six months ended June 30, 2005 and 2006. The financial information for the years ended December 31, 2003, 2004 and 2005 has been derived from our audited financial statements included elsewhere in this prospectus. The unaudited financial information for the six months ended June 30, 2005 and 2006 includes all normal and recurring adjustments, which are, in our opinion, necessary for a fair presentation of our financial position at June 30, 2006 and results of operations for such periods. The results of operations for the six months ended June 30, 2006 are not necessarily indicative of the results for the full year. The selected financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements included elsewhere in this prospectus.

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	(unaudited)				
	(amounts in thousands of US dollars)				
Statement of operations data					
Revenues	\$32,535	\$108,977	\$93,124	\$33,245	\$106,620
Operating expenses	(31,515)	(87,167)	(81,425)	(29,349)	(64,627)
Operating income	1,020	21,810	11,699	3,896	41,993
Other income/(expenses):					
Other income/(expenses), net	2,251	(1,275)	(1,201)	128	268
Interest income	121	552	682	220	846
Interest expense, net of amounts capitalized	(3,829)	(2,214)	(3,988)	(2,307)	(2,600)
Losses on foreign currency transactions	(977)	(1,872)	(193)	(953)	(4,819)
Gain on disposal of an equity investee	—	—	—	—	3,078
Gain on sale of a controlling interest in a subsidiary	—	—	2,781	—	—
(Loss)/income before income tax and minority interests	(1,414)	17,001	9,780	984	38,766
Income tax expense	(154)	(2,018)	(4,517)	(1,942)	(4,748)
Minority interests	(205)	(2,105)	(4,556)	(3,201)	(2,934)
Net (loss)/income	<u>\$ (1,773)</u>	<u>\$ 12,878</u>	<u>\$ 707</u>	<u>\$ (4,159)</u>	<u>\$ 31,084</u>

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	(unaudited)				
	(amounts in thousands of US dollars)				
Statement of cash flow data					
Net cash provided by/(used in) operating activities	\$ 2,920	\$33,905	\$(54,270)	\$(11,524)	\$106,631
Net cash used in investing activities	(20,861)	(69,401)	(17,376)	(20,412)	(35,607)
Net cash provided by/(used in) financing activities	16,041	35,522	75,782	30,689	(58,722)
Statement of assets and liabilities data (end of period)					
Cash and cash equivalents	\$ 6,148	\$ 6,540	\$ 10,362	\$ 5,145	\$ 23,289
Total assets	208,345	255,777	325,035	285,789	417,541
Total debt (long-term and short-term)	138,386	157,374	216,500	172,288	164,590
Total liabilities	218,567	234,482	281,479	251,968	364,960
Net (liabilities)/assets	(13,614)	15,798	29,431	26,369	38,265
Non-US GAAP measures					
OIBDA ⁽¹⁾	\$ 1,705	\$23,366	\$ 14,482	\$ 4,859	\$ 43,707
Adjusted OIBDA ⁽¹⁾	1,705	23,366	17,263	4,859	46,785

⁽¹⁾ OIBDA represents operating income before depreciation and amortization. OIBDA is not a measure of financial performance under US GAAP. You should not consider it an alternative to net income as a measure of operating performance or to net cash provided by operating activities as a measure of liquidity. Our calculation of OIBDA may be different from the calculation used by other companies and therefore comparability may be limited. We believe that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of subsidiaries and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under US GAAP, these expenses primarily represent non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods.

Adjusted OIBDA represents OIBDA plus gain on sale of a controlling interest in a subsidiary and gain on disposal of an equity investee. As part of our internal segment performance review we analyze such realized gains in connection with our development and investment activities related to the projects owned by the group. Therefore, we believe Adjusted OIBDA provides additional useful information to a reader in relation to our core business activities.

Reconciliation of OIBDA and Adjusted OIBDA to operating income is as follows for the periods indicated:

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	(unaudited)				
	(amounts in thousands of US dollars)				
Operating income	\$1,020	\$21,810	\$11,699	\$3,896	41,993
Add: Depreciation and amortization	685	1,556	2,783	963	1,714
OIBDA	1,705	23,366	14,482	4,859	43,707
Gain on sale of controlling interest in a subsidiary	—	—	2,781	—	—
Gain on disposal of an equity investee	—	—	—	—	3,078
Adjusted OIBDA	\$1,705	\$23,366	\$17,263	\$4,859	\$46,785

Securities Offered

We are offering 1,738,650 newly issued shares of Sistema-Hals in the form of GDRs, with 20 GDRs representing one share. The Selling Shareholders are offering 112,171 shares. The GDRs are being offered in the United States to QIBs in reliance on Rule 144A and outside the United States and the Russian Federation to certain persons in offshore transactions in reliance on Regulation S. The shares are being offered in the Russian Federation, in the United States to QIBs in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S.

Registration of Placement Report

Trading in the GDRs on the London Stock Exchange will be subject to cancellation until the placement report is registered by the FSFM in respect of the newly issued shares of Sistema-Hals we

are offering in the form of GDRs. If the placement report is not registered within 60 days after the Closing Date (or such later date that we agree with the Underwriters), the gross proceeds (without interest) of the offering of GDRs will be returned to the holders of the GDRs at or about the time of such cancellation, regardless of the then-prevailing market price of the GDRs, subject to applicable withholding taxes. However, the return of funds may be delayed due to Russian currency control, banking or securities regulations or practices and may be prevented if there is a change in such regulations or practices.

Until the registration of the placement report, all GDRs will be issued on a provisional basis and holders of GDRs will not be entitled to instruct the Depositary to exercise any voting rights on their behalf, and neither the Depositary nor ING Bank (Eurasia), as the Custodian, will exercise any voting rights as a shareholder. Holders of GDRs may not withdraw shares or other property on deposit with the Depositary in respect of the GDRs sold in the offering prior to the registration of the placement report. Such limitation on withdrawal and voting of the shares will not prohibit trading in the GDRs. Also, following the Closing Date, except for the shares issued by us in connection with the over-allotment option, no additional shares will be accepted for deposit and no additional GDRs in respect of such shares will be issued until the placement report is registered.

The shares being offered by the Selling Shareholders will not be cancelled, and the proceeds of the offering of the shares by the Selling Shareholders will not be returned, in case the placement report is not registered.

See “Registration of Placement Report” and “Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—GDR holders will not be able to withdraw the shares underlying the GDRs prior to the registration of a placement report for the newly issued shares, and the failure to register this placement report could result in the newly issued shares underlying the GDRs being cancelled, reliance by GDR holders on us and the Underwriters to return the offering proceeds and a small public float based solely on the shares sold by the Selling Shareholders.”

Use of Proceeds

The net proceeds that we will receive from the offering, after deducting underwriting commissions, fees and expenses incurred in connection with the offering, will be approximately \$356.2 million (assuming the Underwriters do not exercise the over-allotment option). We intend to use approximately 70-80% of the proceeds from the offering for making additional investments into our current development pipeline and 20-30% of the proceeds for acquiring real estate development and facility management companies in Russia and the CIS, as well as for other corporate purposes. We will not receive any of the proceeds from the sale of the shares offered by the Selling Shareholders.

RISK FACTORS

An investment in the shares and GDRs involves a high degree of risk. You should carefully consider the following information about such risks, together with the information contained in this prospectus, before you decide to buy the shares and GDRs. If any of the following risks actually occurs, our business, financial condition or results of operations could be materially adversely affected. In that case, the value of the shares and GDRs could also decline and you could lose all or part of your investment.

We have described the risks and uncertainties that our management believes are material, but these risks and uncertainties may not be the only ones we face. Additional risks and uncertainties, including those we currently are not aware of or deem immaterial, may also result in decreased operating revenues, increased operating expenses or other events that could result in a decline in the value of the shares and GDRs.

Risks Relating to Our Business

We are subject to certain risks inherent in the real estate industry in Russia and the CIS.

Our returns from real estate activities depend, in large part, on the amount of rental income or the sale prices generated by our properties, the expenses incurred in the development and management of our properties and changes in the market value of our properties. The rental or sales income, expenses and market values associated with our properties may be materially adversely affected by a number of factors, including the following:

- international, Russian, regional and local economic conditions;
- general industry trends;
- the cyclical nature of the real estate market;
- changes in interest rates and inflation;
- the unavailability of acceptable financing resources;
- higher than anticipated development and other costs, including the costs of financing development;
- the supply of, and the price for, construction materials in Russia and elsewhere in the CIS;
- the bankruptcy or insolvency of tenants, contractors and other counterparties;
- the periodic need to renovate, repair and re-lease space;
- construction delays and work stoppages caused by harsh climate conditions in the winter;
- the need to provide adequate maintenance and insurance;
- changes in market rental rates and vacancy rates for office, residential and retail properties;
- changes in customer preferences;
- changes in the balance of supply and demand for office, residential or retail properties due to their increased availability, decrease in customers purchasing power or for any other reason;
- the quality and proximity of competition presented by other office, residential or retail properties; and
- perceptions of prospective tenants as to the attractiveness, convenience and safety of the locations where our properties are situated.

As real estate projects are typically completed over prolonged periods of time, our business is especially susceptible to these risks. In particular, projects undertaken at a time of favorable market conditions may result in significant losses if market conditions have deteriorated by the time of completion of the project.

Our projects are subject to significant risks of delays, non-completion and financial loss.

Our projects are at various stages of development. Real estate development, construction and acquisition activities are subject to significant risks of delays, non-completion and financial loss due to:

- changing market conditions, which may result in diminished opportunities to acquire and develop desired properties, higher than expected vacancy rates, lower than expected rental rates and lower than expected sale prices;
- competition from others, which may diminish our opportunities for acquiring a desired property on favorable terms or at all. Even if we enter into agreements for the acquisition of properties, these agreements are subject to customary conditions to closing, including completion of due diligence investigations to our satisfaction;
- budget overruns and completion delays with respect to real estate development projects;
- potential inability to obtain financing on favorable terms or at all for individual projects or in the context of multiple projects being developed at the same time;
- potential inability to identify and participate in development projects with or obtain or renew land lease rights from governmental authorities;
- potential delays or refusals in obtaining all necessary land use, building, occupancy and other required governmental permits and authorizations, including investment contracts with the City of Moscow;
- potential title or other defects in acquired and developed properties, including latent defects that may not reveal themselves until many years after we put a property in service;
- potential liabilities relating to acquired land, properties or entities owning properties for which we may have limited or no recourse;
- obligations for the development of adjacent properties and the relocation of tenants and owners of properties to be demolished and/or redeveloped;
- obligations relating to the preservation and protection of the environment and the historic and cultural heritage of Russia, as well as social obligations;
- restrictions and encumbrances in land leases, as well as provisions governing the assignment or disposal of land lease rights or other provisions affecting property value;
- potential liabilities relating to warranties and guarantees given by us for the quality of construction work performed subsequent to the date on which the project was transferred to the customer, generally for a period of up to two years after the transfer;
- availability of energy and other utilities and adequate transportation infrastructure;
- potential inability to dispose of our investments on acceptable terms or at all;
- changes in laws and governmental regulations and tax laws or the interpretation or application thereof; and
- possible industrial accidents, deterioration of ground conditions (*e.g.*, presence of underground waters), and potential liability under environmental laws (*e.g.*, for soil and site contamination, air contamination and contamination of adjacent areas and the use of hazardous substances, etc.) and other laws.

The occurrence of one or more of these factors could materially adversely affect our business, financial condition and results of operations. For example, in September 2006, underground water and subsoil penetrated an underground wall built to secure the foundation pit at the Leningradsky Towers construction site causing significant damage to the nearby highway. We cannot assure you that incidents similar to, or more severe than, this one will not happen in the future, which could result in negative publicity or potential liability to us. Construction and development activities are time consuming, require significant financial investments, and involve establishing and maintaining important business relationships with various parties, including suppliers, subcontractors, utility service providers, potential tenants and purchasers. In addition, we are dependent on a limited number of general contractors and subcontractors operating in our market.

A large majority of our current real estate properties and projects in our pipeline are heavily concentrated in Moscow and the Moscow region, providing us with limited geographical and portfolio diversification.

A large majority of our real estate properties and projects are located in Moscow and the Moscow region. As a result of this geographic concentration, any change in the Russian political or regulatory environment, including at the level of the Moscow City Government, decline in economic activity or weakness in the local real estate market could materially adversely affect our business, financial condition or results of operations. Furthermore, we cannot assure you that we will have the opportunity to diversify significantly our real estate portfolio to include properties and projects in other regions of Russia and elsewhere in the CIS or, even if we do, that we will be able to benefit from such opportunities in a manner similar to our current and past projects.

Our inability to successfully manage our growth could have a material adverse effect on our business, financial condition and results of operations.

We intend to expand our operations and develop more than 60 projects simultaneously in a relatively short period of time. We expect that the operational complexity of our business, as well as the responsibilities of management, will increase as a result of this growth, placing significant strain on our management and other key personnel. We will need to continue to improve our operational and managerial controls and procedures to keep pace with our expected growth, and we also have to maintain close coordination among the employees in each of our four operating divisions, as well as accounting, finance and marketing personnel. Otherwise, our inability to successfully manage our growth could have a material adverse effect on our business, financial condition and results of operations.

The development of our properties is subject to a number of permits and administrative approvals and to compliance with existing laws and regulations, and the failure to comply with these requirements, the terms and conditions of our licenses and permits or the findings of governmental agencies or increased governmental regulation of our operations could materially adversely affect our business, financial condition and results of operations.

Our operations and properties are subject to regulation by various governmental entities and agencies in connection with obtaining and renewing various licenses, permits, approvals and authorizations, as well as with ongoing compliance with existing laws, regulations and standards. The planning and approval process in most parts of the Russian Federation and CIS is bureaucratic and involves uncertainty. A number of preliminary planning and architectural design approvals, as well as land lease rights, are necessary in order to receive permission to use a land plot. For any project being developed in Moscow, the architectural design must be approved by several administrative bodies within the Moscow City Government. In addition, each project must receive administrative approvals from various governmental agencies, including the fire, health and safety, environmental protection and sanitary departments, as well as technical approvals from various utility providers, including electricity, gas and sewage services. These requirements may hinder, delay or significantly increase the costs of our development activities.

The construction or renovation of buildings is carried out pursuant to specifications, including building area measurements, approved by certain compliance bodies within the government and, ultimately, upon the issuance of a construction permit issued by the regional or local authorities. In some cases, we may need to have the construction permit amended to reflect changes to the scope and nature of the project. For example, in the case of Leningradsky Towers, we are in the process of securing construction permits and approvals for the second tower or, alternatively, amending the original construction permit for the first tower in order to reflect the changes to the scope and nature of the project. Should any of the projects we are developing fail to conform to the project documentation, commence without a construction permit or otherwise fail to comply with regulatory requirements, we may be subject to fines and penalties, as well as to the cancellation of the project by government officials or even the demolition of the building already constructed. We have commenced construction on a number of single-family houses in the Trudovaya settlement, which is being developed by our subsidiary Mosdachrest, without obtaining the necessary construction permits; however, our management is in the process of resolving this issue, and we do not expect our non-compliance in this regard to materially adversely affect our business, financial condition or results of operations. Nonetheless, we cannot assure you that the relevant authorities will not take action against us for non-compliance with applicable laws, regulations and requirements in the future.

Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licenses, permits, approvals and authorizations and in monitoring licensees' compliance with the terms thereof. Russian authorities have the right to, and frequently do, conduct inspections of our operations and properties. Any such future inspections may determine that we or our subsidiaries have violated laws, decrees or regulations, and we may be unable to refute such determination or remedy the violations. Our failure to comply with existing laws and regulations, the terms and conditions of our licenses and permits, or the findings of governmental inspections may result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of our licenses, permits, approvals and authorizations, or in requirements that we cease certain of our business activities, or in criminal and administrative penalties applicable to our officers. Any such decisions, requirements or sanctions, or any increase in governmental regulation of our operations, could increase our costs and materially adversely affect our business, financial condition and results of operations.

Most of our projects are in early stages of development and we cannot guarantee their successful completion. In addition, we have included in our business plan and in the Valuation Report certain projects that are subject to formal agreements, which have not yet been entered into. Our failure to enter into such agreements or to complete our projects could have a material adverse effect on our business, financial condition and results of operations.

Most of our projects are in early stages of development. As of the date of this prospectus, we have not commenced construction on certain of our projects, including Detsky Mir in Moscow, Peking Hotel, NIIDAR, Hals Mart and Hals-Park, which represent 41.9% of the total market value (attributable to us) of our pipeline, according to C&W.

In addition, in the case of certain projects, such as our MGTS program, which represents 13% of the total market value (attributable to us) of our pipeline according to C&W, we have reached commercial understandings with our counterparties, but have yet to enter into the legally binding contracts necessary to complete the development of such projects. Although we believe that MGTS will select us as the developer, we cannot assure you that this will occur. In addition, we cannot assure you that the terms of any such agreements will reflect the economic share assumed in our business plans or in the Valuation Report. See "Business—Properties and Development Projects—Description of Our Key Projects—MGTS Program."

Furthermore, we cannot assure you that we will be able to receive all required permits and approvals necessary to commence and complete the construction of our projects. In addition, we cannot guarantee you that we will be able to complete such projects in accordance with the initially planned timetable and other parameters, including the terms and conditions of the permits and approvals we received, the contracts we entered into and the total and net areas of buildings set out in those contracts. Our failure to comply with certain material encumbrances and restrictions with respect to our key projects and fulfill investment terms thereunder may result in our inability to complete such projects. For instance, in order to develop our Leningradsky Towers project, we are required to transfer more than 17,000 sq.m of residential apartments and to build a sports complex, military barracks and an underground parking facility for the benefit of the Russian Ministry of Defense. In addition, the Detsky Mir building was recently included in the regional register of historical and cultural monuments, which precluded us from implementing our initial design involving altering certain architectural components of the building. Also, the development of our NIIDAR project is subject to our obligation to relocate a research institute from Moscow to Saransk and to purchase buildings located on adjacent land plots from third parties. The Peking Hotel project also requires the relocation of a tenant to a building within close proximity to the project. See "Business—Properties and Development Projects—Description of Our Key Projects."

Moreover, the development of Hals-Park is currently suspended due to ongoing litigation. See "Business—Litigation."

Any unpredictable actions of governmental and local authorities resulting in changes in urban planning, zoning and architectural requirements, as well as other unforeseeable circumstances, resulting in the imposition of requirements to preserve buildings or other structures of Russian historic and cultural heritage, could significantly delay or hinder the completion of our key projects.

Our key projects represent a significant portion and value of our pipeline and our inability to complete all or any of them due to the factors set forth above could have a material adverse effect on

our business, financial condition and results of operations, as well as on the price of the shares and GDRs.

Several of our subsidiaries are involved in construction projects for Russian federal, regional and local governments and are subject to risks typical for such activities in Russia.

The success and sustainability of our involvement in construction projects for Russian federal, regional and local governments through our subsidiaries Organizator and PSO Sistema-Hals depends on establishing and maintaining relationships with various governmental authorities, as well as completing projects according to specifications and meeting agreed budgeted costs. Each procurement contract is subject to our winning a competitive tender, the terms and conditions of which are typically complicated and demanding in terms of cost constraints, timing and complexity of the work involved. Furthermore, in the event that government representatives become dissatisfied with our efforts, seek to reduce costs further or choose to diversify third-party providers of such construction works or decide to discontinue our existing relationships for any reason, we risk losing a substantial portion of our revenues. Although we have successfully completed several infrastructure and transportation construction projects in the past, we cannot assure you that we will be able to maintain our relationships with governmental authorities in the future and secure a continuous flow of new projects. The failure to procure new construction projects or maintain our existing relationships with governmental authorities could materially adversely affect our business, financial condition and results of operations.

We engage in real estate asset management activities and are subject to risks typical for such activities in Russia.

Pursuant to our strategy of actively seeking investment opportunities in Russia and elsewhere in the CIS, we may choose to retain certain of the properties developed by us or, alternatively, acquire completed, income-producing properties from third parties. Acquisitions involve a number of risks with respect to assessing the values, strengths, weaknesses and profitability of properties, as well as the potential improvements needed to increase financial returns. Such properties may fail to perform as expected or, alternatively, we may underestimate the costs associated with maintaining and improving such properties. Consequently, in either of these circumstances, our business, financial condition and results of operations could be materially adversely affected.

We provide real estate facility management services and are subject to risks typical for such activities in Russia.

We provide facility management services to companies within the Sistema group. Such services include security, cleaning, staffing, technical support, repair and renovation, as well as general building maintenance. These activities expose us to potential liability for misconduct, human and/or technical mistakes or damages sustained by third parties.

The Russian and CIS real estate markets are cyclical in nature and, in the event of an economic downturn, our results of operations, financial condition and the value of our properties could be materially adversely affected.

The Russian commercial real estate market struggled in the late 1990s primarily as a result of the Russian financial crisis of 1998. Since 2001, however, the demand for commercial and residential real estate has grown significantly. We cannot assure you that the recent performance of the real estate market in Russia will continue in the future. In the event of a recession or economic downturn that affects the profitability of businesses and employment levels in Russia and the CIS, the demand for properties, and particularly office space, retail space in shopping centers and residential properties, could be directly and adversely affected. In such circumstances, the value of our properties may decrease and the number of tenant vacancies may increase, which could adversely affect the value and marketability of our properties. Consequently, a recession or an economic downturn in the markets where we operate could materially adversely affect our business, financial condition and results of operations.

The Russian and CIS real estate markets are still developing.

The real estate markets in Russia and the CIS, including Moscow and the Moscow region, are characterized by a relatively low volume of sale transactions. Real estate investments often cannot be

sold quickly, and we may be unable to dispose of our real estate assets in a timely fashion or at commercially reasonable prices. These factors could impact our ability to generate revenues and cash flows through the sale of our real estate properties or, alternatively, to diversify our portfolio of properties promptly in response to changes in economic and other conditions.

Fluctuations in our financial results from period to period may prevent steady earnings growth, or affect our ability to raise capital and plan our budget or business activities.

We have in the past experienced and may continue to experience significant variations in revenues and profits from period to period. These variations can generally be attributed to the fact that, at times, our revenues and profits are earned upon the completion of a project. Due to our historical dependence on a relatively small number of large projects for most of our revenues and profits, we have experienced greater period-to-period variations in our revenues and profits as compared to other companies in the real estate industry. Our earnings can be adversely affected if any particular project is not completed. As a result, it may be difficult for us to report steady earnings growth, raise capital and plan our budget and business activities on a period-to-period basis, which could materially adversely affect our business, financial condition and results of operations and the price of our shares and GDRs.

We may not be able to successfully participate in the development of Big City, one of the largest potential development projects in Moscow.

Big City is one of Moscow's largest potential development projects. We were retained by the Moscow City Government to prepare a master plan for Big City, which proposed zoning of a tract of land located in the Moscow city limits into residential, commercial, public and industrial/utility zones. Currently, we do not have any development projects in Big City. As Big City progresses, we cannot assure you that we will play a significant or any role in its development or have any influence over decisions regarding its development. Nor have we entered into any agreements with the Moscow City Government that give us any rights to develop Big City. In addition, certain valuations have been provided with respect to Big City in the past, which we believe are not indicative of the actual values or future cash flows from the project and you should not rely on them. See also "—The real estate appraisals with respect to the properties and projects included in this prospectus may not reflect their actual market values" and "Business—Properties and Development Projects—Description of Our Key Projects—Big City."

If we are unable to obtain adequate capital, we may have to limit our operations substantially, which could have a material adverse effect on our business, financial condition and results of operations.

Our cash outlays with respect to our real estate development projects, including those where we act as general contractor, for the year ended December 31, 2005 and the six months ended June 30, 2006 were \$94.8 million and \$71.4 million, respectively. We expect that we will invest approximately \$300 million for the year ended December 31, 2006. In addition, we anticipate that approximately \$400 million to \$600 million will be invested in our real estate projects for 2007. These estimates are predictions and are subject to change. We may not be able to meet our planned investment needs in the event of the following potential developments:

- temporary unavailability or a lack of external financing sources;
- changes in the terms of existing financing arrangements;
- pursuit of new business opportunities or investment in existing businesses that require significant investment;
- regulatory developments; or
- a deterioration in the Russian economy.

To meet our financing requirements, we may need to attract additional equity or debt financing. Russian companies are limited in their ability to issue shares in the form of GDRs or other depositary receipts due to Russian securities regulations, which generally provide that no more than 35% of a Russian company's shares may be circulated abroad through depositary receipt programs. We have received permission from the FSFM for up to 25% of our shares to be circulated abroad through depositary receipt programs. We expect that our GDR program will account for approximately 15.74% of our issued shares as a result of the offering (assuming the Underwriters do not exercise the over-allotment option) and the Concurrent Private Offering. As a result, we are likely to be limited in

our ability to raise additional equity financing through GDRs. The Russian government or its agencies may also impose other restrictions on international securities offerings by Russian issuers. Any of the foregoing factors may limit the amount of capital available to meet our requirements. If we cannot obtain adequate funds to satisfy our requirements, we may need to limit our operations significantly, which could have a material adverse effect on our business, financial condition and results of operations.

From time to time, we may merge certain subsidiaries for operational reasons. Under Russian law, such mergers would be considered a reorganization and the merged subsidiaries would be required to notify their creditors of this reorganization. Russian law also provides that, for a period of 30 days after notice, these creditors would have a right to accelerate the merged subsidiaries' indebtedness and demand reimbursement for applicable losses. In the event that we decide to undertake any such merger and all or part of certain of our subsidiaries' indebtedness is accelerated, we and such subsidiaries may not have the ability to raise the funds necessary for repayment and our business, financial condition or results of operations could be materially adversely affected.

Historically, a substantial majority of our borrowings have been from, or have been guaranteed by, Sistema and its subsidiaries, including Moscow Bank for Reconstruction and Development (MBRD). Our short-term financing needs have also been met by borrowings from the Sistema group. Since June 30, 2006, our net debt position has increased by approximately \$239.3 million. In particular, \$340 million of such new debt was guaranteed by Sistema. We cannot assure you that Sistema will continue to support our financing requirements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Resources."

Servicing and refinancing of our indebtedness will require a significant amount of cash. Our ability to generate cash or obtain financing depends on many factors beyond our control.

As of June 30, 2006, our total debt, consisting of loans and notes payable, was approximately \$164.6 million. Our ability to service, repay and refinance our indebtedness and to fund planned investments will depend on our ability to generate cash in the future. If we are unable to generate sufficient cash flow or access international capital markets or incur additional indebtedness, we may take certain actions, including delaying or reducing real estate investments, restructuring or refinancing our indebtedness, selling our investment properties or other assets or seeking additional equity capital. We may be unable to take any of these actions on acceptable terms or in a timely manner. Furthermore, such actions may not be sufficient to allow us to service our debt obligations in full and, in any event, may have a material adverse effect on our business. Alternatively, we may default under the terms of our indebtedness, and the holders of our indebtedness would be able to accelerate the maturity of such indebtedness, which could cause defaults under, and potential acceleration of, our other indebtedness. Furthermore, our inability to service our debt through internally-generated cash flows or other sources of liquidity may put us in default of our obligations to our creditors, which could result in the loss of your entire investment in our shares and GDRs.

Moreover, increased levels of indebtedness, and particularly increases in the level of secured indebtedness, could potentially limit our ability to obtain additional financing, limit our flexibility in reacting to changes in the markets in which we compete, place us at a competitive disadvantage relative to our competitors with superior financial resources, lead to a partial or complete loss of control over our key subsidiaries or properties, render us more vulnerable to general adverse economic and industry conditions, require us to dedicate all or a substantial part of our cash flow to service our debt, and limit or eliminate our ability to pay dividends.

Our controlling shareholder has the ability to take actions that may conflict with the interests of other holders of our shares and GDRs.

We are controlled by Sistema, which prior to the offering owns, or controls, directly or indirectly all of our issued shares, and will own directly and indirectly a majority of our issued shares following the offering. Unless otherwise required by law, resolutions at a shareholders' meeting will be adopted by a simple majority in a meeting at which shareholders holding more than half of the issued share capital are present or represented. Accordingly, Sistema will have the power to control the outcome of most matters to be decided by vote at a shareholders' meeting and, as long as it holds, directly or indirectly, the majority of our shares, will control appointment of the majority of directors and removal of directors. Sistema will also be able to control or significantly influence the outcome of any vote on, among other things, any proposed amendment to our charter, reorganization proposal, proposed substantial sale of assets or other major corporate transactions.

In February 2006, Sistema, Renova and Goldman Sachs announced the establishment of a real estate fund that was expected to have initial capital of \$300 million. The fund was expected to focus on retail, office and residential assets and developments in Moscow. Sistema has informed us that the fund has not yet commenced operations. Sistema and its partners may invest in real estate opportunities in our markets through this fund and other ventures in the future, and we cannot provide any assurances that Sistema would present these investment opportunities to us in the first instance. Although we believe that Sistema's interests would be aligned with those of our minority shareholders in having Sistema-Hals exclusively deal with the Sistema group's real estate activities in Russia and the CIS, there may be situations, including better access to financing, the minority nature of interest in the project and counterparty, as well as timing considerations, that may result in Sistema allocating future development opportunities outside of our group. Sistema may in the future own subsidiaries or affiliates which are competitors to us in the activities in which we are engaged.

Actions by Sistema, especially relating to future projects, could result in a material adverse effect on our business, financial condition and results of operations and the value of the shares and GDRs.

Any deterioration of our relationships with governmental authorities may have a negative effect on our business.

Historically, the Russian government retained all title to land in the Russian Federation and, in most regions, including the City of Moscow and the Moscow region, local governments still maintain significant influence over the privatization and leasing of land. In particular, until recently, the Moscow City Government generally did not transfer title to land to non-state entities and, instead, offered lease arrangements for real estate developments, thus retaining a key long-term role in the local Moscow real estate market. Decisions on the allocation of land plots for development and on the issuance of permits and approvals necessary for construction remain subject to the broad discretion of governmental authorities and, therefore, our business depends on maintaining positive working relationships with such authorities.

Although we believe that we have constructive working relationships with the Russian federal, regional and local governmental authorities, including the Moscow City Government, our business, financial condition and results of operations could be materially adversely affected if these relationships substantially deteriorated or ceased to exist altogether in the future.

In addition, the Moscow City Government holds a 33.8% interest in Mosdachtrest and three of the ten members of Mosdachtrest's board of directors are Moscow City Government officials. As a result of its share ownership and board representation, the Moscow City Government has the ability to influence certain decisions, including the approval of interested party transactions, which could limit Mosdachtrest's operational flexibility. The Moscow City Government requires our subsidiary Mosdachtrest to make numerous single-family houses available to pensioners and others entitled to social benefits, at significant discounts to market rates. Furthermore, certain residents of our Mosdachtrest settlements hold life, long-term and social leases, which could prevent or delay us from developing or redeveloping such settlements. Even if granted the right to develop or redevelop these properties, we would be required to transfer these residents to housing of a similar quality, which could be costly.

Our failure to maintain a working relationship with authorities from the Moscow City Government could have a material adverse effect on our business, financial condition and results of operations.

Successful challenges to our ownership interests or lease rights in land, our failure to enter into land lease agreements or renew our land lease rights as they expire or delays or cancellation of our construction projects could have a material adverse effect on our business, financial condition and results of operations.

Our business includes the acquisition of ownership or lease interests in land plots and buildings in Moscow, the Moscow region and other parts of Russia and elsewhere in the CIS with a view to further development or redevelopment. Russian legislation related to real estate is complicated and often ambiguous and/or contradictory at the federal and regional levels. In particular, it is not always perfectly 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, our ownership of and/or lease rights to land and buildings may be challenged by governmental authorities or third parties, and our construction projects may be delayed or cancelled.

Similarly, our business may be harmed if we are unable to renew our land leases on commercially acceptable terms or at all. If we are unable to renew our land leases as they expire, or if our existing leases are terminated for any reason, or if their terms are revised to our detriment, such events could have a material adverse effect on our business, financial condition and results of operations.

Under Russian law, transactions involving real estate may be challenged on many grounds, including where the seller or assignor of rights to real estate did not have the right to dispose of such real estate, breach of internal corporate approval requirements by a counterparty and failure to register the transfer of title in the unified state register. As a result, defects in any of our previous real estate transactions may lead to the invalidation of such transactions, which may affect our title or lease rights to such real estate. Further, under Russian law, certain encumbrances over real estate (including leases of less than one year, free of charge use agreements, easements, rights of way and other similar statutory encumbrances) do not need to be registered in the unified state register in order to validly encumber the property. In addition, the law contains no time limits within which any registerable encumbrances have to be registered. There is, therefore, a risk that third parties may successfully register or claim existence of encumbrances (of which we had no prior knowledge) over real estate owned or leased by us at any point in time.

The real estate appraisals with respect to the properties and projects included in this prospectus may not reflect their actual market values.

Cushman & Wakefield Stiles & Riabokobylko, an independent real estate appraiser, has valued certain of our real estate properties and projects. Details of the valuation methodologies and the assumptions used by C&W are described in its Valuation Report. See also “Business—Properties and Development Projects” for a summary description of these matters.

A number of factors could result in the values ascribed to these properties and projects by C&W to be lower than their actual market values. The valuations are effective as of June 30, 2006, and we cannot assure you that these figures accurately reflect the market value of our properties as at any other date. In addition, the values ascribed by C&W should not be taken as an indication of the amounts that could be obtained by us upon disposal of such properties, whether in the context of the sale of individual properties or the portfolio as a whole. The Valuation Report also does not consider any effect of multiple properties being developed concurrently or released to the market together.

In addition, the use of different valuation methodologies and assumptions would likely produce different valuation results. In particular, C&W has valued each property based upon its opinion as to the expected highest and best use of the property by a third party. Accordingly, the valuations are not based in all instances on our planned use of these properties. In addition, commencement dates and development periods have been determined by C&W based on the properties’ particular circumstances, which commencement dates for some properties are earlier than our planned commencement dates. Also, C&W has assessed construction costs in accordance with standard rates in the market that a third party developer/purchaser would expect to pay in the course of development of each project, which are generally lower than our budgeted construction costs. The valuations make no provisions for costs of any debt financing, while we assume that certain level of indebtedness will be incurred.

Moreover, there are severe difficulties in applying the sales comparison approach and the income approach, two valuation methodologies used in the valuation of our properties. A lack of transparency and a relatively low volume of recorded deals makes it difficult to assess market values. These factors and the wide variation in returns required in Russia on projects from different investors also makes it difficult to correctly assess market derived discount rates. Deal information, even if reported, is rarely reported accurately and is often manipulated for other reasons benefiting the parties to the deal.

We cannot guarantee you that the size of our economic interest in various projects and properties assumed by C&W for the purposes of the Valuation Report will conform to the actual economic interest acquired or maintained by us in such projects and properties or documented in related formal contractual documentation.

We urge you to read the Valuation Report in its entirety. For the reasons stated above and in the Valuation Report, we cannot assure you that the real estate appraisals included in this prospectus reflect the properties’ actual market values or that such values will not decline over time.

We may not be able to achieve our production plan.

We have made certain forward-looking statements in this prospectus relating to our planned completion of the development projects in our pipeline. The production plan may not be achieved due to a number of factors, including the risks described in this prospectus. In particular, our plans for 2008 and beyond are especially susceptible to uncertainty and change, as compared to our plans for 2006 and 2007. Furthermore, the periods in which we complete our projects may not coincide with the actual recognition of revenues related to the projects in our financial statements. See “Business—Properties and Development Projects—Production Plan.”

Our business strategy contemplates further geographical expansion of our business, and our future growth and prospects depend on the successful execution of this strategy.

Our strategy contemplates the selective geographical expansion of our business in Russia, in areas outside of Moscow, as well as elsewhere in the CIS. As with Russia, CIS countries are considered emerging markets subject to greater political, economic, social and legal risks than more developed markets. In many respects, the risks inherent in transacting business in these countries are similar to, and sometimes greater than, those in Russia, especially those risks set out below in “Risks Relating to the Russian Federation and the CIS.”

Moreover, these countries, which are located, in many instances, a great distance from our Russian operations and across multiple international borders, represent new operating environments for us. We thus expect to have less control over their activities. In addition, we may face more uncertainties with respect to the operational and financial needs of these businesses. These factors may materially adversely affect the profitability of our current and future operations in these countries.

We compete with real estate companies and developers for properties, development projects, tenants, contractors and customers.

We compete with a number of real estate companies and developers for properties, development projects, tenants, contractors and customers. In addition, Sistema may in the future own subsidiaries or affiliates which are competitors to us in the activities in which we are engaged. Such competition may affect our ability to sell or acquire real properties, attract and retain tenants and increase the rents we are able to charge. Our projects upon completion will compete with an increasing supply of similar properties in prime locations in order to attract purchasers, or attract and retain tenants. Furthermore, our competitors may have greater financial resources and a more experienced management team than we do. We are constantly reviewing a number of specific targets for acquisition, but we do not expect to compete for or successfully complete all acquisition opportunities we evaluate. No assurance can be given that we will be able to compete successfully in the future and, as a result, our business, financial condition and results of operations may be materially adversely affected.

Our rental revenues will depend upon the financial stability and reliability of our tenants.

Most of our rental revenues are derived from the lease of single-family houses in the Mosdachtrest settlements. The financial stability and reliability of our tenants may affect the financial performance of these properties. Tenant defaults could result in a significant reduction in rental revenues. In addition, if tenants do not renew their leases, we may need to expend significant time and resources to attract replacement tenants. In addition, we may incur additional costs to renovate or remodel the houses in connection with any renewal or re-letting. As a result, our operating cash flow would be reduced.

We may develop or purchase properties through joint ventures or other similar arrangements whereby we may not have full control over such purchased properties.

Although we have formed joint ventures in the past in which we have had less than 50% equity ownership, we currently enter into new joint ventures and co-ownership arrangements with other parties only on the condition that we will own at least 50% of the equity in, and will exercise control over the management of, each such venture. However, we cannot guarantee that this will not change and, in the future, we may choose, for commercial reasons or otherwise, to enter into business relationships whereby we may not have full control over such projects. In such situations, our partners or co-owners may have different business objectives from us, which could materially adversely impact the management over such property and our business and reputation.

In addition, we may not be able to maintain ongoing business relationships with our current co-investors. Any failures in this regard could have a material adverse effect on our business, financial condition and results of operations.

Most of our development projects in Moscow are subject to requirements that either a portion of the completed project or compensation be allocated to the City of Moscow.

The Moscow City Government typically requires that a portion of completed development projects in Moscow be allocated to the city or, alternatively, similar space in a different location or monetary payment be provided to the city, to compensate the City of Moscow for its additional engineering and transport infrastructure costs. The majority of our projects are subject to these requirements. For example, our subsidiary Kuntsevo-Invest is required to deliver 173,260 sq.m of residential living space to the city in connection with the development of its residential projects. The valuation of our properties by C&W takes into account our estimates of such shares or compensation. The portion of the project allocated or amount paid to the City of Moscow typically is agreed in an investment contract or an alternative arrangement with the City of Moscow. However, in most cases, we have not yet entered into such contracts or arrangements and, therefore, the share or compensation amounts on which C&W's valuations are based may change pursuant to the investment contract or alternative arrangement that is ultimately entered into with the Moscow City Government.

In the event that deficiencies or ambiguities in privatization legislation are exploited to challenge our ownership in our privatized subsidiaries, land and other assets and we are unable to defeat these challenges, we risk losing our ownership interests in our subsidiaries or these assets, which could materially adversely affect our business, financial condition and results of operations.

Our business includes a privatized company, Mosdachtrest, and our business strategy may involve the acquisition of additional privatized companies, land and other assets. To the extent that privatization legislation is vague, inconsistent or in conflict with other legislation, including conflicts between federal and local privatization legislation, many privatizations are vulnerable to challenge, including selective challenges. For instance, a series of presidential decrees issued in 1991 and 1992 that granted to the Moscow City Government the right to adopt its own privatization procedures were subsequently held to be invalid by the Constitutional Court of the Russian Federation, which ruled, in part, that the presidential decrees addressed issues that were the subject of federal law. While this court ruling, in theory, did not require any implementing actions, the presidential decrees were not officially annulled by another presidential decree until 2000.

The implementation by the Russian government of a law requiring companies to purchase or lease the land on which they operate may have a material adverse effect on our business, financial condition and results of operations.

Much of the land occupied by privatized Russian companies, including Mosdachtrest and some of our subsidiaries, was not included in the privatizations of these companies and is still owned by federal, regional or local governments. The companies use the land pursuant to a special title of perpetual use whereby they have the right to use the land but do not have the right to dispose of such land.

Under the Russian Land Code, legal entities generally have one of the following rights with regard to land plots: (1) ownership; (2) right of free use for a fixed term; or (3) lease. Legal entities may also have a right of perpetual use of land that was obtained prior to the enactment of the Russian Land Code; however, the Federal Law on the Introduction of the Land Code requires legal entities using land pursuant to rights of perpetual use (excluding certain state-owned enterprises and state and local authorities) either to purchase the land from, or to enter into a lease agreement relating to the land with, the relevant government or locality which owns the land, by January 1, 2008. If this requirement is not amended prior to implementation, we will be required to make significant expenditures that may have a material adverse effect on our business, financial condition and results of operations. See also "Regulation—General Provisions of Russian Law."

In the event that our minority shareholders or minority shareholders of our subsidiaries were to challenge successfully past or future interested party transactions, or do not approve interested party transactions or other matters in the future, the invalidation of such transactions or failure to approve such matters could have a material adverse effect on our business, financial condition and results of operations and the value of the shares and GDRs.

We own less than 100% of the equity interests in some of our subsidiaries. In addition, certain of our wholly owned subsidiaries have had other shareholders in the past. We and our subsidiaries in the past have carried out, and continue to carry out, transactions with us and others which may be considered to be “interested party transactions” under Russian law, requiring approval by disinterested directors, disinterested independent directors or disinterested shareholders depending on the nature of the transaction and parties involved. See “Description of Share Capital and Certain Requirements of Russian Legislation—Interested Party Transactions.” The provisions of Russian law defining which transactions must be approved as “interested party transactions” are subject to different interpretations. We cannot assure you that our and our subsidiaries’ application of these concepts will not be subject to challenge by former and current shareholders. Any such challenges, if successful, could result in the invalidation of transactions, which could have a material adverse effect on our business, financial condition and results of operations and the value of the shares and GDRs.

In addition, Russian law requires a three-quarters majority vote of the holders of voting stock present at a shareholders’ meeting to approve certain transactions and other matters, including, for example, charter amendments, major transactions involving assets in excess of 50% of the assets of the company, repurchase by the company of its own shares and certain share issuances. In some cases, minority shareholders may not approve interested party transactions requiring their approval or other matters requiring approval of minority shareholders or supermajority approval. In the event that these minority shareholders were to challenge successfully past interested party transactions, or do not approve interested party transactions or other matters in the future, we could be limited in our operational flexibility and our business, financial condition and results of operations could be materially adversely affected.

If transactions of members of our group and their predecessors-in-interest were to be challenged on the basis of non-compliance with applicable legal requirements, the remedies in the event of any successful challenge could include the invalidation of such transactions or the imposition of other liabilities on our group members.

Members of our group, or their predecessors-in-interest at different times, took a variety of actions relating to share issuances, share disposals and acquisitions, mandatory buy-out offers, valuations of property, interested party transactions, major transactions, meetings of the group members’ governing bodies, other corporate matters and anti-monopoly issues that, if successfully challenged on the basis of non-compliance with applicable legal requirements by competent state authorities, counterparties in such transactions or shareholders of the relevant group members or their predecessors-in-interest, could result in the invalidation of such transactions and our corporate decisions, restrictions on voting control or the imposition of other liabilities. Because applicable provisions of Russian law are subject to many different interpretations, we may not be able to defend successfully any challenge brought against such transactions, and the invalidation of any such transactions or imposition of any such liability may, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations. See also “Risks Relating to the Russian Federation and the CIS—Legal Risks and Uncertainties—Weaknesses relating to the legal system and legislation create an uncertain environment for investment and business activity.”

Our subsidiaries could be forced into liquidation on the basis of formal non-compliance with certain requirements of Russian law, which could materially adversely affect our business, financial condition and results of operations.

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation, reorganization or during its operation. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used by Russian courts as a basis for liquidation of a legal entity. For example, in Russian corporate law, negative net assets calculated on the basis of Russian accounting standards as at the end of the second or any subsequent year of a company’s operation, can serve as a basis for a court to

order the liquidation of the company, upon a claim by governmental authorities. Many Russian companies have negative net assets due to very low historical asset values reflected on their Russian accounting standards balance sheets; however, their solvency, *i.e.*, their ability to pay debts as they come due, is not otherwise adversely affected by such negative net assets.

Many of our subsidiaries have negative net assets and are exposed to potential claims for liquidation. If involuntary liquidation were to occur, then we would be forced to reorganize the operations we currently conduct through the affected subsidiaries. Any such liquidation could lead to additional costs, which could materially adversely affect our business, financial condition and results of operations.

Our competitive position and future prospects depend on our senior management and other key personnel.

Our ability to maintain our competitive position and to implement our business strategy is dependent to a large degree on the services of our senior management team and other key personnel. Moreover, competition in Russia, and in the other countries where we operate, for personnel with relevant expertise is intense due to a small number of qualified individuals. As a result, we include significant incentive payments related to the successful completion of a project in compensation packages for project managers. We are not insured against the detrimental effects to our business resulting from the loss or dismissal of our key personnel. The loss or decline in the services of members of our senior management team or an inability to attract, retain and motivate qualified key personnel could have a material adverse effect on our business, financial condition and results of operations.

We do not carry the types of insurance coverage customary in more economically developed countries for a business of our size and nature, and a significant event could result in substantial property loss and other liabilities, as well as our inability to rebuild in a timely manner or at all.

The insurance industry is developing in Russia, and many forms of insurance protection common in more economically developed countries are not yet available in Russia on comparable terms, including coverage for business interruption. We maintain insurance against some, but not all, potential risks and losses affecting our operations. We cannot assure you that our insurance will be adequate to cover all of our losses or liabilities. We also can provide no assurance that insurance will continue to be available to us on commercially reasonable terms. At present, we have no coverage for business interruption or loss of key management personnel and coverage with respect to our properties may be insufficient. If a significant event were to affect one of our properties, we could experience substantial property loss and other liabilities, as well as significant disruptions in our operations, for which we would not be compensated. We do not maintain separate funds or otherwise set aside reserves for these types of events. Any such loss or third-party claim for damages may have a material adverse effect on our business, financial condition and results of operations.

We have entered into and expect to continue to enter into material agreements and other arrangements with our controlling shareholder and its affiliated companies and persons.

We have entered into a number of material agreements and other arrangements with companies within the Sistema group and affiliated companies and persons. Transactions with related parties pose the risk of our entering into transactions on terms less favorable than could be obtained in arm's-length transactions with unrelated parties. Moreover, Sistema, our controlling shareholder, could cause us to enter into transactions with our affiliates on terms less favorable than could be obtained in arm's-length transactions with unrelated parties. Any such transactions could materially adversely affect our business, financial condition and results of operations.

Our loan agreements and the indentures of our controlling shareholder contain restrictive covenants.

Our loan agreements contain covenants limiting our ability to incur debt based on certain minimum EBITDA/interest expense ratios, as well as maximum ratios of total debt to market value of our real estate assets. These covenants limit our operational flexibility. In addition, failure to comply with these covenants could cause a default and result in the debt becoming immediately due and payable, which would materially adversely affect our business, financial condition and results of operations.

In addition, Sistema, which will remain our controlling shareholder following the offering and consolidates our results in its financial statements, is subject to various covenants in the indentures related to its outstanding notes. The covenants impose restrictions on Sistema and its restricted subsidiaries (which includes us) with respect to, among other things, incurrence of indebtedness, creation of liens and disposal of assets. In these indentures, Sistema undertakes that it will not, and will not permit its restricted subsidiaries to, incur indebtedness unless a certain debt/EBITDA ratio is met. Furthermore, certain of Sistema's loan facilities contain similar restrictions. In addition to us, Sistema has other businesses that require capital and, therefore, the Sistema group's capacity to incur indebtedness otherwise available to us could be diverted to its other businesses. Sistema may also enter into other agreements in the future that may further restrict it and its restricted subsidiaries from engaging in these and other activities. We expect Sistema to exercise its control over us in order for Sistema, as a consolidated group, to meet its covenants, which could materially limit our ability to conduct our operations, including the implementation of our business strategy.

Our accounting systems and internal controls may be inadequate to ensure timely and accurate financial reporting and our independent auditor has noted certain matters relating to significant deficiencies in the design and operation of the group's internal controls.

Our system of internal controls and financial reporting requires certain improvements to provide accurate and timely information for the preparation of US GAAP financial statements. We do not have a fully integrated information system. Each of our subsidiaries prepares separate financial statements under Russian accounting standards for statutory purposes. The preparation of US GAAP financial statements is primarily a manual process that involves, first, the transformation of the statutory financial statements of our subsidiaries into US GAAP financial statements through accounting adjustments and, second, the consolidation of these financial statements. This process is complicated and time-consuming, and requires significant attention from our senior accounting personnel. We have not implemented accounting systems and internal controls that are commonplace in countries with a longer history of US GAAP reporting and the preparation of financial statements requires significantly more time for us than it does for companies with a longer history of US GAAP reporting.

Our independent auditors have issued to the Board of Directors a letter, which notes certain matters relating to significant deficiencies in the design or operation of our internal controls that could adversely affect our ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Our independent auditors considered these deficiencies in determining the nature, timing and extent of the procedures they performed in their audit of our financial statements as of and for the year ended December 31, 2005, and they did not affect the report of independent auditors on those financial statements.

We have taken, and plan to take, steps to further improve our accounting systems and internal controls, including, among other things, the development and documentation of control procedures over the financial statement preparation process. Despite these steps and in light of our past and planned growth, we may not be able to detect or prevent a material misstatement of our annual or interim US GAAP financial statements or to ensure that our US GAAP financial statements are prepared in a timely manner in accordance with the requirements of the London Stock Exchange or otherwise.

Inflation could increase our costs and decrease our operating margins.

The Russian economy has been characterized by high rates of inflation. In 2005, Russia experienced an inflation rate of 10.9%, according to the Federal State Statistics Service, or Rosstat. As we tend to experience inflation-driven increases in certain of our costs, including salaries, which are sensitive to rises in the general price level in Russia, our costs in US dollar terms will rise. Accordingly, high rates of inflation in Russia could increase our costs and decrease our operating margins.

We may be subject to environmental liabilities in connection with properties owned and/or leased by us.

Construction and development companies in Russia and the CIS, including us, are subject to various federal, regional and local environmental laws, ordinances and regulations which establish (1) requirements for obtaining specific permits and administrative approvals, (2) certain restrictions and encumbrances on the properties held and/or developed, and (3) liabilities for violations of

environmental legislation, as well as for damage caused to the environment, including site contamination.

In connection with our development projects and infrastructure and transportation projects, we are required to obtain numerous permits and approvals from various environmental protection authorities, including an assessment of the environmental impact of the project by the government's environmental experts. These requirements may hinder, delay or increase the costs of our projects.

Furthermore, environmental laws and regulations impose certain restrictions and encumbrances on the properties that we hold and/or develop. For example, some of our land plots under development are located in areas that have special environmental protection, such as prohibitions against cutting down trees, rules regulating the storage of construction waste and, in certain circumstances, the outright prohibition of any construction activities (e.g., territories bordering a waterline). In addition, the development of a project may be subject to certain obligations, including, *inter alia*, planting of greenery and clean-up measures. These requirements may be costly and time consuming and may result in delays in the commencement or continuation of development of our projects. See also “—We are subject to certain risks inherent in the real estate industry in Russia and the CIS” and “—Our projects are subject to significant risks of delays, non-completion and financial loss.”

We believe that our current legal and regulatory compliance programs adequately address these concerns and that we are in substantial compliance with applicable laws and regulations. However, if our compliance with current and future environmental laws and regulations is challenged or we are deemed to have violated these requirements, remedying these violations could require material expenditures by us, which could materially adversely affect our business, financial condition and results of operations.

In addition, we may be liable for the costs of removal, investigation or remediation of hazardous or toxic substances located on or in a property owned or leased by us. In addition to these costs, which may be substantial, our ability to sell or lease the contaminated property or to borrow using such property as security may be substantially hindered. According to Russian law, we may be obligated to pay a government entity or third party for property damage and for the investigation and clean-up costs incurred by such parties in connection with the contamination. In addition, third parties may sue the owner or operator of a site for damages and costs resulting from environmental contamination emanating from that site. We generally commission environmental assessments of properties that we acquire in order to identify and minimize potential environmental liabilities. However, such assessments may not reveal all environmental liabilities at, or potentially affecting, these properties.

Any of the above requirements, restrictions or liabilities could materially adversely affect our business, financial condition and results of operations.

Risks Relating to the Russian Federation and the CIS

Emerging markets such as the Russian Federation and the CIS are subject to greater risks than more developed markets, including significant legal, economic and political risks.

Investors in emerging markets such as the Russian Federation and the CIS should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies such as the economies of the Russian Federation and the CIS are subject to rapid change and that the information set out herein may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisors before making an investment in the shares and GDRs.

Economic Risks

The Russian economy is less stable than economies of other industrialized countries and, as a result, our business and the value of the shares and GDRs could be materially adversely affected.

Since the dissolution of the Soviet Union in the early 1990s, the Russian economy has experienced at various times:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high government budget deficit and high government debt, relative to gross domestic product;
- a weak banking system providing limited liquidity to domestic enterprises;
- high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of a black and gray market economy;
- pervasive capital flight;
- high levels of corruption and the penetration of organized crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the population.

In addition, the Russian economy has been subject to abrupt downturns in the past. In particular, on August 17, 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its ruble-denominated securities, the Central Bank of Russia stopped its support of the ruble and a temporary moratorium was imposed on certain foreign currency payments. These actions resulted in an immediate and severe devaluation of the ruble and a sharp increase in the rate of inflation; a substantial decline in the prices of Russian debt and equity securities; and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by a major banking crisis in the Russian banking sector after the events of August 17, 1998, as evidenced by the termination of the banking licenses of a number of major Russian banks. This further impaired the ability of the banking sector to act as a consistent source of liquidity to Russian companies and resulted in the losses of bank deposits in some cases.

Recently, the Russian economy has experienced positive trends, such as the increase in the gross domestic product, a relatively stable ruble, strong domestic demand, rising real wages and a reduced rate of inflation; however, these trends may not continue or may be abruptly reversed.

The Russian banking system remains underdeveloped, and another banking crisis could place severe liquidity constraints on our business.

Russia's banking and other financial systems are less developed or regulated in comparison with other countries, and Russian legislation relating to banks and banking activities is subject to varying interpretations and inconsistent application. Many Russian banks currently do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags far behind internationally accepted norms. Aided by inadequate supervision by the regulators, certain banks do not follow existing Central Bank of Russia regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. Press reports indicate that many Russian banks may be engaged in money laundering activities and may have their licenses revoked by the Central Bank of Russia. Furthermore, in Russia, bank deposits made by corporate entities generally are not insured.

Recently, there has been a rapid increase in lending by Russian banks, which many believe has been accompanied by a deterioration in the credit quality of the borrowers. In addition, a robust

domestic corporate debt market is leading to Russian banks increasingly holding large amounts of Russian corporate ruble bonds in their portfolios, which is further deteriorating the risk profile of Russian bank assets. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. In addition, the Central Bank of Russia has from time to time revoked the licenses of certain Russian banks, which resulted in market rumors about additional bank closures and many depositors withdrawing their savings. If a banking crisis were to occur, Russian companies would be subject to severe liquidity constraints due to the limited supply of domestic savings and the withdrawal of foreign funding sources that would occur during such a crisis.

There is currently a limited number of sufficiently creditworthy Russian banks. We hold the bulk of our excess ruble and foreign currency cash in Russian banks, including subsidiaries of foreign banks. Another banking crisis or the bankruptcy or insolvency of the banks from which we receive or with which we hold our funds could result in the loss of our deposits or affect our ability to complete banking transactions in Russia, which could have a material adverse effect on our business, financial condition and results of operations.

The infrastructure in Russia is inadequate, which could disrupt normal business activity.

The infrastructure in Russia largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Particularly affected are the rail and road networks, power generation and transmission systems, communication systems and building stock. In May 2005, a fire and explosion in one of the Moscow power substations built in 1963 caused a major power outage in a large section of Moscow and some surrounding regions. The blackout disrupted the ground electric transport, including the metro system, led to road traffic accidents and massive traffic congestion, disrupted electricity and water supply in office and residential buildings and affected mobile communications. The trading on exchanges and the operation of many banks, stores and markets were also halted. In the winter of 2006, extremely low temperatures led to increased power usage, which posed a significant risk of overloading power grids and exceeded existing generation capacity. As a result, power usage by industrial and commercial consumers, including construction sites, was restricted to avoid power failures.

The deterioration of the infrastructure in Russia harms the national economy, disrupts the transportation of goods and supplies, adds costs to doing business and can interrupt business operations. The Russian government is actively reorganizing the nation's rail, electricity and communications systems. Any such reorganization may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. These factors could have a material adverse effect on our business, financial condition and results of operations.

Fluctuations in the global economy could materially adversely affect the Russian economy and the value of the shares and GDRs.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and Russian businesses could face severe liquidity constraints, further materially adversely affecting the Russian economy. Additionally, because Russia produces and exports large amounts of oil, the Russian economy is especially vulnerable to the price of oil on the world market and a decline in the price of oil could slow or disrupt the Russian economy or undermine the value of the ruble against foreign currencies. Recent military conflicts and international terrorist activity have also significantly impacted oil prices, and pose additional risks to the Russian economy. Russia is also a major producer and exporter of metal products and its economy is vulnerable to fluctuations in world commodity prices and the imposition of tariffs and/or antidumping measures by the United States, the European Union or by other principal export markets.

Political and Social Risks

Political, governmental or social instability could materially adversely affect our business, financial condition and results of operations and the value of the shares and GDRs.

Since 1991, Russia has sought to transform itself from a one-party state with a centrally-planned economy to a democracy with a market economy. As a result of the sweeping nature of the reforms, and the failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatizations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. In light of these conditions, the Russian public has largely supported increased centralized authority and renationalization and governmental control of key industries, including the media. In addition, a failure of salaries and benefits to keep pace with the rapidly increasing cost of living or changes in government-funded benefits or perceived unfairness in the distribution of wealth could lead to social unrest in the future. Low birth rates and life expectancies in Russia are expected to result in significant declines in the population over the next few decades. These declines, combined with increasing immigration, could pose significant risks to political and social stability in Russia.

Current and future changes in the government, major policy shifts or lack of consensus between various branches of the government and powerful economic groups could disrupt or reverse economic and regulatory reforms. In addition, the Russian presidential elections scheduled for 2008 could bring more volatility to the market. Any disruption or reversal of reform policies could lead to political or governmental instability or the occurrence of conflicts among powerful economic groups, which could have a material adverse effect on our business, financial condition and results of operations and the value of the shares and GDRs.

Conflicts between central and regional authorities and other conflicts could create an uncertain operating environment, hindering our long-term planning ability.

The Russian Federation is a federation of 88 sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities has in the past resulted in the enactment of conflicting legislation at various levels. In particular, conflicting laws have been enacted in the areas of privatization, land legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus hinders our long-term planning efforts and creates uncertainties in our operating environment, both of which may prevent us from effectively and efficiently implementing our business strategy.

Additionally, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflicts, such as the conflict in Chechnya. Terrorist attacks relating to this conflict have spread to neighboring regions and other parts of Russia, and several terrorist attacks have been carried out in Moscow. The further intensification of these terrorist attacks could have significant political and economic consequences. Moreover, any terrorist attacks and the resulting heightened security measures are likely to cause disruptions to domestic commerce and exports from Russia. These factors could materially adversely affect our business, financial condition and results of operations and the value of the shares and GDRs.

Crime and corruption could disrupt our ability to conduct our business.

The political and economic changes in Russia in recent years have resulted in significant dislocations of authority. The local and international press have reported the involvement of organized crime in the economy. In addition, the local press and international press have reported high levels of corruption, including the bribing of officials for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials engaged in selective investigations and prosecutions to further the commercial interests of government officials or certain individuals. Additionally, some members of the Russian media are alleged to regularly publish disparaging articles in return for payment. The depredations of organized or other crime, demands of corrupt officials or claims that we have been involved in official corruption could result in negative

publicity, could disrupt our ability to conduct our business effectively and could thus materially adversely affect our business, financial condition and results of operations and the value of the shares and GDRs.

Legal Risks and Uncertainties

Weaknesses relating to the legal system and legislation create an uncertain environment for investment and business activity.

Russia is still developing the legal framework required to support a market economy. The following risk factors relating to the Russian legal system create uncertainties with respect to the legal and business decisions that we make, many of which uncertainties do not exist in countries with more developed market economies:

- inconsistencies between and among the Constitution, federal laws, presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;
- conflicting local, regional and federal rules and regulations;
- the lack of judicial and administrative guidance on interpreting legislation;
- the relative inexperience of judges and courts in interpreting legislation;
- the lack of an independent judiciary;
- a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions such as suspension or termination of our licenses; and
- poorly developed bankruptcy procedures that are subject to abuse.

The recent nature of much of Russian legislation and the rapid evolution of the Russian legal system place the enforceability and underlying constitutionality of laws in doubt and results in ambiguities, inconsistencies and anomalies. In addition, Russian legislation often contemplates implementing regulations which have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect our ability to enforce our rights under our contracts, or to defend ourselves against claims by others. We cannot assure you that regulators, judicial authorities or third parties will not challenge our compliance with applicable laws, decrees and regulations.

The judiciary's lack of independence, its relative inexperience and the difficulties in enforcing court decisions could prevent us or you from obtaining effective redress in a court proceeding.

The independence of the Russian judicial system and its immunity from economic, political and nationalistic influences cannot be guaranteed. The court system in Russia is underfunded and, in many cases, judges may lack experience with respect to complex commercial transactions commonly seen in more developed economies. Judicial precedents generally have no binding effect on subsequent decisions. In addition, the Russian judicial system can be slow or unjustifiably swift. Enforcement of court orders can, in practice, be very difficult in Russia. Additionally, court claims are often used in furtherance of political and commercial aims or infighting. We may be subject to such claims and may not be able to receive a fair hearing. Additionally, court orders are not always enforced or followed by law enforcement agencies. Moreover, judicial decisions, even if favorable, may not provide effective redress.

These uncertainties also extend to property rights and the enforcement of contracts. During Russia's transformation from a centrally planned economy to a market economy, legislation was enacted to protect private property against expropriation and nationalization. However, these protections may not be enforced in the event of an attempted expropriation or nationalization due to political factors. Expropriation or nationalization of any of our subsidiaries or affiliates could have a material adverse effect on our business, financial condition and results of operations.

Selective or arbitrary government action could have a material adverse effect on our business, financial condition and results of operations and the value of the shares and GDRs.

Governmental authorities in Russia have a high degree of discretion and, at times, act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that is inconsistent with legislation or influenced by political or commercial considerations. Selective or arbitrary governmental actions have reportedly included the denial or withdrawal of licenses, sudden and unexpected tax audits and claims, criminal prosecutions and civil actions. Federal and local government entities have also used ordinary defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations or to void transactions. Moreover, the government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Standard & Poor's, a provider of independent credit ratings, has expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups." In this environment, our competitors may receive preferential treatment from the government and political influence or manipulation could be used to affect regulatory and other decisions against us on the basis of considerations other than legal considerations.

Furthermore, recently, the Russian tax authorities aggressively have brought tax evasion claims on the basis of certain Russian companies' use of tax-optimization schemes, and press reports have speculated that these enforcement actions have been selective and politically motivated. Selective or arbitrary government action, if directed at us, could have a material adverse effect on our business, financial condition and results of operations and the value of the shares and GDRs.

Lack of developed corporate and securities laws and regulations in Russia could limit our ability to attract future investment.

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than, for example, in the United States or the European Union. Many Russian securities regulations have only recently been adopted. In addition, the Russian securities market is regulated by several different authorities, which are often in competition with each other. These include:

- the FSFM;
- the Ministry of Finance;
- the Russian Federal Anti-Monopoly Service, or FAS;
- the Central Bank of Russia; and
- various professional self-regulatory organizations.

The regulations of these various authorities are not always coordinated and may be contradictory.

In addition, Russian corporate and securities rules and regulations can change rapidly, which may materially adversely affect our ability to conduct securities-related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to our group. The FSFM has recently introduced a number of regulations relating to offerings of shares in and outside of Russia, including combined offerings involving closed subscription for new shares and the sale of existing shares, which remain largely untested and subject to varying interpretations. Any challenges of such regulations or transactions consummated pursuant to them could have an adverse effect on the offering and our ability to effect similar equity offerings in the future. As a result, we may be subject to fines and/or other enforcement measures despite our best efforts at compliance, which could have a material adverse effect on our business, financial condition and results of operations.

Because there is little minority shareholder protection in Russia, your ability to bring, or recover in, an action against us could be limited.

In general, minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for certain corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of actions. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. See “Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital” for a more detailed description of some of these protections. While these protections are similar to the types of protections available to minority shareholders in US corporations, in practice, corporate governance standards for many Russian companies have proven to be poor, and minority shareholders in Russian companies have suffered losses due to abusive share dilutions, asset transfers and transfer pricing practices. Shareholder meetings have been irregularly conducted, and shareholder resolutions have not always been respected by management. Shareholders of some companies also suffered as a result of fraudulent bankruptcies initiated by hostile creditors.

The supermajority shareholder approval requirement is met by a vote of holders of 75% of all voting shares that are present at a shareholders’ meeting. Thus, controlling shareholders owning slightly less than 75% of issued shares of a company may have a 75% or more voting power if certain minority shareholders are not present at the meeting. In situations where controlling shareholders effectively have 75% or more of the voting power at a shareholders’ meeting, they are in a position to approve amendments to the charter of the company or significant transactions including asset transfers, which could be prejudicial to the interests of minority shareholders. It is possible that our controlling shareholder in the future may not run our company for the benefit of minority shareholders, and this could have a material adverse effect on the value of the shares and GDRs.

While the Federal Law on Joint Stock Companies, or the Joint Stock Companies Law, provides that shareholders owning not less than 1% of the company’s stock may bring an action for damages on behalf of the company, Russian courts to date do not have much experience with such lawsuits. Russian law does not contemplate class action litigation. Accordingly, your ability to pursue legal redress against us may be limited, reducing the protections available to you as a holder of the shares and GDRs.

Shareholder liability under Russian legislation could cause us to become liable for the obligations of our subsidiaries.

The Civil Code and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company and bear only the risk of loss of their investment. This may not be the case, however, when one company is capable of determining decisions made by another company. The company capable of determining such decisions is deemed an “effective parent.” The company whose decisions are capable of being so determined is deemed an “effective subsidiary.” Under the Joint Stock Companies Law, an effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the companies; and
- the effective parent gives obligatory directions to the effective subsidiary.

In addition, an effective parent is secondarily liable for an effective subsidiary’s debts if an effective subsidiary becomes insolvent or bankrupt resulting from the action or inaction of an effective parent. This is the case no matter how the effective parent’s ability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary’s losses from the effective parent which caused the effective subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses. Accordingly, we could be liable in some cases for the debts of our subsidiaries. This liability could have a material adverse effect on our business, financial condition and results of operations.

Shareholder rights provisions under Russian law could result in significant additional obligations on us.

Russian law provides that shareholders that vote against or abstain from voting on certain matters have the right to sell their shares to the company at market value in accordance with Russian law. The decisions that trigger this right to sell shares include:

- decisions with respect to a reorganization;
- the approval by shareholders of certain “major transactions,” which, for these purposes, are transactions involving property worth more than 50% of the gross book value of our assets calculated according to Russian accounting standards, regardless of whether the transactions are actually consummated; and
- the amendment of our charter in a manner that limits shareholder rights.

Our (or, as the case may be, our subsidiaries’) obligation to purchase shares in these circumstances, which is limited to 10% of the company’s net assets calculated in accordance with Russian accounting standards at the time the matter at issue is voted upon, could have a material adverse effect on our business, financial condition and results of operations.

The lack of a central and rigorously regulated share registration system in Russia may result in improper record ownership of our shares, including the shares underlying the GDRs.

Ownership of Russian joint stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no central registration system in Russia. Share registers are maintained by the companies themselves or, if a company has more than 50 shareholders or so elects, by licensed registrars located throughout Russia. Regulations have been issued regarding the licensing conditions for such registrars, as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalization and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company’s shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence, official and unofficial governmental actions or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets. Further, the Depositary, under the terms of the Deposit Agreements, will not be liable for the unavailability of shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the shares. See “Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital—Registration and Transfer of Shares” and “Description of the Global Depositary Receipts—Russian Share Register” for a further discussion of the share registration system and registrars in the Russian Federation.

Characteristics of and changes in the Russian tax system could materially adversely affect our business, financial condition and results of operations and the value of the shares and GDRs.

Generally, taxes payable by Russian companies include, among others:

- profits tax;
- value-added tax, or VAT;
- unified social tax; and
- property and land taxes.

Recently, there have been significant changes to the Russian taxation system. Global tax reforms commenced in 1999 with the introduction of Part One of the Tax Code of the Russian Federation, or the Tax Code, which sets general taxation guidelines. Since then, Russia has been in the process of replacing legislation regulating the application of major taxes such as corporate profits tax, VAT and property tax with new chapters of the Tax Code.

Differing interpretations of tax regulations exist both among and within government ministries and organizations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose severe fines, penalties and interest charges. Generally, in an audit taxpayers are subject to inspection with respect to the three calendar years which immediately preceded the year in which the audit is carried out. Previous audits do not completely exclude subsequent claims relating to the audited period because Russian tax law authorizes upper-level tax inspectorates to reaudit taxpayers which were audited by subordinate tax inspectorates. In addition, on July 14, 2005, the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three-year term set forth in the tax laws if a court determines that a taxpayer has obstructed or hindered a tax audit. Because none of the relevant terms are defined, tax authorities may have broad discretion to argue that a taxpayer has “obstructed” or “hindered” an audit and ultimately seek back taxes and penalties beyond the three-year term. In some instances, new tax regulations have been given retroactive effect. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretations of the legislation and assessments.

Moreover, financial results of Russian companies cannot be consolidated for tax purposes. Therefore, each of our Russian subsidiaries pays its own Russian taxes and may not offset its profit or loss against the loss or profit of any of our other subsidiaries. In addition, intercompany dividends are subject to a withholding tax of 9%, if being distributed to Russian companies, and 15%, if being distributed to foreign companies. If the receiving Russian company itself pays a dividend, it may offset tax withheld against its own withholding liability of the onward dividend although not against any withholding made on a distribution to a foreign company. These tax requirements impose additional burdens and costs on our operations, including management resources.

The foregoing conditions create tax risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on our operations, including management resources. In addition to our substantial tax burden, these risks and uncertainties complicate our tax planning and related business decisions, potentially exposing us to significant fines and penalties and enforcement measures despite our best efforts at compliance. See also “—Risks Relating to the Russian Federation and the CIS—Legal Risks and Uncertainties—Selective or arbitrary government action could have a material adverse effect on our business, financial condition and results of operations and the value of the shares and GDRs.”

Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may adversely affect our business, financial condition and results of operations.

Russian transfer pricing rules effective since 1999 give Russian tax authorities the right to control prices for transactions between related entities and certain other types of transactions between unrelated parties, such as foreign trade transactions or transactions with significant price fluctuations if the transaction price deviates by more than 20% from the market price. Special transfer pricing rules apply to operations with securities and derivative instruments. The Russian transfer pricing rules are vaguely drafted, and are subject of interpretation by Russian tax authorities and courts. Due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities may challenge our prices and make adjustments which could affect our tax position. If such tax adjustments become effective, our results of operations could be materially adversely affected. In addition, we could face significant losses associated with the assessed amount of underpaid prior tax and related interest and penalties, which would have a material adverse effect on our business, financial condition and results of operations. It is also possible that Russian transfer pricing rules may change in the future, in particular, for transactions involving securities.

Risks Relating to the GDRs, the Shares and the Trading Market

Because the Depositary may be considered the beneficial holder of the shares underlying the GDRs, these shares may be arrested or seized in legal proceedings in Russia against the Depositary.

Because Russian law may not recognize GDR holders as beneficial owners of the underlying shares, it is possible that holders of GDRs could lose all their rights to those shares if the Depositary's assets in Russia are seized or arrested. In that case, holders of GDRs would lose all the money they invested.

Russian law may treat the Depositary as the beneficial owner of the shares underlying the GDRs. This is different from the way other jurisdictions treat GDRs. In the United States, although shares may be held in the Depositary's name or to its order, making it a "legal" owner of the shares, the GDR holders are the "beneficial," or real owners. In US courts, an action against the Depositary would not result in the beneficial owners losing their shares. Russian law may not make the same distinction between legal and beneficial ownership, and it may only recognize the rights of the Depositary in whose name the shares are held, but not the rights of GDR holders, to the underlying shares. Thus, in proceedings brought against a depositary, whether or not related to shares underlying GDRs, Russian courts may treat those underlying shares as the assets of the depositary, open to seizure or arrest. In the past, a lawsuit was filed against a depositary bank seeking the seizure of various Russian companies' shares represented by GDRs issued by that depositary. In the event that this type of suit were to be successful in the future against the Depositary, and the shares underlying our GDRs were to be seized or arrested, the GDR holders involved would lose their rights to such underlying shares.

GDR holders will not be able to withdraw the shares underlying the GDRs prior to the registration of a placement report for the newly issued shares, and the failure to register this placement report could result in the newly issued shares underlying the GDRs being cancelled, reliance by GDR holders on us and the Underwriters to return the offering proceeds and a small public float based solely on the shares sold by the Selling Shareholders.

Under the terms of the Deposit Agreements, all GDRs shall be deemed to be issued on a provisional basis until the placement report is registered by the FSFM in respect of the newly issued shares of Sistema-Hals. Until the placement report is registered, GDR holders will not be able to withdraw the shares underlying their GDRs or instruct the Depositary to exercise voting rights with respect to the shares that underlie their GDRs, as they would ordinarily be able to do. Russian law requires that we file the placement report within 30 days following completion of the placement, which is specified to occur on the 36th day after the date of the underwriting agreement in our share registration documents in order to allow sufficient time for the exercise of the over-allotment option. We intend to file the placement report as soon as practicable following such time. The FSFM is statutorily required to make its decision within two weeks after we file the placement report but it may take longer or the registration of the placement report may not occur at all.

The FSFM may refuse to register the placement report if, among other things, we violated Russian law in the issuance process and a Russian court may also hold the placement invalid for such violations. In the event that the placement report is not registered by the FSFM within 60 days after the Closing Date (or such later date that we agree with the Underwriters), we will issue a press release and notify the Depositary and the London Stock Exchange. Under Russian law, in the case of non-registration of the placement report we are required to return the full amount of ruble proceeds that were initially deposited into our ruble-denominated account on the Closing Date and the over-allotment closing date (if any). Such ruble amount will be converted into US dollars for remittance to the holders of the GDRs. We have agreed in the Underwriting Agreement that we will pay such additional amounts (if any) as may be necessary to ensure that the US dollar funds received by the Depositary for remittance to the holders of GDRs will be equal to the gross US dollar proceeds received from the sale of GDRs, except for the underwriting commissions related to the GDRs, which the Underwriters have agreed to return. The Depositary will promptly distribute through DTC, Euroclear and Clearstream, as applicable, the funds it has received to the holders of the GDRs. The amount returned to the holders of the GDRs is expected to be equal to the gross proceeds (without interest) of the offering of GDRs, regardless of the then-prevailing market prices for the GDRs, subject to applicable withholding taxes. However, the return of funds may be delayed due to Russian currency control, banking and securities regulations or practices and may be prevented if there is a change in such regulations or practices. In addition, the holders of the GDRs will be taking credit risk on us and the Underwriters for the return of funds in the event that the placement report is not registered.

The shares being offered by the Selling Shareholders will not be cancelled, and the proceeds of the offering of the shares by the Selling Shareholders will not be returned, in case the placement report is not registered, which will result in a small public float based solely on the shares sold by the Selling Shareholders.

Voting rights with respect to the shares represented by the GDRs are limited by the terms of the Deposit Agreements for the GDRs and relevant requirements of Russian law.

GDR holders will have no direct voting rights with respect to the shares represented by the GDRs. They will be able to exercise voting rights with respect to the shares represented by GDRs only in accordance with the provisions of the Deposit Agreements relating to the GDRs and relevant requirements of Russian law. Therefore, there are practical limitations upon the ability of GDR holders to exercise their voting rights due to the additional procedural steps involved in communicating with them. For example, the Joint Stock Companies Law and our charter require us to notify shareholders no less than 30 days prior to the date of any meeting and at least 70 days prior to the date of an extraordinary meeting to elect our Board of Directors. Our ordinary shareholders will receive notice directly from us and will be able to exercise their voting rights either personally or by proxy.

GDR holders by comparison, will not receive notice directly from us. Rather, in accordance with the Deposit Agreements, we will provide the notice to the Depositary. The Depositary has undertaken, in turn, if requested by us in writing in a timely manner and at our expense, and provided there are no US, English or Russian legal prohibitions (including, without limitation, the listing rules and prospectus rules of the FSA and the admission and disclosure standards of the London Stock Exchange or the rules of any Russian stock exchange on which the shares are listed), to distribute to GDR holders notice of such meeting, copies of voting materials (if and as received by the Depositary from us) and a statement as to the manner in which instructions may be given by GDR holders. To exercise their voting rights, GDR holders must then instruct the Depositary how to vote the shares represented by the GDRs they hold. Because of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of the shares and we cannot assure GDR holders that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. GDRs for which the Depositary does not receive timely voting instructions will not be voted.

In addition, although Russian securities regulations expressly permit the Depositary to split the votes with respect to the shares underlying the GDRs in accordance with instructions from GDR holders, there is little court or regulatory guidance on the application of such regulations, and the Depositary may choose to refrain from voting at all unless it receives instructions from all GDR holders to vote the shares in the same manner. GDR holders may thus have significant difficulty in exercising voting rights with respect to the shares underlying the GDRs. There can be no assurance that holders and beneficial owners of GDRs will (1) receive notice of shareholder meetings to enable the timely return of voting instructions to the Depositary, (2) receive notice to enable the timely cancellation of GDRs in respect of shareholder actions or (3) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions. See "Description of the Global Depositary Receipts—Voting Rights" for a description of the voting rights of holders of GDRs and "Registration of Placement Report" for a description of limitations on voting rights in respect of newly issued shares underlying the GDRs prior to the registration of the placement report.

Holders of GDRs will not be able to instruct the Depositary to (1) vote the shares represented by their GDRs on a cumulative basis, (2) introduce proposals for the agenda of shareholders' meetings or request that a shareholders' meeting be called or (3) nominate candidates for our Board of Directors or our review commission. If GDR holders wish to take such actions, they must timely request that their GDRs be cancelled and take delivery of the shares and thus become the owner of the shares on our share register.

Because there has been no prior market for the shares or GDRs, the offering may not result in an active or liquid market for the shares and GDRs, and their price may be highly volatile.

Before the offering, there has been no prior market for the shares or GDRs. Although application has been made to the FSA for a listing of the GDRs and to the London Stock Exchange for such GDRs to be admitted for trading, an active public market may not develop or be sustained after the offering. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If a liquid trading market for the shares and GDRs does not develop, the price of the shares and GDRs may become more volatile and it may be more difficult to complete a buy or sell order for such shares and GDRs.

The liquidity of a securities market is often a function of the volume of the underlying shares that are publicly held by unrelated parties. Although GDR holders are entitled to withdraw the shares underlying the GDRs from the Depositary (following the registration of the placement report with the FSFM), there is currently no trading of our shares and there may only be a very limited public free float in the future. In addition, upon withdrawal, GDR holders will receive the shares being sold by the Selling Shareholders (if any are deposited in the GDR program after the registration of the placement report), which can be traded on the Moscow Stock Exchange or MICEX and, if no such shares remain in the GDR program, GDR holders will receive shares being sold by us in the form of GDRs in the offering, which cannot be traded on the Moscow Stock Exchange or MICEX until at least three months after the date of the registration of the placement report. Also, the inability to convert the shares into GDRs due to the restrictions that no more than 35% of a Russian company's shares (or 25% of our shares in accordance with the current permission issued to us by the FSFM) may be circulated abroad through depositary receipt programs, may have an adverse effect on the development of a liquid trading market for the shares and GDRs. Furthermore, low trading volumes and/or the low amount of shares publicly held by unrelated parties may result in a delisting of the shares and/or the imposition of other liabilities, which would have a material adverse effect on the liquidity of the shares and GDRs.

The trading prices of the shares and GDRs may be subject to wide fluctuations in response to a number of factors. In addition, the Russian stock market has experienced extreme price and volume fluctuations. Moreover, the market price of the shares and GDRs may decline below the offering price, which will be determined by negotiation between us, the Selling Shareholders and representatives of the Underwriters.

You may be unable to repatriate distributions made on the shares.

We intend to pay any dividends on the shares in rubles. The Depositary will also receive dividends in respect of the shares underlying the GDRs in rubles. The ability to convert rubles into US dollars is subject to the availability of US dollars in Russia's currency markets. Although there is an existing, albeit limited, market within Russia for the conversion of rubles into US dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain.

You will experience immediate and substantial dilution.

The offer price of the shares and GDRs is substantially higher than the net book value per share and per GDR. That is, holders of GDRs will contribute 91.1% of our total book equity capitalization as of June 30, 2006, but will own only 19.1% of our total equity outstanding (not including the shares offered pursuant to the Concurrent Private Offering), assuming the Underwriters exercise the over-allotment option in full.

Moreover, in parallel with the offering and as part of a related additional share issuance, we expect that up to 1,222,663 of our newly issued shares will be purchased by Sistema and/or its subsidiaries, or the Concurrent Private Offering. We expect to repurchase from Sistema and/or its subsidiaries all of the shares placed in the Concurrent Private Offering promptly after such placement at the same price paid by Sistema and/or its subsidiaries. The Concurrent Private Offering will constitute up to 10.9% of our total issued share capital after the offering, assuming the Underwriters exercise the over-allotment option in full. If the Concurrent Private Offering is fully consummated, you will experience further dilution. See "The Offering—The Concurrent Private Offering," "Capitalization" and "Management—Share Option and Bonus Plan."

Future sales of shares or GDRs may affect the market price of the shares and GDRs.

Sales, or the possibility of sales, of substantial numbers of the shares or GDRs in the public markets, including the Russian stock market, following the offering could have an adverse effect on the market trading prices of the shares and GDRs. Our subsequent equity offerings may reduce the percentage ownership of our shareholders. Moreover, newly issued preferred shares may have rights, preferences or privileges senior to those of the shares.

GDR holders may be unable to obtain benefits to which they are entitled under the relevant income tax treaties in respect of Russian withholding taxes on dividends paid to the Depositary.

Under Russian law, dividends paid to a non-resident holder of the shares generally will be subject to Russian withholding tax at a rate of 15% for legal entities and organizations and at a rate of 30% for individuals. Russian tax rules applicable to the holders of the GDRs are characterized by significant uncertainties and, until recently, by an absence of interpretive guidance. In 2005 and 2006, the Ministry of Finance of the Russian Federation expressed an opinion that holders of global depositary receipts should be treated as the beneficial owners of the dividends paid on underlying shares for the purposes of double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that the tax treaty residence of the holders of the global depositary receipts is duly confirmed. However, in the absence of any specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities will ultimately treat the GDR holders in this regard.

Unless we receive adequate clarification from the Russian competent authorities that it is permitted under Russian law to withhold Russian withholding tax in respect of dividends it pays to the Depositary at a lower rate than the domestic rate applicable to such payments (currently 15%), we intend to withhold Russian withholding tax at the domestic rate applicable to such dividends, regardless of whether the Depositary (the legal owner of the shares) or a GDR holder would be entitled to reduced rates of Russian withholding tax under the relevant income tax treaty if it were the beneficial owner of the dividends for purposes of that treaty. Although non-resident GDR holders may apply for a refund of a portion of the amount so withheld by us under the relevant income tax treaty, we cannot make any assurances that the Russian tax authorities will grant any refunds. See “Taxation—Russian Federation Tax Considerations—Taxation of Dividends—Non-Resident Holders.”

Non-resident investors may be subject to Russian tax withheld at source on trades of the shares or GDRs through or to certain Russian payors.

Under Russian tax law, gains arising from a sale, exchange or other disposition by non-resident holders that are legal entities or organizations of Russian securities, such as the shares, as well as financial instruments derived from such securities, such as the GDRs, may be subject to Russian profits tax to be withheld at source by the Russian payor of the income.

However, no procedural mechanism currently exists to withhold and remit this tax with respect to sales made to persons other than Russian companies and foreign companies with a registered presence in Russia. Gains arising from a sale, exchange or other disposition of the foregoing types of securities on foreign stock exchanges by non-resident holders that are legal entities are, as a practical matter, not subject to taxation in Russia. Therefore, as long as the GDRs remain listed on a foreign stock exchange, gains arising from a sale, exchange or other disposition on that foreign stock exchange of the GDRs by non-resident legal entities or organizations to other non-resident legal entities or organizations should not be subject to taxation in Russia.

Capital gains derived by individual non-resident holders from their disposition of Russian shares or securities, such as the shares or GDRs, will be considered Russian-source income, and generally will be subject to Russian tax withheld at source if the disposition is made through or to a professional dealer or broker that is a Russian legal entity or a foreign company with a permanent establishment in Russia.

We may be classified as a passive foreign investment company, which could result in adverse US federal income tax consequences to US investors.

We do not expect to be considered a “passive foreign investment company,” or PFIC, for US federal income tax purposes for our taxable year ending December 31, 2006. However, the determination of whether we are a PFIC is a factual determination made annually and our PFIC status may greatly depend on the price of the shares and GDRs, which may fluctuate considerably, and the manner in which and how quickly we spend the cash we receive in this offering and other financing transactions. Therefore, there can be no assurance that we will not be treated as a PFIC for our current taxable year or any future taxable year. If we were to be treated as a PFIC, certain adverse US federal income tax consequences could apply to US investors. See “Taxation—Certain Material United States Federal Income Tax Considerations—Passive Foreign Investment Company.”

The GDR program is limited to 25% of our shares.

Russian securities regulations provide that no more than 35% of a Russian company's shares may be circulated abroad through depositary receipt programs. We have received permission from the FSFM for up to 25% of our shares to be circulated abroad through depositary receipt programs. Upon the completion of the offering (assuming the Underwriters do not exercise the over-allotment option) and the Concurrent Private Offering, we expect that the GDR program will account for approximately 15.74% of our issued shares, not including the approximately 1.02% of our issued shares being sold by the Selling Shareholders which may be deposited in the GDR program following the registration of the placement report.

The Depositary will have a right to sell some or all of the shares underlying your GDRs in certain circumstances.

If (1) the Depositary receives notice that the existence or operation of the GDR facility or the Depositary's holdings of the deposited shares violates any Russian law or regulation or that the Depositary or the Custodian is required to make any filing or obtain any consent, approval or license to operate that facility or to own or exercise any rights with respect to the deposited shares or (2) the Depositary receives advice that it reasonably could be subject to criminal or civil liabilities as a result of the existence or operation of the GDR facility or the holding by it or the exercise by it of any rights with respect to the deposited shares, then the Depositary may sell some or all of the deposited shares and convert a portion of GDR holdings pro-rata into a right only to receive the net proceeds of that sale.

Sales of deposited shares by the Depositary or concern that the Depositary might sell deposited shares could cause the market value of our shares and GDRs to decline.

Other Risks

We have not independently verified information we have sourced from third parties.

We have sourced certain information contained in this prospectus from third parties, including private companies such as C&W and Russian government agencies, and we have relied on the accuracy of this information without independent verification. The official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of other industrialized countries. Official statistics may also be produced on different bases than those used in other industrialized countries or may be influenced by political or other factors. Any discussion of matters relating to Russia in this prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

THE OFFERING

The Company	Sistema-Hals JSC, or Sistema-Hals, an open joint stock company under the laws of the Russian Federation.
The Selling Shareholders	Investments Pension Company, a closed joint stock company under the laws of the Russian Federation, PromTorgCenter, a closed joint stock company under the laws of the Russian Federation, and ALK Sistema-Leasing, or Sistema Leasing, an open joint stock company under the laws of the Russian Federation.
The Offering	We are offering 1,738,650 newly issued shares in the form of 34,773,000 GDRs. The Selling Shareholders are offering 112,171 shares. The GDRs are being offered in the United States to QIBs in reliance on Rule 144A and outside the United States and the Russian Federation to certain persons in offshore transactions in reliance on Regulation S. The shares are being offered in the Russian Federation, in the United States to QIBs in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S. The GDRs will be delivered by The Bank of New York, as Depositary.
The Concurrent Private Offering	Concurrently with the offering and as part of a related additional share issuance, we expect that up to 1,222,663 of our newly issued shares will be purchased by Sistema and/or its subsidiaries. The Concurrent Private Offering will constitute up to 10.9% of our total issued share capital after the offering, assuming the Underwriters exercise the over-allotment option in full. We intend for the Concurrent Private Offering to occur within 36 days after the date hereof and for the shares placed in the Concurrent Private Offering to be repurchased by one of our subsidiaries promptly after such placement. We intend to place and subsequently repurchase any shares placed pursuant to the Concurrent Private Offering at the offer price for the offering as approved by our Board of Directors. The issuance of new shares for the offering and for the Concurrent Private Offering will be registered with the FSFM as part of a single placement report filing. We intend to use up to 5.7% of these repurchased shares in connection with our planned share bonus and option plan for members of our Board of Directors, senior management and other key personnel and up to 5.2% of the shares for future uses, including in connection with, among other things, potential acquisitions. These shares, when held by our subsidiaries, will be considered treasury shares in our US GAAP financial statements, but will not be treated as treasury shares under Russian law and as such will be entitled to vote and to receive dividends. See “Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital,” “Capitalization” and “Management—Share Option and Bonus Plan.”
Share Capital	Our share capital consists of 8,087,525 ordinary shares, each with a nominal value of 50 rubles, which are fully paid, issued and outstanding. In addition, we are authorized by our charter to issue an additional 5,000,000 shares. Our shares have the rights described under “Description of Share Capital and Certain Requirements of Russian Legislation.” Following the offering and the Concurrent

Private Offering, and assuming the Underwriters do not exercise the over-allotment option, Sistema, our controlling shareholder, and its subsidiaries will own 83.25% of our issued shares.

The GDRs Twenty GDRs will represent one share on deposit with ING Bank (Eurasia), as Custodian. The GDRs will be issued pursuant to one of two separate deposit agreements, one relating to the Rule 144A GDRs, or the Rule 144A Deposit Agreement, and one relating to the Regulation S GDRs, or the Regulation S Deposit Agreement, among us, the Depositary and holders and beneficial owners from time to time of the relevant GDRs. The Rule 144A Deposit Agreement and the Regulation S Deposit Agreement are herein referred to as the Deposit Agreements. The Regulation S GDRs will be evidenced initially by a Master Regulation S GDR Certificate and the Rule 144A GDRs will be evidenced initially by a Master Rule 144A GDR Certificate, each to be issued pursuant to the relevant Deposit Agreement. The Master Regulation S GDR Certificate and the Master Rule 144A GDR Certificate are herein collectively referred to as the Master GDRs. Pursuant to the Deposit Agreements, the shares represented by the GDRs will be held in Russia by the Custodian, for the account of the Depositary and for the benefit of the holders and beneficial owners of GDRs.

Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDR Certificates. Subject to the terms of the Deposit Agreements, interests in the Master Regulation S GDR Certificate may be exchanged for interests in the corresponding number of GDRs represented by the Master Rule 144A GDR Certificate, and vice versa. See “Description of the Global Depositary Receipts,” “Settlement and Delivery—The Clearing Systems—Registration and Form” and “Settlement and Delivery—Global Clearance and Settlement Procedures—Secondary Market Trading.”

Offer Price \$214.00 per share and \$10.70 per GDR.

Closing Date Expected to be on or about November 8, 2006.

Over-Allotment Option We have granted to the Underwriters an option exercisable within 30 days after the announcement of the offer price, to purchase up to an additional 168,256 ordinary shares in the form of GDRs at the offer price, solely to cover over-allotments in the offering.

Registration of Placement

Report Trading in the GDRs on the London Stock Exchange will be subject to cancellation until the placement report is registered by the FSFM. If the placement report is not registered within 60 days after the Closing Date (or such later date that we agree with the Underwriters), the gross proceeds (without interest) of the offering of GDRs will be returned to the holders of the GDRs at or about the time of such cancellation, regardless of the then-prevailing market price of the GDRs, subject to applicable withholding taxes. However, the return of funds may be delayed due to Russian currency control, banking or securities regulations or practices and may be prevented if there is a change in such regulations or practices. Until the registration of the placement report, all GDRs will be issued on a provisional basis and holders of GDRs will not be entitled to instruct the Depositary to exercise any voting rights on their behalf, and neither the Depositary nor the Custodian will exercise any voting rights as a shareholder. Holders of GDRs may not withdraw shares or other property on deposit with the

Depository in respect of the GDRs sold in the offering prior to the registration of the placement report. Such limitation on withdrawal and voting of the shares will not prohibit trading in the GDRs. Also, following the Closing Date, except for the shares issued by us in connection with the over-allotment option, no additional shares will be accepted for deposit and no additional GDRs in respect of such shares will be issued until the placement report is registered.

The shares being offered by the Selling Shareholders will not be cancelled, and the proceeds of the offering of shares by the Selling Shareholders will not be returned, in case the placement report is not registered.

See “Registration of Placement Report” and “Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—GDR holders will not be able to withdraw the shares underlying the GDRs prior to the registration of a placement report for the newly issued shares, and the failure to register this placement report could result in the newly issued shares underlying the GDRs being cancelled, reliance by GDR holders on us and the Underwriters to return the offering proceeds and a small public float based solely on the shares sold by the Selling Shareholders.”

Lock-up We, Sistema, Investments Pension Company, PromTorgCenter and Sistema-Leasing have agreed, subject to certain exceptions, not to issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of, directly or indirectly, any shares in us or securities convertible or exchangeable into or exercisable for any shares in us or warrants or other rights to purchase such shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or GDRs representing the right to receive any such securities or publicly announce any intention to do any of the foregoing, from the date hereof until 180 days from the Closing Date, without the prior written consent of the Joint Global Coordinators. However, such consent shall not be required for the sale of the shares to the Underwriters pursuant to the Underwriting Agreement. See “Subscription and Sale.”

Transfer Restrictions The shares and GDRs will be subject to certain restrictions on transfer as described under “Description of the Global Depositary Receipts” and “Subscription and Sale.”

Listing and Market for the Shares and GDRs Our existing shares have been admitted to list “V” on the Moscow Stock Exchange under the symbol “HALS” and on the MICEX under the symbol “HALS,” but are not traded.

Application has been made to (1) the FSA for a listing of 77,341,866 GDRs, consisting of up to 34,773,000 GDRs to be issued on or about the Closing Date, and up to 42,568,866 additional GDRs to be issued from time to time against the deposit of shares (to the extent permitted by law) with the Depository, to be admitted to the Official List and (2) the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange’s regulated market for listed securities. Conditional trading in the GDRs on the London Stock Exchange is expected to commence on a when and if issued basis on or about November 3, 2006. Admission to the Official List and to trading on the London Stock Exchange’s regulated market for listed securities are expected to take place on or about November 8, 2006.

The GDRs will trade on the London Stock Exchange under the symbol “HALS.” Application has also been made to have the Rule 144A GDRs designated eligible for PORTAL. Trading in the GDRs on PORTAL is expected to commence on or about November 8, 2006.

In connection with the over-allotment option and after the registration of the placement report, shares may be deposited, subject to the provisions set forth under “Description of the Global Depositary Receipts” and in the Deposit Agreements, with the Custodian against which the Depositary shall deliver GDRs representing such shares to the extent permitted by law. See also “Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—The GDR program is limited to 25% of our shares.”

Settlement Procedures

Payment for the GDRs is expected to be made in US dollars in same-day funds through the facilities of DTC, Euroclear and Clearstream on or about the Closing Date. The Underwriters and the Depositary will apply to DTC to have the Rule 144A GDRs accepted into DTC’s book-entry settlement system. Upon acceptance by DTC, a single Master Rule 144A GDR Certificate will be issued to DTC and registered in the name of Cede & Co., as nominee for DTC. The Master Regulation S GDR Certificate will be registered in the name of a nominee for The Bank of New York, London Office, as common depositary for Euroclear and Clearstream. Euroclear and Clearstream are expected to accept the Regulation S GDRs for settlement in their respective book-entry settlement systems. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR only through DTC, Euroclear or Clearstream, as applicable.

Transfers within DTC, Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system. See “Settlement and Delivery.”

Each purchaser of the shares in the offering is required to pay for any such shares in US dollars or rubles, as the case may be, within one business day after share delivery. The settlement price in rubles will be the US dollar price converted into rubles using the official exchange rate established by the Central Bank of Russia for exchange of US dollars into Russian rubles for the date of this prospectus. In order to take delivery of the shares, an investor should either have a direct account with our share registrar, OJSC Reestr, or a deposit account with CJSC Depositary Clearing Company, or DCC, or any other depositary that has an account with DCC or a direct account with our share registrar. Investors may at their own expense choose to hold the shares through a direct account with our share registrar. However, directly-held shares are ineligible for trading on the Moscow Stock Exchange and MICEX. Only if the shares are deposited with Not-for-Profit Partnership, The National Depositary Center, or NDC, (or through another depositary having an account at NDC) can they be traded on MICEX and only if the shares are deposited with the Depositary and Settlement System, or DSS, (or through another depositary (DCC or NDC) having an account in DSS) can they be traded on the Moscow Stock Exchange.

Voting

The Deposit Agreements do not allow for the voting of fractional entitlements. Thus, you will need 20 GDRs to be entitled to one

vote. If you hold shares, you are generally entitled to one vote per share at a shareholders' meeting. See "Description of Share Capital and Certain Requirements of Russian Legislation—General Meetings of Shareholders."

General Information It is expected that the Rule 144A GDRs will be accepted for clearance through the facilities of DTC and the Regulation S GDRs will be accepted for clearance through Euroclear and Clearstream. The security numbers for the GDRs offered hereby are as follows:

Regulation S GDRs:	CUSIP: 82977M207
	ISIN: US82977M2070
	Common Code: 027074529
	SEDOL Code: B1FRP85

Rule 144A GDRs:	CUSIP: 82977M108
	ISIN: US82977M1080
	Common Code: 027074359
	SEDOL Code: B1FRPC9

ISIN for shares:	RU000A0JNP96
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London Stock Exchange trading symbol:	HALS
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Moscow Stock Exchange trading symbol:	HALS
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MICEX trading symbol:	HALS
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PORTAL symbol:	SHNP98277
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REGISTRATION OF PLACEMENT REPORT

Under Russian law, placement of the newly issued shares we are offering in the form of GDRs pursuant to this prospectus is subject to our registration of a placement report with the FSFM. Russian law requires that we file the placement report within 30 days following completion of the placement, which is specified to occur on the 36th day after the date of the underwriting agreement in our share registration documents in order to allow sufficient time for the exercise of the over-allotment option. We intend to file the placement report as soon as practicable following such time. The FSFM is statutorily required to make its decision within two weeks after we file the placement report but it may take longer or the registration of the placement report may not occur at all. Although it is not uncommon for the FSFM to refuse to register the placement report on technical grounds, no such refusals have been reported in relation to major international initial public offerings of Russian companies.

In the event that the placement report is not registered by the FSFM within 60 days after the Closing Date (or such later date that we agree with the Underwriters), we will issue a press release and notify the Depositary and the London Stock Exchange. Under Russian law, in the case of non-registration of the placement report we are required to return the full amount of ruble proceeds that were initially deposited into our ruble-denominated account on the Closing Date and the over-allotment closing date (if any). Such ruble amount will be converted into US dollars for remittance to the holders of the GDRs. We have agreed in the Underwriting Agreement that we will pay such additional amounts (if any) as may be necessary to ensure that the US dollar funds received by the Depositary for remittance to the holders of GDRs will be equal to the gross US dollar proceeds received from the sale of GDRs, except for the underwriting commissions related to the GDRs, which the Underwriters have agreed to return. The Depositary will promptly distribute through DTC, Euroclear and Clearstream, as applicable, the funds it has received to the holders of the GDRs. The amount returned to the holders of the GDRs is expected to be equal to the gross proceeds (without interest) of the offering of GDRs, regardless of the then-prevailing market prices for the GDRs, subject to applicable withholding taxes. However, the return of funds may be delayed due to Russian currency control, banking and securities regulations or practices and may be prevented if there is a change in such regulations or practices. In addition, the holders of the GDRs will be taking credit risk on us and the Underwriters for the return of funds in the event that the placement report is not registered. We have agreed with the Underwriters that we will not use the proceeds of the offering until the placement report is registered.

Until the registration of the placement report, all GDRs will be issued on a provisional basis and holders of GDRs will not be entitled to instruct the Depositary to exercise any voting rights on their behalf, and neither the Depositary nor the Custodian will exercise any voting rights as a shareholder. Holders of GDRs may not withdraw the shares or other property on deposit with the Depositary in respect of the GDRs sold in the offering prior to the registration of the placement report. Such limitation on withdrawal and voting of the shares will not prohibit trading in the GDRs. Also, following the Closing Date, except for the shares issued by us in connection with the over-allotment option, no additional shares will be accepted for deposit and no additional GDRs in respect of such shares will be issued until the placement report is registered.

The shares being offered by the Selling Shareholders will not be cancelled, and the proceeds of the offering of the shares by the Selling Shareholders will not be returned, in case the placement report is not registered.

See “Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—GDR holders will not be able to withdraw the shares underlying the GDRs prior to the registration of a placement report for the newly issued shares, and the failure to register this placement report could result in the newly issued shares underlying the GDRs being cancelled, reliance by GDR holders on us and the Underwriters to return the offering proceeds and a small public float based solely on the shares sold by the Selling Shareholders.”

USE OF PROCEEDS

The net proceeds that we will receive from the offering, after deducting underwriting commissions, fees and expenses incurred in connection with the offering, will be approximately \$356.2 million (assuming the Underwriters do not exercise the over-allotment option).

The net proceeds of the offering payable to us will be converted into rubles as required by Russian law for settlement purposes, paid into our ruble-denominated account and then deposited in US dollar-denominated accounts at the original conversion rate.

We intend to use approximately 70-80% of the proceeds from the offering for making additional investments into our current development pipeline and 20-30% of the proceeds for acquiring real estate development and facility management companies in Russia and the CIS, as well as for other corporate purposes.

We will not receive any of the proceeds from the sale of the shares offered by the Selling Shareholders.

We have agreed with the Underwriters that we will not use the proceeds in the manner described above until the placement report is registered with the FSFM in respect of the newly issued shares of Sistema-Hals we are offering in the form of GDRs. See “Registration of Placement Report.”

DIVIDEND POLICY

Following the offering, Sistema-Hals expects to declare and pay a nominal annual dividend, subject to any applicable Russian legal restrictions. In accordance with our strategy, we expect to reinvest a substantial majority of the generated cash flow into our existing business and new investment opportunities for the foreseeable future. See “Business—Strategy.”

Dividend payments, if any, must be recommended by our Board of Directors and approved by our shareholders. In particular, dividends may be declared only out of net profits calculated under Russian accounting standards and as long as the following conditions have been met:

- our charter capital has been paid in full;
- the value of our net assets, calculated under Russian accounting standards, is not less, and would not, as a result of the proposed dividend payment, become less than the sum of our charter capital, our reserve fund and the difference between the liquidation value and the par value of our issued and outstanding preferred shares;
- we have repurchased all shares from shareholders having the right to demand repurchase; and
- we are not, and would not become as the result of the proposed dividend payment, insolvent.

For purposes of the above, Russian legislation takes into consideration the statutory, non-consolidated financial statements of Sistema-Hals prepared under Russian accounting standards, and these differ substantially from our US GAAP consolidated financial statements. We estimate that Sistema-Hals’ net profits for the six months ended June 30, 2006, as determined under Russian accounting standards, were 59.1 million rubles (the equivalent of approximately \$2.1 million). Sistema-Hals has not paid any dividends since January 1, 2003.

Dividends, if declared, are payable to our shareholders within 100 days of the declaration. Dividends not claimed within three years of the date of payment lapse and accrue to us. For a further description, please refer to “Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital—Dividends.”

We anticipate that any dividends we may pay in the future in respect of the shares represented by the GDRs will be declared and paid to the Depositary in rubles and will be converted into US dollars by the Depositary and distributed to holders of the GDRs, net of the Depositary’s fees and expenses. Accordingly, the value of dividends received by holders of the GDRs will be subject to fluctuations in the exchange rate between the ruble and the US dollar. In addition, dividends that we may distribute to the Depositary will be subject to applicable Russian withholding taxes. See “Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—GDR holders may be unable to obtain benefits to which they are entitled under the relevant income tax treaties in respect of Russian withholding taxes on dividends paid to the Depositary” and “Taxation—Russian Federation Tax Considerations—Taxation of Dividends.”

In relation to their 2005 results, our subsidiaries Mosdachtrest, Organizator and PSO Sistema-Hals, which are not wholly owned by us, declared dividends of 7,157,095 rubles, 33,400,000 rubles and 107,395,193 rubles, respectively. These dividends were paid in 2006. Of these dividends, 75,427,581 rubles (or approximately \$2.8 million) was paid outside the group to minority shareholders of these subsidiaries. We expect these subsidiaries will continue to pay dividends.

CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2006, on (1) an actual basis and (2) as adjusted for the offering, assuming no exercise of the over-allotment option. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources,” and our financial statements included elsewhere in this prospectus.

	As of June 30, 2006	
	Actual	As adjusted for the offering
	(in thousands)	
Debt		
Loans and notes payable, current portion	\$132,784	\$132,784
Loans and notes payable, non-current portion	31,806	31,806
Total debt ⁽¹⁾	164,590	164,590
Net assets⁽²⁾	<u>38,265</u>	<u>394,430</u>
Total capitalization	<u>\$202,855</u>	<u>559,020</u>

⁽¹⁾ Since June 30, 2006, our net debt position has increased by approximately \$239.3 million. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments.” Of our total indebtedness at June 30, 2006, \$23.1 million was secured and \$141.5 million was unsecured.

⁽²⁾ Since June 30, 2006, we have acquired from Sistema and its related parties a 99% interest in Terra, a 98% interest in Yalta Fish Processing Plant, a 100% interest in Kasdad, a 100% interest in Hotel Korona-Intourist and a 100% interest in Nostro. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments.” Payments to Sistema and its related parties in connection with these acquisitions decreased our net assets by approximately \$57.8 million.

As of June 30, 2006, Sistema-Hals’ share capital consisted of 8,087,525 shares, each with a nominal value of 50 rubles, which are fully paid, issued and outstanding. As adjusted for the offering (but not for the Concurrent Private Offering) and assuming the Underwriters do not exercise the over-allotment option, Sistema-Hals’ share capital consists of 9,826,175 shares, each with a nominal value of 50 rubles, which are fully paid, issued and outstanding. Concurrently with the offering and as part of a related additional share issuance, we expect that up to 1,222,663 of our newly issued shares will be purchased by Sistema and/or its subsidiaries. The Concurrent Private Offering will constitute up to 10.9% of our total issued share capital after the offering, assuming the Underwriters exercise the over-allotment option in full. We intend for the Concurrent Private Offering to occur within 36 days after the date hereof and for the shares placed in the Concurrent Private Offering to be repurchased by one of our subsidiaries promptly after such placement. We intend to place and subsequently repurchase any shares placed pursuant to the Concurrent Private Offering at the offer price for the offering as approved by our Board of Directors.

We intend to use up to 5.7% of these repurchased shares in connection with our planned share bonus and option plan for members of our Board of Directors, senior management and other key personnel and up to 5.2% of the shares for future uses, including in connection with, among other things, potential acquisitions. These shares will be considered treasury shares in our US GAAP financial statements, but will not be treated as treasury shares under Russian law and as such will be entitled to vote and to receive dividends. See “Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital” and “Management—Share Option and Bonus Plan.”

As of June 30, 2006, Sistema-Hals had cash and cash equivalents of \$23.3 million.

SELECTED FINANCIAL INFORMATION

The table below shows certain financial information for the group as of and for the years ended December 31, 2003, 2004 and 2005 and as of and for the six months ended June 30, 2005 and 2006. The financial information for the years ended December 31, 2003, 2004 and 2005 has been derived from our audited financial statements included elsewhere in this prospectus. The unaudited financial information for the six months ended June 30, 2005 and 2006 includes all normal and recurring adjustments, which are, in our opinion, necessary for a fair presentation of our financial position at June 30, 2006 and results of operations for such periods. The results of operations for the six months ended June 30, 2006 are not necessarily indicative of the results for the full year. The selected financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements included elsewhere in this prospectus.

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	(unaudited)				
	(amounts in thousands of US dollars)				
Statement of operations data					
Revenues	\$ 32,535	\$108,977	\$ 93,124	\$ 33,245	\$106,620
Operating expenses	(31,515)	(87,167)	(81,425)	(29,349)	(64,627)
Operating income	1,020	21,810	11,699	3,896	41,993
Other income/(expenses):					
Other income/(expenses), net	2,251	(1,275)	(1,201)	128	268
Interest income	121	552	682	220	846
Interest expense, net of amounts capitalized	(3,829)	(2,214)	(3,988)	(2,307)	(2,600)
Losses on foreign currency transactions	(977)	(1,872)	(193)	(953)	(4,819)
Gain on disposal of an equity investee	—	—	—	—	3,078
Gain on sale of a controlling interest in a subsidiary	—	—	2,781	—	—
(Loss)/income before income tax and minority interests	(1,414)	17,001	9,780	984	38,766
Income tax expense	(154)	(2,018)	(4,517)	(1,942)	(4,748)
Minority interests	(205)	(2,105)	(4,556)	(3,201)	(2,934)
Net (loss)/income	\$ (1,773)	\$ 12,878	\$ 707	\$ (4,159)	\$ 31,084

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	(unaudited)				
	(amounts in thousands of US dollars)				

Statement of cash flow data

Net cash provided by/(used in) operating activities . .	\$ 2,920	\$ 33,905	\$ (54,270)	\$ (11,524)	\$106,631
Net cash used in investing activities	(20,861)	(69,401)	(17,376)	(20,412)	(35,607)
Net cash provided by/(used in) financing activities .	16,041	35,522	75,782	30,689	(58,722)

Statement of assets and liabilities data (end of period)

Cash and cash equivalents	\$ 6,148	\$ 6,540	\$ 10,362	\$ 5,145	\$ 23,289
Total assets	208,345	255,777	325,035	285,789	417,541
Total debt (long-term and short-term)	138,386	157,374	216,500	172,288	164,590
Total liabilities	218,567	234,482	281,479	251,968	364,960
Net (liabilities)/assets	(13,614)	15,798	29,431	26,369	38,265

Non-US GAAP measures

OIBDA ⁽¹⁾	\$ 1,705	\$ 23,366	\$ 14,482	\$ 4,859	\$ 43,707
Adjusted OIBDA ⁽¹⁾	1,705	23,366	17,263	4,859	46,785

⁽¹⁾ OIBDA represents operating income before depreciation and amortization. OIBDA is not a measure of financial performance under US GAAP. You should not consider it an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of OIBDA may be different from the calculation used by other companies and therefore comparability may be limited. We believe that OIBDA provides

useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of subsidiaries and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under US GAAP, these expenses primarily represent non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods.

Adjusted OIBDA represents OIBDA plus gain on sale of a controlling interest in a subsidiary and gain on disposal of an equity investee. As part of our internal segment performance review we analyze such realized gains in connection with our development and investment activities related to the projects owned by the group. Therefore, we believe Adjusted OIBDA provides additional useful information to a reader in relation to our core business activities.

Reconciliation of OIBDA and Adjusted OIBDA to operating income is as follows for the periods indicated:

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	(unaudited)				
	(amounts in thousands of US dollars)				
Operating income	\$1,020	\$21,810	\$11,699	\$3,896	41,993
Add: Depreciation and amortization	685	1,556	2,783	963	1,714
OIBDA	1,705	23,366	14,482	4,859	43,707
Gain on sale of controlling interest in a subsidiary	—	—	2,781	—	—
Gain on disposal of an equity investee	—	—	—	—	3,078
Adjusted OIBDA	\$1,705	\$23,366	\$17,263	\$4,859	\$46,785

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements, including the notes thereto, and other information included elsewhere in this prospectus. This section contains forward-looking statements that involve risk and uncertainties. Our actual results may differ materially from those discussed in forward-looking statements as a result of various factors, including those described under "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements."

Overview

Our revenues are derived principally from the following activities: (1) selling, developing and redeveloping commercial and residential properties, as well as selling rights to land; (2) managing infrastructure and transportation construction projects; (3) managing and renting our portfolio of real estate properties, completed development projects and other properties held as investments; and (4) providing facility management services.

For the year ended December 31, 2005 and the six months ended June 30, 2006, we had revenues and operating income of \$93.1 million and \$11.7 million and \$106.6 million and \$42.0 million, respectively. The real estate development segment represents the most significant aspect of our business, accounting for 52.6% and 73.2% of our revenues for the year ended December 31, 2005 and for the six months ended June 30, 2006, respectively. The following table sets forth our revenues and operating income by segment.

	Years ended December 31,		Six months ended June 30,	
	2005	% of revenues	2006	% of revenues
Revenues	(in thousands of US dollars, except percentages)			
Real estate development	48,960	52.6%	78,078	73.2%
Project and construction management	22,743	24.4%	13,363	12.5%
Real estate asset management	15,299	16.4%	11,428	10.7%
Facility management	7,267	7.8%	5,023	4.7%
Eliminations	(1,145)	(1.2)%	(1,272)	(1.2)%
Total	<u>93,124</u>	<u>100.0%</u>	<u>106,620</u>	<u>100.0%</u>

	Years ended December 31,		Six months ended June 30,	
	2005	% of operating income	2006	% of operating income
Operating income/(loss)	(in thousands of US dollars, except percentages)			
Real estate development	(6,642)	(56.8)%	32,889	78.3%
Project and construction management	11,553	98.8%	4,858	11.6%
Real estate asset management	6,740	57.6%	4,291	10.2%
Facility management	370	3.2%	325	0.8%
Eliminations	(322)	(2.8)%	(370)	(0.9)%
Total	<u>11,699</u>	<u>100.0%</u>	<u>41,993</u>	<u>100.0%</u>

Financial Statements

Our financial statements as of and for the three years ended December 31, 2003, 2004 and 2005 and as of and for the six months ended June 30, 2005 and 2006, have been prepared in accordance with US GAAP and are presented on a carve-out basis to include the historical operations of the real estate business segment of Sistema for such periods. In August 2006, Sistema completed the corporate reorganization of its real estate business segment by consolidating the ownership of the segment's entities under Sistema-Hals, except for Pokrovka 40, which remained majority owned by Sistema.

Pokrovka 40 was established in April 2006 in order to effect the sale of the office complex we are developing at 40/3 Pokrovka Street. The buyer of the office complex provided a deposit of

\$30.3 million. Title to the office complex was transferred to Pokrovka 40 in October 2006. Sistema and Sistema-Hals have transferred their interests in Pokrovka 40 to the buyer of the office complex. The final sale price, including the deposit, is expected to be approximately \$70.9 million. The portion of the total sale price to be paid to Sistema (including its portion of the initial deposit) is expected to be approximately \$43.8 million, based on Sistema's ownership interest in Pokrovka 40. This amount will be reflected as a net transfer to Sistema in our consolidated statement of cash flows for the year ended December 31, 2006.

Starting with year-end reporting for the year ended December 31, 2006, our results of operations will be reported in the consolidated basis format, as Sistema-Hals will be the parent company for all entities within Sistema's real estate business segment.

Operating Segments

Our segments are constituted on the basis of the grouping of our significant operating entities and project companies as follows:

Segment	Entity	Business	Ownership interest as of the date hereof
Real Estate Development	Sistema-Hals ⁽¹⁾	Development services	n/a
	Hotel Korona-Intourist	Project company for hotel complex of 40/3 Pokrovka Street project	100%
	Kuntsevo-Invest	Development services for Kuntsevo project	100% ⁽²⁾
	Landshaft-2	Project company for Avrora project	100%
	Beijing-Invest	Project company for Peking Hotel project	90%
	Sistema-Hals Nord-West	Development services (St. Petersburg)	76%
	Yalta Fish Processing Plant	Owner of industrial facility	98%
	Terra	Leasehold rights to forested land	99%
Project and Construction Management	Kaskad	Owner of land plot in St. Petersburg ⁽³⁾	100%
	Organizator	Construction management and technical supervision services for Moscow City Government	51%
	PSO Sistema-Hals	Technical services	51%
Real Estate Asset Management	Hals-Stroy	General contractor	100%
	Mosdachrest	Owner and manager of properties, including single-family houses	57% ⁽⁴⁾
	Landshaft	Utilities and services provider for Zhukovka residential development	100%
	Sistema-Temp	Owner and manager of the Bolshaya Tatarskaya properties in Moscow	100%
Facility Management	Nostro	Owner and manager of office building at 75 Sadovnicheskaya Street	100%
	City-Hals	Facility management	100%

⁽¹⁾ A majority of the group's general and administrative expenses are incurred by Sistema-Hals, and we do not allocate these costs to other segments.

⁽²⁾ In October 2006, we acquired a 19% interest in Kuntsevo-Invest for \$0.1 million, increasing our interest to 100%.

⁽³⁾ Kaskad owns a land plot in St. Petersburg, to be used for our Hals Mart project.

⁽⁴⁾ Based on both ordinary and preferred shares. We hold 60% of the ordinary shares.

Recent Developments

Since June 30, 2006, we have entered into the following material transactions:

As part of the reorganization of Sistema's real estate segment, in August 2006, we acquired from Sistema's subsidiaries outside of our group (1) a 99% interest in Terra, (2) a 100% interest in CJSC Capital-Invest, which owns a 98% interest in Yalta Fish Processing Plant, (3) a 100% interest in Kaskad, and (4) a 100% interest in Hotel Korona-Intourist for an aggregate consideration of approximately \$30.3 million. As these companies are already in Sistema's real estate business segment, these are not considered acquisitions for purposes of our financial statements and the cash paid for these subsidiaries will be reflected as a net transfer to Sistema in our consolidated statement of cash flows for the year ended December 31, 2006.

In August 2006, we acquired from certain managers within the Sistema group a 100% interest in Nostro for promissory notes in the amount of \$26.6 million and committed to invest an additional \$7.2 million to settle its debts. The difference, of approximately \$27.5 million, between the total purchase price paid by us and the price originally paid by the sellers will be reflected as a distribution to related parties in our consolidated financial statements for the year ended December 31, 2006. Nostro owns a Class B office building located at 75 Sadovnicheskaya Street in Moscow, which was completed in 1998. We intend to use a portion of the building for our new headquarters, and the remainder will be leased to third parties.

In August 2006, we entered into a loan facility with Deutsche Bank AG London Branch in the amount of \$140.0 million with a term of one year. The loan facility was extended for our general operational needs and bears interest at the rate of 8.65% per annum. The facility is guaranteed by Sistema. We have fully drawn the facility.

In September 2006, we entered into a loan facility with Nomura International plc in the amount of \$100.0 million with a term of one year. The loan facility was extended for our general operational needs and bears interest at the rate of 8.45% per annum. The facility is guaranteed by Sistema. We have fully drawn the facility.

In October 2006, we entered into a loan facility with UBS AG, London Branch in the amount of \$100.0 million with a term of one year. The loan facility was extended for our general operational needs and bears interest at the rate of 8.65% per annum. The facility is guaranteed by Sistema. We have fully drawn the facility.

See "Description of Certain Indebtedness" and "—Liquidity and Capital Resources—Capital Resources" for more information about these loan facilities.

Intersegment Revenues and Expenses

Our operating segments provide certain services to other segments, as follows:

- the real estate development segment charges Mosdachtrest and certain other group companies for providing financial guarantees;
- the project and construction management segment provides certain services in relation to the preparation of technical project documentation;
- the real estate asset management segment leases the 35/4 Bolshaya Tatarskaya Street commercial building to Sistema-Hals and certain other group companies; and
- the facility management segment provides services to the real estate management segment in relation to 35/4 Bolshaya Tatarskaya Street commercial building and other properties.

The amounts recorded for these intersegment revenues and expenses are insignificant for the periods presented.

Certain Factors Affecting Our Results of Operations

Our results are affected by a variety of factors, including the following:

Macroeconomic Factors

Almost all of our current properties and projects are located in Russia. As a result, Russian macroeconomic trends and country-specific risks significantly influence our performance. The following table sets out certain information for Russia as of and for the dates indicated.

	Years ended December 31,		
	2003	2004	2005
GDP growth ⁽¹⁾	7.3%	7.1%	6.4%
Consumer price index ⁽¹⁾	12.0%	11.7%	10.9%
Average exchange rate (rubles per US dollar) ⁽²⁾	30.6	28.7	28.3
Real ruble appreciation against US dollar ⁽³⁾	20.9%	18.6%	12.5%

⁽¹⁾ Source: Rosstat.

⁽²⁾ Source: Central Bank of Russia. The average of the exchange rates on the last business day of each full month during the relevant period.

⁽³⁾ Source: Central Bank of Russia. Real ruble appreciation against US dollar is a consumer price index adjusted for nominal exchange rate changes over the same period.

As shown in the table above, the Russian economy has experienced positive trends in the last few years, such as increases in GDP, reduced rates of inflation and a relatively stable ruble that has been appreciating against the US dollar. GDP growth rates in Russia are high as compared to those in industrialized countries. The rate of increase in the consumer price index in Russia is high but has stabilized and slightly declined. The Russian government has generally followed conservative fiscal and monetary policies, resulting in federal budget surpluses, reductions in its foreign debt, large foreign currency reserves and a large stabilization fund. These positive trends have been accompanied by significant growth in the demand for office, retail and residential space, as well as for hotels. Rental rates and sales prices for real estate have also increased. See “Industry Overview.” In this environment, we expect to continue to experience positive trends in the results of all of our segments.

Revenue Recognition

Revenue recognition policies have a significant impact on our results of operations. Below we have summarized key elements of our revenue recognition policies for each of the segments. See “—Critical Accounting Policies—Revenue Recognition” for a full description of these policies.

Real estate development

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

Revenue is recognized on real estate development activities as follows:

- When we undertake real estate development projects at our own risk, we generally recognize revenues from sales of real estate when the sale transaction is completed. Revenues from development of office and residential apartment buildings and shopping centers can be recognized prior to consummation of sale by the percentage-of-completion method if (a) construction is beyond a preliminary stage; (b) the buyer is committed to the extent of being unable to require a refund except for nondelivery of the property; (c) sales prices are collectible; and (d) aggregate sales proceeds and costs can be reasonably estimated.
- In those instances, when we act as a contractor under construction contracts with third parties, we apply the percentage of completion method to the respective contracts where and as soon as we are able to reliably estimate the stage of progress to completion of the project, costs to complete the project and contractual revenues. Progress towards completion is measured by the percentage of costs incurred to date to the estimated total costs at completion for each contract

(the “cost-to-cost” method). On most of our contracts, we are not able to reliably estimate costs to complete the project and contractual revenues until the project is at least 30% complete. Until the 30% completion point, we carry the projects at cost. We do not recognize revenue on contracts until reasonably dependable estimates of costs to complete the project and contractual revenues can be made.

Costs clearly associated with the development of a real estate project, primarily comprising costs to acquire land rights, design costs, permitting costs, costs of general contractors and borrowing costs are capitalized as a cost of that project. Indirect project costs that relate to several projects are capitalized and allocated to the projects to which the costs relate. These costs are expensed when revenue related to the project is recognized. Indirect costs that do not clearly relate to projects under development, including general and administrative expenses, are charged to statement of operations as incurred.

Due to long development cycles we have experienced significant variations in revenues from our development activities during the periods under review: for the years ended December 31, 2003, 2004 and 2005 and the six months ended June 30, 2006, real estate development revenues were \$18.9 million, \$88.2 million, \$49.0 million and \$78.1 million, respectively.

In the periods under review, we recognized revenues with respect to the following significant properties:

Property	Type	Year Construction Commenced	Year Construction Completed	Revenues Recognized in 2003	Revenues Recognized in 2004	Revenues Recognized in 2005	Revenues Recognized in 1H2006
(in thousands of US dollars)							
40/3 Pokrovka Street ⁽¹⁾	Class A office	2002	2006	—	—	—	63,204
15 Elninskaya Street ⁽¹⁾	Residential	2002	2006	—	22,655	16,576	1,196
40/3 Pokrovka Street	Hotel	2002	2006	—	—	13,012	11,887
7 Nastasinskiy Lane	Class A office reconstruction	2003	2005	—	263	13,922	—
40/3, 40/4, 40/5 Bolshaya Ordynka Street ⁽¹⁾	Class A office	2002	2004	—	52,932	—	—
15 Botanichesky Lane ⁽¹⁾	Residential	2002	2004	—	8,552	—	—
MTS offices in St. Petersburg (including 2 M. Monetnaya, 8 Italianskaya, 29 Nekrasova, 34 Liteiny, 208 Moskovsky, 74 B. Sampsonievsky, 2/1 Bolshoy Prospekt, 98 Novatorov)	Class A office reconstruction	2003	2003	9,114	—	—	—
Others				9,795	3,749	5,450	1,791
Total				<u>18,909</u>	<u>88,151</u>	<u>48,960</u>	<u>78,078</u>

⁽¹⁾ Real estate development projects undertaken at our own risk. See discussion of revenue recognition policies above.

We expect that due to long development cycles the revenues of our real estate development segment will continue to vary significantly from period to period.

Project and construction management

Activities of the project and construction management segment include primarily acting as a construction manager to oversee compliance by contractors with design specifications and the terms of a particular contract, especially in relation to municipal infrastructure and transportation projects. Revenues of the segment generally consist of fees from municipal governments, including the Moscow and St. Petersburg city governments.

Fees for our services are determined as a percentage of project costs incurred by third parties and approved by the municipal government. Since our services under such contracts do not transfer to us the full risks and rewards associated with the projects, we recognize as revenues only our fees from project management services. Fees are recognized as the project costs are incurred and approved by the municipal government.

In the periods under review, we recognized revenues with respect to the following significant projects:

Project	Revenues recognized in 2003	Revenues recognized in 2004	Revenues recognized in 2005	Revenues recognized in 1H2006
	(in thousands of US dollars)			
Krasnopresnensky Prospect (including Serebryany Bor tunnel)	732	5,504	17,783	8,100
Orlovsky Tunnel	—	—	1,715	2,786
Central Ring Road	—	—	1,075	429
Mitino-Strogino Metro	—	—	—	895
Lefortovsky Tunnel	1,541	415	117	15
Kievsky Highway	44	1,610	150	13
Third Transport Ring	442	461	610	199
Starostina Street	—	—	429	12
Magistralnaya Street	—	—	354	7
Other	281	656	496	840
Total from third parties	3,040	8,646	22,729	13,296
From other segments	461	180	14	67
Total revenues	3,501	8,826	22,743	13,363

Real estate asset management

Activities of the real estate asset management segment primarily include renting of residential and commercial properties that we have developed or acquired. Revenues of the segment include rental revenues and revenues from sale or assignment of rights to land plots and residential units. Rental revenues are recognized over the lease term on a straight-line basis. Revenues from sale or assignment of rights to real estate are recognized generally upon completion of the sale transaction.

Facility management

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

Increasing Construction and Other Development Costs

During the periods under review, we have experienced increases in development and construction costs, including costs of materials, labor, pre-project documentation and land and property acquisition costs. Prices of construction materials have been outpacing the rate of inflation in Russia. Labor and other costs have been increasing due to labor shortages and high costs of living in Russia, particularly in Moscow.

Competition

We believe competition from other real estate companies has not significantly impacted our results of operations for the periods presented. However, we believe that our future results could be impacted by increasing competition with respect to the identification and acquisition of properties in Moscow, including land plots.

Seasonality

Our results of operations are subject to seasonality. This applies in particular to our development activities as due to the weather conditions in areas where construction is performed on our projects, a full range of construction can only be carried out from late spring until early winter. Certain of our single-family houses are rented out only from the late spring until early autumn.

Results of Operations

Six Months Ended June 30, 2006 compared to the Six Months Ended June 30, 2005

The following table sets forth our statement of operations data for the six months ended June 30, 2005 and 2006.

	Six months ended June 30,			
	2005	% of revenues	2006	% of revenues
	(amounts in thousands of US dollars, except percentages)			
Revenues	33,245	100.0%	106,620	100.0%
Operating expenses	(29,349)	(88.3)%	(64,627)	(60.6)%
Operating income	3,896	11.7%	41,993	39.4%
Other income/(expenses):				
Other income, net	128	0.4%	268	0.3%
Interest income	220	0.7%	846	0.8%
Interest expense, net of amounts capitalized	(2,307)	(6.9)%	(2,600)	(2.4)%
Losses on foreign currency transactions	(953)	(2.9)%	(4,819)	(4.5)%
Gain on disposal of an equity investee	—	0.0%	3,078	2.9%
Income before income tax and minority interests	984	3.0%	38,766	36.4%
Income tax expense	(1,942)	(5.8)%	(4,748)	(4.5)%
Minority interests	(3,201)	(9.6)%	(2,934)	(2.8)%
Net (loss)/income	(4,159)	(12.5)%	31,084	29.2%

Revenues

Revenues for the six months ended June 30, 2006 increased by \$73.4 million, or 220.7%, from \$33.2 million for the six months ended June 30, 2005 to \$106.6 million for the six months ended June 30, 2006. The following table sets forth our revenues by segment, including as a percentage of total revenues:

	Six months ended June 30,			
	2005	% of total	2006	% of total
	(amounts in thousands of US dollars, except percentages)			
Revenues				
Real estate development	12,787	38.5%	78,078	73.2%
Project and construction management	9,438	28.4%	13,363	12.5%
Real estate asset management	7,521	22.6%	11,428	10.7%
Facility management	4,017	12.1%	5,023	4.7%
Eliminations	(518)	(1.6)%	(1,272)	(1.2)%
Total	33,245	100.0%	106,620	100.0%

The increase in revenues was comprised of increases in revenue in each of our segments: \$65.3 million in real estate development, \$3.9 million in project and construction management, \$3.9 million in real estate asset management and \$1.0 million in facility management. See “—Segmental Analysis” below for further discussion.

Operating expenses

Operating expenses for the six months ended June 30, 2006 increased by \$35.3 million, or 120.2%, from \$29.3 million for the six months ended June 30, 2005 to \$64.6 million for the six months ended

June 30, 2006. The following table sets forth our operating expenses by segment, including as a percentage of total operating expenses:

	Six months ended June 30,			
	2005	% of total	2006	% of total
	(amounts in thousands of US dollars, except percentages)			
Operating expenses:				
Real estate development	(16,743)	(57.0)%	(45,189)	(69.9)%
Project and construction management	(3,995)	(13.6)%	(8,505)	(13.2)%
Real estate asset management	(4,645)	(15.8)%	(7,137)	(11.0)%
Facility management	(4,129)	(14.1)%	(4,698)	(7.3)%
Eliminations	163	0.6%	902	1.4%
Total	<u>(29,349)</u>	<u>(100.0)%</u>	<u>(64,627)</u>	<u>(100.0)%</u>

The increase in operating expenses was comprised of increases in operating expenses in each of our segments as follows: \$28.4 million in real estate development, \$4.5 million in project and construction management, \$2.5 million in real estate asset management and \$0.6 million in facility management. See “—Segmental Analysis” below for further discussion.

Operating income

Operating income for the six months ended June 30, 2006 increased by \$38.1 million from \$3.9 million for the six months ended June 30, 2005 to \$42.0 million for the six months ended June 30, 2006. Operating margin increased from 11.7% for the six months ended June 30, 2005 to 39.4% for the six months ended June 30, 2006. The following table sets forth our operating income by segment, including as a percentage of total operating income:

	Six months ended June 30,			
	2005	% of total	2006	% of total
	(amounts in thousands of US dollars, except percentages)			
Operating income/(loss):				
Real estate development	(3,956)	(101.5)%	32,889	78.3%
Project and construction management	5,443	139.7%	4,858	11.6%
Real estate asset management	2,876	73.8%	4,291	10.2%
Facility management	(112)	(2.9)%	325	0.8%
Eliminations	(355)	(9.1)%	(370)	(0.9)%
Total	<u>3,896</u>	<u>100.0%</u>	<u>41,993</u>	<u>100.0%</u>

The increase in operating income was primarily in the real estate development segment. See “—Segmental Analysis” below for further discussion.

Interest expense, net of amounts capitalized

Interest expense, net of amounts capitalized, increased by \$0.3 million, or 12.7%, from \$2.3 million for the six months ended June 30, 2005 to \$2.6 million for the six months ended June 30, 2006.

As of June 30, 2005 and 2006, borrowings from Sistema and its subsidiaries represented 84.3% and 92.6% of our total borrowings, respectively.

Losses on foreign currency transactions

Losses on foreign currency transactions were \$1.0 million for the six months ended June 30, 2005 and \$4.8 million for the six months ended June 30, 2006. The foreign currency losses arose primarily on our ruble-denominated borrowings, as a result of significant nominal appreciation of the ruble against the US dollar at June 30, 2006, as compared to the beginning of the period. As of June 30, 2006, ruble-denominated borrowings constituted 60.0% of our total debt.

Gain on disposal of an equity investee

Gain on disposal of an equity investee of \$3.1 million for the six months ended June 30, 2006 related to the disposal of our 50% interest in Regiony for \$3.1 million. We established Regiony together with Intragrad Company in May 2003 and, at the time of the disposal of our interest, it owned rights for the construction of shopping malls and entertainment complexes in the regional cities of Russia.

Income tax expense

Income tax expense increased by \$2.8 million, or 144.5%, from \$1.9 million for the six months ended June 30, 2005 to \$4.7 million for the six months ended June 30, 2006. The effective tax rate was 12.2% for the six months ended June 30, 2006.

The effective tax rate for the six months ended June 30, 2006 was lower than the statutory rate of 24% in Russia primarily because the recognition of profits related to the 40/3 Pokrovka Street project resulted in the realization of tax loss carry-forwards previously considered unlikely to be realized.

Minority interests

Minority interests in the net income of our subsidiaries decreased by \$0.3 million, or 8.3%, from \$3.2 million for the six months ended June 30, 2005 to \$2.9 million for the six months ended June 30, 2006. The decrease was primarily the result of a decrease in the net income of our 51% owned subsidiary Organizator during the six months ended June 30, 2006 compared to the six months ended June 30, 2005.

Net income/(loss)

As a result of the above, net income was \$31.1 million for the six months ended June 30, 2006, as compared to net loss of \$4.2 million for the six months ended June 30, 2005.

Segmental Analysis

In this subsection we present an analysis of our operating income by segment.

Real Estate Development

The table below sets forth certain statement of operations data for the real estate development segment.

	Six months ended June 30,		
	2005	2006	Change
	(amounts in thousands of US dollars)		
Revenues	12,787	78,078	65,291
Operating expenses	(16,743)	(45,189)	(28,446)
Operating (loss)/income	(3,956)	32,889	36,845
Operating margin	(30.9)%	42.1%	73.0%

Revenues

The table below sets forth the revenues of the real estate development segment by type of property.

	Six months ended June 30,		
	2005	2006	Change
	(amounts in thousands of US dollars)		
Revenues from external customers:			
Class A office space	—	63,204	63,204
Residential	3,927	1,196	(2,731)
Hotel	7,084	11,887	4,803
Land	1,227	332	(895)
Other	337	1,041	704
Total revenues from external customers	12,575	77,660	65,085
Intersegment revenues	212	418	206
Total revenues	12,787	78,078	65,291

Revenues of the real estate development segment increased by \$65.3 million, or 510.6%, from \$12.8 million for the six months ended June 30, 2005 to \$78.1 million for the six months ended June 30, 2006.

During the six months ended June 30, 2006, we signed a contract to sell the office complex of the 40/3 Pokrovka Street project and recognized revenues in the amount of \$63.2 million, based on the percentage of completion method. The revenues with respect to the hotel complex of the 40/3 Pokrovka Street project increased from \$7.1 million for the six months ended June 30, 2005 to \$11.9 million for the six months ended June 30, 2006, as we continued fit-out construction. The hotel complex is expected to be completed and transferred to the buyer towards the end of 2006.

Revenues from development of residential properties decreased by \$2.7 million from \$3.9 million for the six months ended June 30, 2005 to \$1.2 million for the six months ended June 30, 2006. The decrease was primarily due to a decrease in construction activity in the six months ended June 30, 2006, as the 15 Elninskaya Street residential building was nearing completion. The project has now been completed.

Revenues from land sales for the six months ended June 30, 2006 decreased by \$0.9 million from \$1.2 million for the six months ended June 30, 2005 to \$0.3 million for the six months ended June 30, 2006. These revenues are derived from the sale of land at the Aurora residential development in the Moscow region. The project is currently comprised of vacant land surrounded by forest and has a total area of approximately 93.05 hectares. We have divided the land into 147 land plots and are constructing an access road and utilities connections to the plots. The plots are priced based on location and size. In the six months ended June 30, 2006, we sold two plots comprising approximately 10,000 sq.m at an average price of approximately \$33 per sq.m. In the six months ended June 30, 2005, we sold six plots comprising approximately 29,400 sq.m at an average price of approximately \$42 per sq.m.

Operating expenses

Operating expenses of the real estate development segment increased by \$28.4 million, or 169.9%, from \$16.7 million for the six months ended June 30, 2005 to \$45.2 million for the six months ended June 30, 2006. The increase in operating expenses was primarily the result of the recognition of \$28.3 million of costs related to the development of the office complex of the 40/3 Pokrovka Street project in the six months ended June 30, 2006. In addition, payroll and employee related costs for the six months ended June 30, 2006 increased by \$3.7 million from \$1.4 million for the six months ended June 30, 2005 to \$5.1 million for the six months ended June 30, 2006. The increase resulted both from an increase in the number of employees and in the average compensation paid to our employees.

Operating income/(loss)

The real estate development segment's operating income increased by \$36.8 million from an operating loss of \$4.0 million for the six months ended June 30, 2005 to \$32.9 million for the

six months ended June 30, 2006. The increase was primarily the result of the recognition of revenues with respect to the office complex of the 40/3 Pokrovka Street project.

Project and Construction Management

The table below sets forth certain statement of operations data for the project and construction management segment.

	Six months ended June 30,		
	2005	2006	Change
	(amounts in thousands of US dollars)		
Revenues	9,438	13,363	3,925
Operating expenses	(3,995)	(8,505)	(4,510)
Operating income	5,443	4,858	(585)
Operating margin	57.7%	36.4%	(21.3)%

Revenues

The table below sets forth revenues of the project and construction management segment by project:

	Six months ended June 30,		
	2005	2006	Change
	(amounts in thousands of US dollars)		
Revenues from external customers:			
Krasnopresnensky Prospect (including the Serebryany Bor tunnel)	8,389	8,100	(289)
Orlovsky Tunnel	—	2,786	2,786
Mitino-Strogino metro	—	895	895
Central Ring Road	—	429	429
Third Transport Ring	309	199	(110)
Other	737	887	150
Total revenues from external customers	9,435	13,296	3,861
Intersegment revenues	3	67	64
Total revenues	9,438	13,363	3,925

Revenues of the project and construction management segment increased by \$3.9 million, or 41.6%, from \$9.4 million for the six months ended June 30, 2005 to \$13.4 million for the six months ended June 30, 2006. The increase in the segment's revenues for the six months ended June 30, 2006 were primarily due to new projects undertaken in this period, including the management of technical design works for the Orlovsky Tunnel in St. Petersburg, the construction design of a Moscow metro line and two new metro stations at Strogino and Mitino and a project feasibility study for the Central Ring Road in the Moscow region.

Operating expenses

Operating expenses of the project and construction management segment increased by \$4.5 million, or 112.9%, from \$4.0 million for the six months ended June 30, 2005 to \$8.5 million for the six months ended June 30, 2006. Payroll and employee related costs increased by \$2.4 million, or 145.3%, from \$1.7 million for the six months ended June 30, 2005 to \$4.1 million for the six months ended June 30, 2006, as the number of employees increased. In addition, consulting services increased by \$2.1 million. Both of these increases related to PSO Sistema-Hals' hiring of specialists and retaining of consultants for preparing the technical project documentation in connection with bidding for the second stage of the Orlovsky Tunnel project.

Operating income

Project and construction management segment's operating income decreased by \$0.6 million, or 10.7%, from \$5.4 million for the six months ended June 30, 2005 to \$4.9 million for the six months

ended June 30, 2006. The operating margin decreased from 57.7% for the six months ended June 30, 2005 to 36.4% for the six months ended June 30, 2006, primarily due to bidding work for the second stage of the Orlovsky Tunnel project.

Real Estate Asset Management

The table below sets forth certain statement of operations data for the real estate asset management segment.

	Six months ended June 30,		
	2005	2006	Change
	(amounts in thousands of US dollars)		
Revenues	7,521	11,428	3,907
Operating expenses	(4,645)	(7,137)	(2,492)
Operating income	2,876	4,291	1,415
Operating margin	38.2%	37.5%	(0.7)%

Revenues

The table below sets forth revenues of our real estate asset management segment by type:

	Six months ended June 30,		
	2005	2006	Change
	(amounts in thousands of US dollars)		
Revenues from external customers:			
Offices	280	299	19
Single-family houses (rentals):			
Serebryany Bor	2,815	3,307	492
Other	532	1,147	615
Single-family houses (sales)	2,456	3,497	1,041
Utilities	1,208	2,992	1,784
Total revenues from external customers	7,291	11,242	3,951
Intersegment revenues	230	186	(44)
Total revenues	7,521	11,428	3,907

Revenues of our real estate asset management segment increased by \$3.9 million, or 51.9%, from \$7.5 million for the six months ended June 30, 2005 to \$11.4 million for the six months ended June 30, 2006.

Rental revenues from single-family houses, which consist of our Mosdachrest settlements, increased by \$1.1 million, or 33.1%, from \$3.3 million for the six months ended June 30, 2005 to \$4.5 million for the six months ended June 30, 2006. The most significant source of rental revenues was the Serebryany Bor settlement, which comprised 84.1% and 74.2% of total rental revenues from single-family houses for the six months ended June 30, 2005 and 2006, respectively. The growth in rental revenues from single-family houses was primarily the result of an increase in rental revenues from the Trudovaya settlement, which was put into operation in June 2005.

Revenues from the sale of single-family houses increased by \$1.0 million, or 42.4%, from \$2.5 million for the six months ended June 30, 2005 to \$3.5 million for the six months ended June 30, 2006. In relation to the single-family houses owned by Mosdachrest, we have classified them into three groups: old and dilapidated houses that should be sold, houses that should be redeveloped and new houses or houses in good condition that can be rented as is. The houses that are slated to be sold are in all Mosdachrest settlements, except for Serebryany Bor, Barvikha and Trudovaya settlements. In the six months ended June 30, 2006, we sold 37 houses, as compared to 34 houses in the six months ended June 30, 2005.

Revenues from utilities increased by \$1.8 million, or 147.7%, from \$1.2 million for the six months ended June 30, 2005 to \$3.0 million for the six months ended June 30, 2006. These revenues are

derived by Landshaft, which maintains the common areas and provides utility and other services at the Zhukovka residential development. The increase primarily resulted from fees charged to homeowners in the Zhukovka residential development for the installation of additional electrical capacity.

Operating expenses

Operating expenses of the real estate asset management segment increased by \$2.5 million, or 53.6%, from \$4.6 million for the six months ended June 30, 2005 to \$7.1 million for the six months ended June 30, 2006. Payroll and employee related costs increased by \$0.8 million from \$0.8 million for the six months ended June 30, 2005 to \$1.6 million for the six months ended June 30, 2006. Depreciation and amortization increased by \$0.6 million from \$0.8 million for the six months ended June 30, 2005 to \$1.4 million for the six months ended June 30, 2006, due to depreciation expense related to the Trudovaya settlement, which was put into operation in June 2005. In addition, security expenses increased by \$0.4 million during the six months ended June 30, 2006 in relation to the same.

Operating income

The real estate asset management segment's operating income increased by \$1.4 million, or 49.2%, from \$2.9 million for the six months ended June 30, 2005 to \$4.3 million for the six months ended June 30, 2006. The operating margin was relatively stable at 38.2% for the six months ended June 30, 2005 compared to 37.5% for the six months ended June 30, 2006.

Facility Management

The table below sets forth certain statement of operations data for the facility management segment.

	Six months ended June 30,		
	2005	2006	Change
	(amounts in thousands of US dollars)		
Revenues	4,017	5,023	1,006
Including intersegment revenues	73	601	528
Operating expenses	(4,129)	(4,698)	(569)
Operating (loss)/income	(112)	325	437
Operating margin	(2.8)%	6.5%	9.3%

Revenues

Revenues of the facility management segment increased by \$1.0 million, or 25.0%, from \$4.0 million for the six months ended June 30, 2005 to \$5.0 million for the six months ended June 30, 2006. The growth in revenues was primarily due to an increase of \$2.7 million in revenues from the Sistema group, mainly for the repair and maintenance of MTS offices, offset by the termination of services to Megafon.

Operating expenses

Operating expenses of the facility management segment increased by \$0.6 million, or 13.8%, from \$4.1 million for the six months ended June 30, 2005 to \$4.7 million for the six months ended June 30, 2006. This increase was primarily due to expenses associated with the additional sites serviced during the six months ended June 30, 2006.

Operating income/(loss)

The facility management segment had an operating loss of \$0.1 million for the six months ended June 30, 2005 compared to operating income of \$0.3 million for the six months ended June 30, 2006. The improvement in the operating margin was due to new contracts executed in 2006. We believe that we are pricing new and renewal contracts in a manner which should help to continue to improve the segment's operating margins.

Year Ended December 31, 2005 compared to the Year Ended December 31, 2004

The following table sets forth our statement of operations data for the years ended December 31, 2004 and 2005.

	Years ended December 31,			
	2004	% of revenues	2005	% of revenues
	(amounts in thousands of US dollars, except percentages)			
Revenues	108,977	100.0%	93,124	100.0%
Operating expenses	(87,167)	(80.0)%	(81,425)	(87.4)%
Operating income	21,810	20.0%	11,699	12.6%
Other (expenses)/income:				
Other (expenses)/income, net	(1,275)	(1.2)%	(1,201)	(1.3)%
Interest income	552	0.5%	682	0.7%
Interest expense, net of amounts capitalized	(2,214)	(2.0)%	(3,988)	(4.3)%
Losses on foreign currency transactions	(1,872)	(1.7)%	(193)	(0.2)%
Gain on sale of a controlling interest in a subsidiary	—	0.0%	2,781	3.0%
Income before income tax and minority interests	17,001	15.6%	9,780	10.5%
Income tax expense	(2,018)	(1.9)%	(4,517)	(4.9)%
Minority interests	(2,105)	(1.9)%	(4,556)	(4.9)%
Net income	12,878	11.8%	707	0.8%

Revenues

Revenues decreased by \$15.9 million, or 14.5%, from \$109.0 million for the year ended December 31, 2004 to \$93.1 million for the year ended December 31, 2005. The following table sets forth our revenues by segment, including as a percentage of total revenues.

	Years ended December 31,			
	2004	% of total	2005	% of total
	(amounts in thousands of US dollars, except percentages)			
Revenues:				
Real estate development	88,151	80.9%	48,960	52.6%
Project and construction management	8,826	8.1%	22,743	24.4%
Real estate asset management	10,297	9.4%	15,299	16.4%
Facility management	2,558	2.3%	7,267	7.8%
Eliminations	(855)	(0.8)%	(1,145)	(1.2)%
Total	108,977	100.0%	93,124	100.0%

The decrease in revenues was comprised of a decrease in revenues of the real estate development segment of \$39.2 million, offset by increases in revenues of \$13.9 million, \$5.0 million and \$4.7 million, in the project and construction management, real estate asset management and facility management segments, respectively. See “—Segmental Analysis” below for further discussion.

Operating expenses

Operating expenses decreased by \$5.7 million, or 6.6%, from \$87.2 million for the year ended December 31, 2004 to \$81.4 million for the year ended December 31, 2005. The following table sets forth our operating expenses by segment, including as a percentage of total operating expenses.

	Years ended December 31,			
	2004	% of total	2005	% of total
	(amounts in thousands of US dollars, except percentages)			
Operating expenses:				
Real estate development	(75,532)	(86.7)%	(55,602)	(68.3)%
Project and construction management	(4,123)	(4.7)%	(11,190)	(13.7)%
Real estate asset management	(5,651)	(6.5)%	(8,559)	(10.5)%
Facility management	(2,440)	(2.8)%	(6,897)	(8.5)%
Eliminations	579	0.7%	823	1.0%
Total	<u>(87,167)</u>	<u>(100.0)%</u>	<u>(81,425)</u>	<u>(100.0)%</u>

The decrease in operating expenses was comprised of a decrease in operating expenses in the real estate development segment of \$19.9 million, offset by increases in expenses of \$7.1 million, \$2.9 million and \$4.5 million in the project and construction management, real estate asset management and facility management segments, respectively. See “—Segmental Analysis” below for further discussion.

Operating income

Operating income decreased by \$10.1 million, or 46.4%, from \$21.8 million for the year ended December 31, 2004 to \$11.7 million for the year ended December 31, 2005. Operating margin decreased from 20.0% for the year ended December 31, 2004 to 12.6% for the year ended December 31, 2005.

The following table sets forth our operating income by segment, including as a percentage of total operating income.

	Years ended December 31,			
	2004	% of total	2005	% of total
	(amounts in thousands of US dollars, except percentages)			
Operating income/(loss)				
Real estate development	12,619	57.9%	(6,642)	(56.8)%
Project and construction management	4,703	21.6%	11,553	98.8%
Real estate asset management	4,646	21.3%	6,740	57.6%
Facility management	118	0.5%	370	3.2%
Eliminations	(276)	(1.3)%	(322)	(2.8)%
Total	<u>21,810</u>	<u>100.0%</u>	<u>11,699</u>	<u>100.0%</u>

Operating income and margins decreased for the year ended December 31, 2005 primarily due to a decrease in real estate development revenues. See “—Segmental Analysis” below for further discussion.

Interest expense, net of amounts capitalized

Interest expense, net of amounts capitalized, increased by \$1.8 million, or 80.1%, from \$2.2 million for the year ended December 31, 2004 to \$4.0 million for the year ended December 31, 2005. In 2005, we maintained higher levels of debt to finance the real estate development activities, which combined with higher interest rates, resulted in higher interest expense. At December 31, 2005, our total debt was \$216.5 million with a weighted average interest rate of 9.01%, as compared to \$157.4 million at December 31, 2004 with a weighted average interest rate of 7.47%.

As of December 31, 2004 and 2005, borrowings from Sistema and its subsidiaries represented 83.0% and 84.3% of our total borrowings, respectively.

Losses on foreign currency transactions

Losses on foreign currency transactions were \$1.9 million for the year ended December 31, 2004 and \$0.2 million for the year ended December 31, 2005. For 2004, foreign currency losses arose primarily on our ruble-denominated borrowings, as a result of significant nominal appreciation of the ruble against the US dollar at December 31, 2004, as compared to the beginning of the year. For 2005, foreign currency losses on our ruble-denominated borrowings were lower, as the ruble fluctuated against the US dollar during the year.

Gain on sale of a controlling interest in a subsidiary

Gain on sale of a controlling interest in a subsidiary of \$2.8 million for the year ended December 31, 2005 related to the disposal of 50% of our interest in Kamenny Ostrov for \$3.0 million. We hold the remaining 50% interest in Kamenny Ostrov. We established Kamenny Ostrov in December 2004 to hold certain buildings and a land plot located in St. Petersburg. In December, we decided to develop the project with a co-investor, and sold a 50% interest in the company to the co-investor. The main role of the co-investor is to finance the initial stage of the project and source potential buyers for the buildings.

Income tax expense

Income tax expense increased by \$2.5 million, or 123.8%, from \$2.0 million for the year ended December 31, 2004 to \$4.5 million for the year ended December 31, 2005. The effective tax rate was 46.2% for the year ended December 31, 2005, as compared to 11.9% for the year ended December 31, 2004.

The effective tax rate for 2005 was higher than the statutory tax rate of 24% in Russia as operating losses incurred by certain entities, primarily by project companies involved in projects at the early stages of development, are not available for offset against taxable profits of our other entities under Russian tax law.

Minority interests

Minority interests increased by \$2.5 million, from \$2.1 million for the year ended December 31, 2004 to \$4.6 million for the year ended December 31, 2005 as the share of our income earned by our 51% owned subsidiaries Organizator and PSO Sistema-Hals increased in the year ended December 31, 2005.

Net income

As a result of the above, net income was \$0.7 million for the year ended December 31, 2005, as compared to \$12.9 million for the year ended December 31, 2004.

Segmental Analysis

In this subsection we present an analysis of our operating income by segment.

Real Estate Development

The table below sets forth certain statement of operations data for the real estate development segment.

	Years ended December 31,		
	2004	2005	Change
	(amounts in thousands of US dollars)		
Revenues	88,151	48,960	(39,191)
Operating expenses	(75,532)	(55,602)	19,930
Operating income/(loss)	12,619	(6,642)	(19,261)
Operating margin, %	14.3%	(13.6)%	(27.9)%

Revenues

The table below sets forth revenues from the real estate development segment by type of property:

	Years ended December 31,		
	2004	2005	Change
	(amounts in thousands of US dollars)		
Revenues from external customers:			
Class A office space	52,932	—	(52,932)
Residential	31,207	16,576	(14,631)
Hotel	—	13,012	13,012
Land sales	—	3,981	3,981
Office reconstruction	265	13,922	13,657
Other	3,382	1,006	(2,376)
Total revenues from external customers	87,786	48,497	(39,289)
Intersegment revenues	365	463	98
Total revenues	88,151	48,960	(39,191)

Revenues of the real estate development segment for the year ended December 31, 2005 decreased by \$39.2 million, or 44.5%, to \$49.0 million for the year ended December 31, 2005 compared to \$88.2 million for the year ended December 31, 2004. The decrease was due primarily to the completion of certain large projects in 2004 and the recognition of revenues related thereto, whereas several of our projects in 2005 had not yet reached a level of completion to allow us to recognize revenues. Significant projects in 2004 included the Bolshaya Ordynka Class A office buildings and the 15 Botanicheskoy Lane residential building, which accounted for \$52.9 million and \$8.6 million in revenues, respectively. We recorded revenues of \$16.6 million in 2005 and \$22.7 million in 2004 related to the 15 Elninskaya Street residential building. In addition, we recorded revenues of \$13.9 million and \$13.0 million in relation to the reconstruction of the 7 Nastasinskiy Lane office building and construction works at the hotel complex of the 40/3 Pokrovka Street project in 2005.

Revenues from land sales at the Aurora residential development in the Moscow region were \$4.0 million for the year ended December 31, 2005. We sold 19 plots comprising approximately 83,179 sq.m at an average price of approximately \$48 per sq.m.

Operating expenses

Operating expenses of the real estate development segment decreased by \$19.9 million, or 26.4%, from \$75.5 million for the year ended December 31, 2004 to \$55.6 million for the year ended December 31, 2005. The decrease was primarily the result of a decrease in the cost of real estate sold during the year ended December 31, 2005, which decreased by \$16.3 million compared to the year ended December 31, 2004, as there were fewer sales of completed office buildings and residential properties.

Payroll and employee costs increased by \$0.6 million, or 11.4%, from \$5.5 million for the year ended December 31, 2004 to \$6.1 million for the year ended December 31, 2005. The increase in payroll and employee costs resulted both from an increase in the number of employees and in the average compensation paid to our employees.

Bad debt expense increased by \$1.5 million, or 247.1%, from \$0.6 million for the year ended December 31, 2004 to \$2.0 million for the year ended December 31, 2005, primarily as a result of the recording of a provision against advances paid to certain construction companies that we did not expect to recover.

In December 2005, we entered into an agreement with the Moscow City Government whereby we satisfied our obligation to give a portion of the non-residential space in the 15 Elninskaya Street residential building to the city by transferring to the city a similarly sized portion of a residential building we completed at 8 Budanova Street. The transfer allowed us to reduce the construction obligations assumed by us in connection with our acquisition of Kuntsevo-Invest in 2001, by \$5.3 million, which gain was recorded as a reduction of the segment's operating expenses for the year ended December 31, 2005.

Operating income/(loss)

The segment's operating income decreased by \$19.3 million, from \$12.6 million for the year ended December 31, 2004 to an operating loss of \$6.6 million for the year ended December 31, 2005. The operating loss for the year ended December 31, 2005 arose as most of the projects being developed during the year had not yet reached a level of completion to allow us to recognize revenues and, where recognized, profits generated on these projects for the year ended December 31, 2005 were insufficient to cover general and administrative expenses of the segment for the same period.

Project and Construction Management

The table below sets forth certain statement of operations data for the project and construction management segment.

	Years ended December 31,		
	2004	2005	Change
	(amounts in thousands of US dollars)		
Revenues	8,826	22,743	13,917
Operating expenses	(4,123)	(11,190)	(7,067)
Operating income	4,703	11,553	6,850
Operating margin, %	53.3%	50.8%	(2.5)%

Revenues

The table below sets forth revenues of the project and construction management segment:

	Years ended December 31,		
	2004	2005	Change
	(amounts in thousands of US dollars)		
Revenues from external customers:			
Krasnopresnensky Prospect (including Serebryany Bor tunnel)	5,504	17,783	12,279
Orlovsky Tunnel	—	1,715	1,715
Central Ring Road	—	1,075	1,075
Third Transport Ring	461	610	149
Other	2,681	1,546	(1,135)
Total revenues from external customers	8,646	22,729	14,083
Intersegment revenues	180	14	(166)
Total revenues	8,826	22,743	13,917

Revenues of the project and construction management segment increased by \$13.9 million, or 157.7%, from \$8.8 million for the year ended December 31, 2004 to \$22.7 million for the year ended December 31, 2005. Due to an increase in our work on the Krasnopresnensky Prospect project, we earned additional revenues of \$12.3 million. In addition, we commenced work on the Orlovsky tunnel and the Central Ring Road, which provided revenues of \$2.8 million.

Operating expenses

Operating expenses of the project and construction management segment increased by \$7.1 million, or 171.4%, from \$4.1 million for the year ended December 31, 2004 to \$11.2 million for the year ended December 31, 2005.

Payroll and employee related costs were \$5.9 million for the year ended December 31, 2005, as compared to \$2.4 million for the year ended December 31, 2004. The increase in these costs was primarily the result of our subsidiary PSO Sistema-Hals commencing operations in the year ended December 31, 2004, as well as the increase in the number and maturity of projects managed by the segment during the year ended December 31, 2005.

Consulting expenses were \$3.0 million for the year ended December 31, 2005, as compared to \$0.2 million for the year ended December 31, 2004. The increase resulted from the need to utilize

technical specialists for the management of the Serebryany Bor tunnel project in Moscow and for the preparation of the tender documentation for the Orlovsky tunnel project proposal.

Operating income

The project and construction management segment's operating income increased by \$6.9 million, or 145.7%, from \$4.7 million for the year ended December 31, 2004 to \$11.6 million for the year ended December 31, 2005. The operating margin for the year ended December 31, 2005 decreased from 53.3% to 50.8% mainly due to expenses incurred for the preparation of the tender documents for the Orlovsky tunnel project proposal.

Real Estate Asset Management

The table below sets forth certain statement of operations data for the real estate asset management segment.

	Years ended December 31,		
	2004	2005	Change
	(amounts in thousands of US dollars)		
Revenues	10,297	15,299	5,002
Operating expenses	(5,651)	(8,559)	(2,908)
Operating income	<u>4,646</u>	<u>6,740</u>	<u>2,094</u>
Operating margin, %	45.1%	44.1%	(1.0)%

Revenues

The table below sets forth revenues of the real estate asset management segment by type:

	Years ended December 31,		
	2004	2005	Change
	(amounts in thousands of US dollars)		
Revenues from external customers:			
Offices	771	556	(215)
Single-family houses (rentals):			
Serebryany Bor	4,622	5,850	1,228
Other	1,048	1,302	254
Single-family houses (sales)	1,977	4,155	2,178
Utilities	1,645	3,015	1,370
Total revenues from external customers	<u>10,063</u>	<u>14,878</u>	<u>4,815</u>
Intersegment revenues	234	421	187
Total revenues	<u>10,297</u>	<u>15,299</u>	<u>5,002</u>

Revenues of the real estate asset management segment increased by \$5.0 million, or 48.6%, from \$10.3 million for the year ended December 31, 2004 to \$15.3 million for the year ended December 31, 2005.

Rental revenues from single-family houses, which consist of our Mosdachtrest properties, increased by \$1.5 million, or 26.1%, from \$5.7 million for the year ended December 31, 2004 to \$7.2 million for the year ended December 31, 2005. The most significant source of rental revenues was the Serebryany Bor settlement, which comprised 81.5% and 81.8% of total rental revenues from single-family houses for the year ended December 31, 2004 and 2005, respectively. The growth in rental revenues from single-family houses was primarily the result of an increase in 29.2% in the average rental rate.

Revenues from the sale of single-family houses increased for the year ended December 31, 2005 by \$2.2 million, or 110.2%, from \$2.0 million for the year ended December 31, 2004 to \$4.2 million for the year ended December 31, 2005. In relation to the single-family houses owned by Mosdachtrest, we have classified them into three groups: old and dilapidated houses that should be sold, houses that should be redeveloped and new houses or houses in good condition that can be rented as is. The houses that are

slated to be sold are in all Mosdachtrest settlements, except for Trudovaya, Barvikha and Serebryany Bor. We sold 31 single-family houses in the year ended December 31, 2004, as compared to 63 in the year ended December 31, 2005.

Revenues from utilities increased by \$1.4 million, or 83.3%, from \$1.7 million for the year ended December 31, 2004 to \$3.0 million for the year ended December 31, 2005. These revenues are derived by Landshaft, which maintains the common areas and provides utility and other services at the Zhukovka residential development. The increase primarily resulted from fees charged to homeowners in the Zhukovka residential development for the installation of additional electrical capacity.

Operating expenses

Operating expenses of the real estate asset management segment increased by \$2.9 million, or 51.5%, from \$5.7 million for the year ended December 31, 2004 to \$8.6 million for the year ended December 31, 2005. Payroll and employee related costs increased by \$0.4 million during the year ended December 31, 2005. Depreciation and amortization increased by \$1.2 million, due to depreciation expense related to the Trudovaya settlement, which was put into operation in June 2005.

Operating income

The real estate asset management segment's operating income increased by \$2.1 million, or 45.1%, from \$4.6 million for the year ended December 31, 2004 to \$6.7 million for the year ended December 31, 2005. The operating margin decreased from 45.1% for the year ended December 31, 2004 to 44.1% for the year ended December 31, 2005. A majority of the revenue growth was attributable to sales of single-family houses and utilities, for which operating margins were lower than those in connection with our rental activities.

Facility Management

The table below sets for the certain statement of operations data for the facility management segment.

	Years ended December 31,		
	2004	2005	Change
	(amounts in thousands of US dollars)		
Revenues	2,558	7,267	4,709
Including intersegment revenues	76	247	171
Operating expenses	(2,440)	(6,897)	(4,457)
Operating income	118	370	252
Operating margin, %	4.6%	5.1%	0.5%

Revenues

Revenues of facility management services increased by \$4.7 million, or 184.1%, from \$2.6 million for the year ended December 31, 2004 to \$7.3 million for the year ended December 31, 2005. The growth in revenues was primarily due to an increase of \$1.7 million in revenues from the Sistema group, mainly for the repair and maintenance of MTS offices, as well as the initiation of services to Megafon, which resulted in revenues of \$2.6 million.

Operating expenses

Operating expenses of the facility management segment increased by \$4.5 million, or 182.7%, from \$2.4 million for the year ended December 31, 2004 to \$6.9 million for the year ended December 31, 2005. The increase was in line with the increase in business activity of the segment for the year ended December 31, 2005.

Operating income

The facility management segment's operating income increased by \$0.3 million from \$0.1 million for the year ended December 31, 2004 to \$0.4 million for the year ended December 31, 2005. The operating margin increased from 4.6% for the year ended December 31, 2004 to 5.1% for the year ended December 31, 2005. The improvement in operating margin was due to new contracts signed in 2005.

Year Ended December 31, 2004 compared to Year Ended December 31, 2003

The following table sets forth our statement of operations data for the years ended December 31, 2003 and 2004.

	Years ended December 31,			
	2003	% of revenues	2004	% of revenues
	(amounts in thousands of US dollars, except percentages)			
Revenues	32,535	100.0%	108,977	100.0%
Operating expenses	(31,515)	(96.9)%	(87,167)	(80.0)%
Operating income	<u>1,020</u>	<u>3.1%</u>	<u>21,810</u>	<u>20.0%</u>
Other income/(expenses):				
Other income/(expenses), net	2,251	6.9%	(1,275)	(1.2)%
Interest income	121	0.4%	552	0.5%
Interest expense, net of amounts capitalized	(3,829)	(11.8)%	(2,214)	(2.0)%
Losses on foreign currency transactions	(977)	(3.0)%	(1,872)	(1.7)%
(Loss)/Income before income tax and minority interests	<u>(1,414)</u>	<u>(4.3)%</u>	<u>17,001</u>	<u>15.6%</u>
Income tax expense	(154)	(0.5)%	(2,018)	(1.9)%
Minority interests	(205)	(0.6)%	(2,105)	(1.9)%
Net (loss)/income	<u>(1,773)</u>	<u>(5.4)%</u>	<u>12,878</u>	<u>11.8%</u>

Revenues

Revenues increased by \$76.4 million, or 235.0%, from \$32.5 million for the year ended December 31, 2003 to \$109.0 million for the year ended December 31, 2004. The following table sets forth our revenues by segment, including as a percentage of total revenues.

	Years ended December 31,			
	2003	% of total	2004	% of total
	(amounts in thousands of US dollars, except percentages)			
Revenues:				
Real estate development	18,909	58.1%	88,151	80.9%
Project and construction management	3,501	10.8%	8,826	8.1%
Real estate asset management	6,224	19.1%	10,297	9.4%
Facility management	4,975	15.3%	2,558	2.3%
Eliminations	(1,074)	(3.3)%	(855)	(0.8)%
Total	<u>32,535</u>	<u>100.0%</u>	<u>108,977</u>	<u>100.0%</u>

The increase in revenues was comprised of an increase of \$69.2 million in revenues of the real estate development segment, as well as increases of \$5.3 million and of \$4.1 million of revenues in the project and construction management and real estate asset management segments, respectively, partially offset by a \$2.4 million decrease in revenues of the facility management segment. See "—Segmental Analysis" below for further discussion.

Operating expenses

Operating expenses increased by \$55.7 million, or 176.6%, from \$31.5 million for the year ended December 31, 2003 to \$87.2 million for the year ended December 31, 2004. The following table sets forth our operating expenses by segment, including as a percentage of total operating expenses.

	Years ended December 31,			
	2003	% of total	2004	% of total
	(amounts in thousands of US dollars, except percentages)			
Operating expenses:				
Real estate development	(19,274)	(61.2)%	(75,532)	(86.7)%
Project and construction management	(3,497)	(11.1)%	(4,123)	(4.7)%
Real estate asset management	(4,345)	(13.8)%	(5,651)	(6.5)%
Facility management	(5,167)	(16.4)%	(2,440)	(2.8)%
Eliminations	768	2.4%	579	0.7%
Total	<u>(31,515)</u>	<u>(100.0)%</u>	<u>(87,167)</u>	<u>(100.0)%</u>

The increase in operating expense was comprised of increases in operating expenses of the real estate development, project and construction management and real estate asset management segments of \$56.3 million, \$0.6 million and \$1.3 million, respectively, partially offset by a decrease in operating expenses of the facility management segment of \$2.7 million. See “—Segmental Analysis” below for further discussion.

Operating income

Operating income increased by \$20.8 million from \$1.0 million for the year ended December 31, 2003 to \$21.8 million for the year ended December 31, 2004. Operating margin increased from 3.1% for the year ended December 31, 2003 to 20.0% for the year ended December 31, 2004. The following table sets forth our operating income by segment, including as a percentage of total operating income.

	Years ended December 31,			
	2003	% of total	2004	% of total
	(amounts in thousands of US dollars, except percentages)			
Operating income/(loss)				
Real estate development	(365)	(35.8)%	12,619	57.9%
Project and construction management	4	0.4%	4,703	21.6%
Real estate asset management	1,879	184.2%	4,646	21.3%
Facility management	(192)	(18.8)%	118	0.5%
Eliminations	(306)	(30.0)%	(276)	(1.3)%
Total	<u>1,020</u>	<u>100.0%</u>	<u>21,810</u>	<u>100.0%</u>

Operating income and operating margin increased primarily as a result of an increase in real estate development revenues for the year ended December 31, 2004. See “—Segmental Analysis” below for further discussion.

Interest expense, net of amounts capitalized

Interest expense, net of amounts capitalized, decreased by \$1.6 million, or 42.2%, from \$3.8 million for the year ended December 31, 2003 to \$2.2 million for the year ended December 31, 2004. Capitalized interest costs increased from \$2.2 million for the year ended December 31, 2003 to \$6.3 million for the year ended December 31, 2004. In 2004, we maintained higher levels of debt to finance the real estate development activities, which combined with higher interest rates, resulted in higher interest expense. At December 31, 2004, our total debt was \$157.4 million with a weighted average interest rate of 7.47%, as compared to \$138.4 million at December 31, 2003 with a weighted average interest rate of 5.30%.

As of December 31, 2003 and 2004, borrowings from Sistema and its subsidiaries represented 99.7% and 83.0% of our total borrowings, respectively.

Losses on foreign currency transactions

Losses on foreign currency transactions were \$1.0 million for the year ended December 31, 2003 and \$1.9 million for the year ended December 31, 2004. For both 2003 and 2004, foreign currency losses arose primarily on our ruble-denominated borrowings, as a result of significant nominal appreciation of the ruble against the US dollar at December 31, 2003 and 2004, as compared to the beginning of these years.

Income tax expense

Income tax expense increased by \$1.9 million, from \$0.2 million for the year ended December 31, 2003 to \$2.0 million for the year ended December 31, 2004. The increase in income tax expense was due to the taxable profits generated by the real estate asset management and project and construction management segments in the year ended December 31, 2004.

Minority interests

Minority interests increased by \$1.9 million from \$0.2 million for the year ended December 31, 2003 to \$2.1 million for the year ended December 31, 2004, as the share of our income earned by our 51% owned subsidiaries Organizator and PSO Sistema-Hals, increased in the year ended December 31, 2004.

Net income/(loss)

As a result of the above, net income was \$12.9 million for the year ended December 31, 2004, as compared to net loss of \$1.8 million for the year ended December 31, 2003.

Segmental Analysis

In this subsection, we present an analysis of our operating income/(loss) by segment.

Real Estate Development

The table below sets forth certain statement of operations data for the real estate development segment.

	Years ended December 31,		
	2003	2004	Change
	(amounts in thousands of US dollars)		
Revenues	18,909	88,151	69,242
Operating expenses	(19,274)	(75,532)	(56,258)
Operating (loss)/income	(365)	12,619	12,984
Operating margin, %	(1.9)%	14.3%	16.2%

Revenues

The table below sets forth revenues of the real estate development segment by type of property and contract:

	Years ended December 31,		
	2003	2004	Change
	(amounts in thousands of US dollars)		
Revenues from external customers:			
Class A office space	—	52,932	52,932
Residential	—	31,207	31,207
Land sales	2,186	—	(2,186)
Offices reconstruction	9,724	265	(9,459)
Other	6,386	3,382	(3,004)
Total revenues from external customers	18,296	87,786	69,490
Intersegment revenues	613	365	(248)
Total revenues	18,909	88,151	69,242

Revenues of the real estate development segment increased by \$69.2 million, or 366.2%, from \$18.9 million for the year ended December 31, 2003 to \$88.2 million for the year ended December 31, 2004. The increase was primarily due to the completion of certain large projects in 2004 and the recognition of revenues related thereto. Our revenues for the year ended December 31, 2004 included \$52.9 million related to the development of the Bolshaya Ordynka Class A office buildings, \$8.6 million related to the 15 Botanichesky Lane residential building and \$22.7 million related to the 15 Elninskaya Street residential building.

A majority of the revenues for the year ended December 31, 2003 related to Class A office reconstruction projects for MTS.

Operating expenses

Operating expenses of the real estate development segment increased by \$56.3 million, or 291.9%, from \$19.3 million for the year ended December 31, 2003 to \$75.5 million for the year ended December 31, 2004. The increase was primarily the result of a \$48.2 million increase in cost of real estate sold for the year ended December 31, 2004, in connection with the sale of the Bolshaya Ordynka Class A office building, the 15 Botanichesky Lane residential building and the 15 Elninskaya Street residential building.

Payroll and employee related costs increased by \$2.1 million, or 61.3%, from \$3.4 million for the year ended December 31, 2003 to \$5.5 million for the year ended December 31, 2004. The increase resulted both from an increase in the number of employees and in the average compensation paid to our employees.

Operating income/(loss)

The operating income of this segment increased by \$13.0 million from a loss of \$0.4 million for the year ended December 31, 2003 to income of \$12.6 million for the year ended December 31, 2004. The increase in operating income was primarily due to the recognition of revenues from Class A office projects at Bolshaya Ordynka office buildings and 15 Botanichesky Lane residential building during the year ended December 31, 2004. In the year ended December 31, 2003, most of the projects being developed had not yet reached a level of completion to allow us to recognize revenues.

Project and Construction Management

The table below sets forth certain statement of operations data for the project and construction management segment.

	Years ended December 31,		
	2003	2004	Change
	(amounts in thousands of US dollars)		
Revenues	3,501	8,826	5,325
Operating expenses	(3,497)	(4,123)	(626)
Operating income	<u>4</u>	<u>4,703</u>	<u>4,699</u>
Operating margin, %	0.1%	53.3%	53.2%

Revenues

The table below sets forth revenues of the project and construction management segment by project:

	Years ended December 31,		
	2003	2004	Change
	(amounts in thousands of US dollars)		
Revenues from external customers:			
Kievsky Highway	44	1,610	1,566
Lefortovsky Tunnel	1,541	415	(1,126)
Third Transport Ring	442	461	19
Krasnopresnensky Prospect (including Serebryany Bor tunnel)	732	5,504	4,772
Other	281	656	375
Total revenues from external customers	<u>3,040</u>	<u>8,646</u>	<u>5,606</u>
Intersegment revenues	461	180	(281)
Total revenues	<u>3,501</u>	<u>8,826</u>	<u>5,325</u>

Revenues of the project and construction management segment increased by \$5.3 million, or 152.1%, from \$3.5 million for the year ended December 31, 2003 to \$8.8 million for the year ended December 31, 2004. We experienced a significant increase in the volume of work performed as a result of new contracts we entered into with the Moscow City Government for the provision of additional services relating to the construction of the Kievsky Highway and Krasnopresnensky Prospect. The volume of work decreased in relation to the Lefortovsky Tunnel because the main works were substantially completed in 2003.

Operating expenses

Operating expenses of the project and construction management segment increased by \$0.6 million, or 17.9%, from \$3.5 million for the year ended December 31, 2003 to \$4.1 million for the year ended December 31, 2004. The increase was primarily the result of an increase in personnel costs and rent expense for office premises.

Operating income

Operating income for the year ended December 31, 2004 increased by \$4.7 million from nil for the year ended December 31, 2003. Operating margin increased from 0.1% for the year ended December 31, 2003 to 53.3% for the year ended December 31, 2004. The operating income and operating margin increased primarily as a result of our work on the Kievsky Highway and Krasnopresnensky Prospect.

Real Estate Asset Management

The table below sets forth certain statement of operations data for the real estate asset management segment.

	Years ended December 31,		
	2003	2004	Change
	(amounts in thousands of US dollars)		
Revenues	6,224	10,297	4,073
Operating expenses	(4,345)	(5,651)	1,306
Operating income	1,879	4,646	2,767
Operating margin, %	30.2%	45.1%	14.9%

Revenues

The table below sets forth revenues of our real estate asset management segment by type:

	Years ended December 31,		
	2003	2004	Change
	(amounts in thousands of US dollars)		
Revenues from external customers:			
Offices	723	771	48
Single-family houses (rentals):			
Serebryany Bor	2,250	4,622	2,372
Other	760	1,048	288
Single-family houses (sales)	745	1,977	1,232
Utilities	1,746	1,645	(101)
Total revenues from external customers	6,224	10,063	3,839
Intersegment revenues	—	234	234
Total revenues	6,224	10,297	4,073

Revenues of the real estate asset management segment increased by \$4.1 million, or 65.4%, from \$6.2 million for the year ended December 31, 2003 to \$10.3 million for the year ended December 31, 2004.

Rental revenues from single-family houses, which consist of our Mosdachtrest properties, increased by \$2.7 million, or 88.4%, from \$3.0 million for the year ended December 31, 2003 to \$5.7 million for the year ended December 31, 2004. The most significant source of rental revenues was the Serebryany Bor settlement, which comprised 74.8% and 81.5% of total rental revenues from single-family houses for the year ended December 31, 2003 and 2004, respectively. The growth in rental revenues from single-family houses was primarily the result of an increase in 86.0% in the average rental rate.

Revenues from the sale of single-family houses increased by \$1.2 million, or 165.4%, from \$0.7 million for the year ended December 31, 2003 to \$2.0 million for the year ended December 31, 2004. In relation to the single-family houses owned by Mosdachtrest, we have classified them into three groups: old and dilapidated houses that should be sold, houses that should be redeveloped and new houses or houses in good condition that can be rented as is. The houses that are slated to be sold are all in Mosdachtrest settlements, except for Trudovaya, Barvikha and Serebryany Bor settlements. We sold 25 single-family houses in the year ended December 31, 2003, as compared to 31 in the year ended December 31, 2004.

Operating expenses

Operating expenses of the real estate asset management segment increased by \$1.3 million, or 30.1%, from \$4.3 million for the year ended December 31, 2003 to \$5.7 million for the year ended December 31, 2004.

Operating income

The real estate management segment's operating income increased by \$2.8 million, or 147.3%, from \$1.9 million for the year ended December 31, 2003 to \$4.6 million for the year ended December 31, 2004. The operating margin increased from 30.2% for the year ended December 31, 2003 to 45.1% for the year ended December 31, 2004. Both operating income and operating margin increased primarily as a result of an increase in rental rates and in sales of old single-family houses with low carrying value.

Facility Management

The table below sets forth certain statement of operations data for the facility management segment.

	Years ended December 31,		
	2003	2004	Change
	(amounts in thousands of US dollars)		
Revenues	4,975	2,558	(2,417)
Operating expenses	(5,167)	(2,440)	2,727
Operating (loss)/income	(192)	118	310
Operating margin, %	(3.9)%	4.6%	8.5%

Revenues

Revenues of the facility management segment decreased by \$2.4 million, or 48.6%, from \$5.0 million for the year ended December 31, 2003 to \$2.6 million for the year ended December 31, 2004. The decrease was due to the completion of a \$2.7 million contract for servicing of the Rossiya Hotel during the year ended December 31, 2003.

Operating expenses

Operating expenses of the facility management segment decreased by \$2.7 million, or 52.8%, from \$5.2 million for the year ended December 31, 2003 to \$2.4 million for the year ended December 31, 2004, due to the completion of the contract with the Rossiya Hotel.

Operating income/(loss)

The facility management segment's operating income was \$0.1 million for the year ended December 31, 2004, as compared to an operating loss of \$0.2 million for the year ended December 31, 2003. The improvement in operating income was primarily the result of the completion of the low margin contract for servicing the Rossiya Hotel and entering into new agreements for facility management services with higher margins.

Liquidity and Capital Resources

Capital Resources

During the periods presented, a substantial majority of our borrowings have been from, or have been guaranteed by, Sistema and its subsidiaries, including MBRD. In the August to October 2006, we obtained significant financings from international banking institutions, as follows:

- In August 2006, we entered into a term loan facility with Deutsche Bank AG, London Branch as the arranger, original lender and facility agent. Deutsche Bank AG is one of the Joint Global Coordinators of the offering. The loan facility was extended for our general operational needs and refinancing of our existing debt facilities, and was made available to us in an aggregate amount of \$140.0 million for a term of one year. The loan facility has been guaranteed by Sistema. As of the date of this prospectus, we have fully drawn the loan facility.
- In September 2006, we entered into a term loan facility with Nomura International plc as the arranger and facility agent and Nomura Funding Facility Corporation Limited, as the original lender. Nomura International plc is a Joint Global Coordinator of the offering. The loan facility was extended for (1) the acquisition and development of real estate assets, (2) meeting the

general corporate purposes and our working capital needs and (3) refinancing existing secured debt obligations to the group companies. The loan facility was made available to us in an aggregate amount equivalent to \$100.0 million for a term of one year. The loan facility has been guaranteed by Sistema. As of the date of this prospectus, we have fully drawn the loan facility.

- In October 2006, we entered into a term loan facility with UBS AG, London Branch, an affiliate of one of the Joint Global Coordinators of the offering. The loan facility was extended for our general operational needs and refinancing of our existing debt facilities. The loan facility was made available to us in an aggregate amount equivalent to \$100.0 million for the term of one year. The loan facility has been guaranteed by Sistema. As of the date of this prospectus, we have fully drawn the loan facility.

The facilities require that we not incur indebtedness unless the aggregate of all indebtedness does not exceed 60% of the aggregate market value of our properties as valued by an internationally-recognized valuation expert and the ratio of EBITDA to interest expense is no less than 2:1. See also “Description of Certain Indebtedness” for a description of other covenants.

Over the next several years, we expect to finance most of our future capital expenditure needs through operating cash flows, joint ventures, advance payments from customers and additional borrowings, as well as by utilizing the proceeds of the offering, with the ultimate goal of maintaining a 30:70 equity to debt ratio. Our ability to incur future debt is limited by the restrictive covenants described above. The availability of debt financing is influenced by many factors, including our profitability, operating cash flows, debt levels, credit ratings, contractual restrictions and market conditions. We have also pledged shares of certain of our subsidiaries and real properties in connection with our borrowings. See note 24 to our annual financial statements. We cannot assure you that we will be able to continue to obtain debt financing in the future.

Consistent with our growth strategy, we may acquire other real estate companies to expand our operations in Russia and elsewhere in the CIS. Our cash requirements relating to potential acquisitions may vary significantly based on market opportunities. We may also finance these acquisitions through swapping interests in our existing projects and properties.

As of June 30, 2006, our debt was comprised of the following:

	Currency	Annual interest rate (actual at June 30, 2006)	June 30, 2006 (amounts in thousands of US dollars)
MBRD	RUR	9%-16%	64,272
MBRD	USD	7%-14%	43,608
Sistema	RUR, USD	0%	40,891
Other (primarily Sistema subsidiaries)	RUR, USD	Various	15,819
Total			<u>164,590</u>
Current portion			<u>(132,784)</u>
Non-current portion			<u>31,806</u>

The following table sets forth the aggregate scheduled maturities of debt principal outstanding as of June 30, 2006:

Payments due in the twelve months ended June 30,	(amounts in thousands of US dollars)
2007	132,784
2008	21,075
2009	3,008
2010	<u>7,723</u>
Total	<u>164,590</u>

The following table summarizes our debt position by currency as of June 30, 2006:

<u>Currency</u>	<u>June 30, 2006</u>	<u>% of total debt</u>
	(amounts in thousands of US dollars, except percentages)	
Russian rubles	98,797	60.0%
US dollars	65,793	40.0%
Total	<u>164,590</u>	<u>100%</u>

Cash Flows

A summary of our cash flows is presented in the table below for the periods indicated:

	<u>Years ended December 31,</u>			<u>Six months ended June 30,</u>	
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2005</u>	<u>2006</u>
	(amounts in thousands of US dollars)				
Net cash provided by/(used in) operating activities . .	2,920	33,905	(54,270)	(11,524)	106,631
Net cash used in investing activities:					
Payments for real estate investments	(26,967)	(80,943)	(22,095)	(14,492)	(59,414)
Proceeds from sale of real estate investments	—	8,661	—	—	30,341
Purchases of plant, equipment and intangible assets . .	(525)	(2,054)	(1,701)	(4,478)	(3,461)
Proceeds/(payments) for short-term loans and notes receivable, net	10,542	(7,132)	3,142	(1,449)	(4,117)
Proceeds from sale of a controlling interest in subsidiary	—	—	3,000	—	—
Proceeds from sale of an equity investee	—	—	—	—	3,094
Proceeds from sale of shares	—	5,789	—	—	—
Other	(3,911)	6,278	278	7	(2,050)
Total	<u>(20,861)</u>	<u>(69,401)</u>	<u>(17,376)</u>	<u>(20,412)</u>	<u>(35,607)</u>
Net cash provided by/(used in) financing activities:					
Principal payments on long-term borrowings	(55,452)	(39,887)	(60,744)	(41,248)	(30,400)
Proceeds from long-term borrowings	50,708	103,138	33,424	33,305	9,546
Proceeds from/(principal payments on) short-term borrowings, net	20,785	(44,263)	86,440	23,902	(35,946)
Net transfers from Sistema	—	16,534	12,610	14,730	—
Proceeds from capital transactions of a subsidiary . .	—	—	4,052	—	—
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	(1,922)
Total	<u>16,041</u>	<u>35,522</u>	<u>75,782</u>	<u>30,689</u>	<u>(58,722)</u>
Effects of foreign currency translation on cash and cash equivalents	502	366	(314)	(148)	625
Net (decrease)/increase in cash and cash equivalents .	<u>(1,398)</u>	<u>392</u>	<u>3,822</u>	<u>(1,395)</u>	<u>12,927</u>

Six months ended June 30, 2006 compared to six months ended June 30, 2005

Net cash provided by operations for the six months ended June 30, 2006 amounted to \$106.6 million compared to net cash used in operations of \$11.5 million for the six months ended June 30, 2005. This improvement in cash flows from operations was primarily due to collections from customers on construction contracts during the six months ended June 30, 2006.

Net cash used in investing activities increased by \$15.2 million, or 74.4%, from \$20.4 million for the six months ended June 30, 2005 to \$35.6 million for the six months ended June 30, 2006. The increase was related primarily to an increase in payments for real estate investments of \$44.9 million, or 310.0%, from \$14.5 million for the six months ended June 30, 2005 to \$59.4 million for the six months ended June 30, 2006 and collection from the buyer of the office complex of the 40/3 Pokrovka Street project in the amount of \$30.3 million in the six months ended June 30, 2006.

Net cash used in financing activities amounted to \$58.7 million for the six months ended June 30, 2006 compared to net cash provided by financing activities of \$30.7 million for the six months ended June 30, 2005. The primary reasons for this change were the settlement of \$30.4 million of debt due to Commerzbank and WestLB Vostok Bank and the decrease of \$35.9 million in short term borrowings in the six months ended June 30, 2006.

Year Ended December 31, 2005 compared to Year Ended December 31, 2004

Net cash used in operations amounted to \$54.3 million compared to net cash provided by operating activities of \$33.9 million for the year ended December 31, 2004. This was primarily the result of the accumulation of unbilled costs on construction contracts and an increase in accounts receivable as of December 31, 2005.

Net cash used in investing activities decreased by \$52.0 million, or 75.0%, from \$69.4 million for the year ended December 31, 2004 to \$17.4 million for the year ended December 31, 2005. The decrease was primarily due to a reduction in payments for real estate investments of \$58.8 million for the year ended December 31, 2005.

Net cash provided by financing activities increased by \$40.3 million from \$35.5 million for the year ended December 31, 2004 to \$75.8 million for the year ended December 31, 2005. The increase was primarily due to an increase in our net proceeds from borrowings of \$40.1 million.

Year ended December 31, 2004 compared to year ended December 31, 2003

Net cash provided by operations increased by \$31.0 million from \$2.9 million for the year ended December 31, 2003 to \$33.9 million for the year ended December 31, 2004. This increase was primarily due to the fact that we incurred costs in excess of billings under construction contracts outstanding as of December 31, 2004.

Net cash used in investing activities increased by \$48.5 million from \$20.9 million for the year ended December 31, 2003 to \$69.4 million for the year ended December 31, 2004. This increase related primarily to an increase of \$54.0 million in payments for real estate investments during the year ended December 31, 2004.

Net cash provided by financing activities increased by \$19.5 million from \$16.0 million for the year ended December 31, 2003 to \$35.5 million for the year ended December 31, 2004. The increase was primarily due to additional debt raised during the year ended December 31, 2004 from Sistema and its subsidiaries.

Capital Requirements

We require capital to finance the following:

- capital expenditures, consisting of cash outlays for capital investments in real estate developments projects and the acquisition of real estate properties and land rights (ownership or leasehold);
- expansion into new markets, including acquisitions of other companies in our business segments;
- repayment of debt;
- changes in working capital; and
- general corporate activities, including dividends.

Real estate investment and development is a capital-intensive business, and we expect to have significant ongoing liquidity and capital requirements in order to finance our growth strategy, including investing in new operational properties and development projects in our target market segments, while making additional investments into our existing properties and real estate development projects.

Our capital expenditures consist of investments in the development of real estate properties for sale and in properties held to generate economic benefits through retention of title or lease rights and purchases of plant, equipment and intangible assets. Our cash outlays for capital expenditures for the years ended December 31, 2003, 2004 and 2005 and the six months ended June 30, 2006 were \$27.4 million, \$83.0 million, \$23.8 million and \$62.9 million, respectively.

For the foreseeable future, we expect that we will continue to rely on our financing activities to support our operating and investing activities. We also expect that our capital expenditures in connection with the development of real estate properties and investments in income-producing properties will be the majority of our cash outflows for the foreseeable future.

Since June 30, 2006, using the proceeds of the new loan facilities entered into in August and September 2006, we have spent approximately \$64.1 million to acquire projects and properties. See “—Recent Developments.” Our cash requirements relating to potential acquisitions may vary significantly, depending on market opportunities and the availability of attractive acquisition opportunities.

We anticipate that we will spend between \$400 million and \$600 million in 2007 in connection with developing our real estate projects.

Liquidity

As of December 31, 2005 and June 30, 2006, we had cash and cash equivalents of \$10.4 million and \$23.3 million, respectively. Of these amounts, \$6.6 million and \$9.7 million were deposited with MBRD, respectively. Historically, our short-term financing needs have been met by debt from Sistema and its subsidiaries, including MBRD. Since June 30, 2006, our net debt position has increased by approximately \$239.3 million. In particular, \$340 million of such new debt was guaranteed by Sistema. We intend to continue to build our credit history to be able to attract short-term and long-term debt from third parties without the benefit of guarantees from the Sistema group.

Critical Accounting Policies

Critical accounting policies are those policies that require the application of our management’s most challenging, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. We believe that our most critical accounting policies are those described below.

Revenue recognition

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

When we undertake real estate development projects at our own risk, we recognize 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) our receivable is not subject to future subordination; and (d) we have transferred to the buyer the usual risks and rewards of ownership and do not have a substantial continuing involvement with the project. A sale is not considered consummated until (a) the parties are bound by the terms of a contract; (b) all consideration has been exchanged; (c) any permanent financing for which we are responsible has been arranged; and (d) all conditions precedent to closing have been performed. Revenues from development of office and residential buildings are recognized prior to consummation of sale by the percentage-of-completion method if (a) construction is beyond a preliminary stage; (b) the buyer is committed to the extent of being unable to require a refund except for nondelivery of the property; (c) sales prices are collectible; and (d) aggregate sales proceeds and costs can be reasonably estimated.

In those instances, when we act as a contractor under construction contracts with third parties, we apply the percentage of completion method to the respective contracts where and as soon as we are able to reliably estimate the stage of progress to completion of the project, costs to complete the project and contractual revenues. Progress towards completion is measured by the percentage of costs incurred to date to the estimated total costs at completion for each contract (the “cost-to-cost” method). On most of our contracts, we are not able to reliably estimate costs to complete the project and contractual revenues until the project is at least 30% complete. Until the 30% completion point, we carry the projects at cost. We do not recognize revenue on contracts until reasonably dependable estimates of costs to complete the project and contractual revenues can be made.

We provide project and construction management services to municipal governments on certain socially important infrastructure projects. Our remuneration for such services was determined as a percentage of project costs incurred by third parties and approved by the municipal government. Based upon the guidance in Emerging Issues Task Force Consensus 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent (“EITF 99-19”), we have concluded that our services under such contracts do not transfer to us full risks and rewards associated with the projects. Therefore, we recognize as revenues only our fees from project management services. Fees are recognized as the project costs are incurred and approved by the municipal government.

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

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

Change orders and claims

Once contract performance is underway, we 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 us and our customer, we then consider it as a claim. Costs related to change orders and claims are recognized when they are incurred. Change orders are included in total estimated contract revenues when it is probable that the change order will result in a bona fide addition to the relevant contract value and can be reliably estimated. Claims are included in total estimated contract revenue only to the extent that contract costs related to the claim have been incurred and when it is probable that the claim will result in a bona fide addition to contract value and can be reliably estimated.

Estimated losses on uncompleted contracts and changes in contract estimates

We provide 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.

Income producing properties

We have a number of developments where economic benefits are generated or expected to be generated through retaining title to or lease rights for the property and receiving rental revenues. Such properties primarily consist of residential and commercial buildings and land which is, or will be, leased on either a short-term or long-term basis.

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

Development rights and other intangible assets

Development rights acquired by us 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 June 30, 2006 and December 31, 2005, 2004 and 2003 comprise rights to develop residential property in the Western Kuntsevo district of Moscow. The development period for this project expires in 2012. Amortization of other finite-life intangible assets is computed on a straight-line basis.

Construction obligations

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

Income taxes

Income taxes have been computed in accordance with the laws of the Russian Federation. The standard income tax rate in the Russian Federation for the years ended December 31, 2005, 2004 and 2003 and for the six months ended June 30, 2006 and 2005 was 24%.

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

New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (“FASB”) issued FAS No. 123(R), “Share-Based Payment” (“FAS No. 123(R)”), a revision of FAS No. 123, “Accounting for Stock-Based Compensation.” FAS No. 123(R) supersedes Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees” and requires all entities to recognize compensation cost in an amount equal to the fair value of share-based payments grant-date to employees. That cost is recognized over the period during which an employee is required to provide service in exchange for an award of equity instruments. We adopted FAS No. 123(R) starting from January 1, 2006. The adoption of FAS No. 123(R) did not have a material impact on our financial position or results of operations.

In March 2005, the SEC released Staff Accounting Bulletin 107, “Share-Based Payments,” or SAB 107. The interpretations in SAB 107 express views of the SEC staff regarding the interaction between FAS No. 123(R) and certain SEC rules and regulations, and provide the SEC staff’s views regarding the valuation of share-based payment arrangements for public companies. In particular, SAB 107 provides guidance related to share-based payment transactions with nonemployees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of FAS No. 123(R) in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of FAS No. 123(R), the modification of employee share options prior to adoption of FAS No. 123(R).

In December 2004, the FASB issued FAS No. 153, “Exchanges of Nonmonetary Assets”, an amendment of APB Opinion No. 29, “Accounting for Nonmonetary Transactions”. FAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets set in the APB Opinion No. 29 and replaces it with a general exception for exchanges that do not have commercial substance. FAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. FAS No. 153 is effective prospectively for nonmonetary exchanges occurring after June 15, 2005. The adoption of FAS No. 153 did not have a material impact on our financial position or results of operations.

In March 2005, the FASB issued Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143.” This Interpretation clarifies that the term “conditional asset retirement obligation” as used in FASB Statement No. 143, “Accounting for Asset Retirement Obligations”, refers to a legal obligation to perform an asset retirement activity, in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists to make a reasonable estimate of the fair value of the obligation. We adopted Interpretation No. 47 beginning

January 1, 2006. The adoption of Interpretation No. 47 did not have a material impact on our financial position or results of operations.

In May 2005, the FASB issued FAS No. 154, “Accounting Changes and Error Corrections,” which replaces APB Opinion No. 20, “Accounting Changes” and FAS No. 3, “Reporting Accounting Changes in Interim Financial Statements.” FAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle and is applicable to all voluntary changes and to changes required by an accounting pronouncement if such pronouncement does not specify transition provisions. FAS No. 154 requires retrospective application to the prior periods’ financial statements of changes in accounting principle. In cases when it is impracticable to determine the period-specific or cumulative effects of an accounting change, the statement provides that the new accounting principle should be applied as of the earliest period for which retrospective application is practicable or, if impracticable to determine the effect of a change to all prior periods, prospectively from the earliest date practicable. This Statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In June 2005, the Emerging Issues Task Force (“EITF”) reached a consensus on EITF Issue No. 05-6, “Determining the Amortization Period for Leasehold Improvements.” As part of a business combination, the acquiring entity will often assume existing lease agreements of the acquired entity and acquire the related leasehold improvements. The issues are whether the “lease term” should be reevaluated at consummation of a purchase business combination and whether the amortization period for acquired leasehold improvements should be reevaluated by the acquiring entity in a business combination. The consensus reached by EITF No. 05-6 is effective for leasehold improvements that are purchased or acquired in reporting periods beginning June 29, 2005. The adoption of EITF No. 05-6 did not have a material impact on our financial position and results of operations.

In July 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes,” of SFAS No. 109, “Accounting for Income Taxes.” The Interpretation applies to all tax positions that are within the scope of SFAS No. 109 and requires the two-step approach for recognizing and measuring tax benefits. The Interpretation establishes a “more-likely- than-not” recognition threshold that must be met before a tax benefit can be recognized in the financial statements. To meet this threshold, the enterprise must determine that upon examination by the taxing authority, the tax position is more likely to be sustained than not, based on the technical merits of the position. Once the recognition threshold has been met, enterprises are required to recognize the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. In both steps, enterprises must presume that the taxing authority has full knowledge of all relevant information. The Interpretation also requires enterprises to make explicit disclosures at the end of each reporting period about uncertainties in their income tax positions, including a detailed rollforward of tax benefits taken that do not qualify for financial statement recognition. The Interpretation is effective for fiscal years beginning after December 15, 2006, and should be applied to all tax positions upon initial adoption. The cumulative effect of applying the provisions of the Interpretation should be reported as an adjustment to the opening balance of retained earnings for that fiscal year.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are required to adopt SFAS 157 on July 1, 2008 and are currently assessing the impact of the adoption of this Statement.

In September 2006, the FASB issued SFAS No. 158, Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R) (“SFAS 158”). SFAS 158 requires companies with publicly traded equity securities that sponsor a postretirement benefit plan to fully recognize, as an asset or liability, the overfunded or underfunded status of their benefit plan(s). The funded status is measured as the difference between the fair value of the plan’s assets and its benefit obligation. SFAS 158 also requires companies to measure their plan assets and benefit obligations as of the year-end balance sheet date. SFAS 158 is becoming effective for

fiscal years ending after December 15, 2006. The provision to require measurement at the entity's year-end balance sheet date will be effective for fiscal years ending after December 15, 2008. The Group does not expect the adoption of SFAS 158 to have a material impact on its financial position or results of operations.

Tabular Disclosure of Contractual Obligations

We have various contractual obligations and commercial commitments to make future payments, including debt agreements, lease obligations and certain committed obligations. The following table summarizes our future obligations (including interest) under these contracts due by the periods indicated as of June 30, 2006:

	July 1, 2006- June 30, 2007	July 1, 2007- June 30, 2008	July 1, 2008- June 30, 2009	July 1, 2009- June 30, 2010	July 1, 2010- thereafter	Total
	(in thousands of US dollars)					
Contractual obligations:						
Bank loans	79,311	23,822	3,690	10,278		117,101
Non-bank loans	59,123	—	—	—	—	59,123
Operating leases	203	70	70	70	2,940	3,353
Committed investments:						
Construction costs	134,382	—	—	—	—	134,382
Total	<u>273,019</u>	<u>23,892</u>	<u>3,760</u>	<u>10,348</u>	<u>2,940</u>	<u>313,959</u>

Committed construction costs arise under agreements with third parties for construction of properties. A summary of significant commitments under construction contracts as of June 30, 2006 with the remaining term in excess of one year is set forth below.

Leningradsky Towers project involves the construction of a Class A office complex consisting of two towers, one tower will be the Russian headquarters of Siemens and another one will be leased in the open market. The complex is located in a business area in the Khoroshovsky region of the North Administrative district of Moscow within walking distance of the nearby metro station. We have entered into contracts for certain construction works, including foundation, shell and core, utilities and other general construction expenditures for a total amount of \$79.8 million.

MGTS owns over 200 telephone exchanges in Moscow, and the upcoming replacement of its outdated analog equipment with modern digital equipment is expected to make available approximately 80% of the space in the exchanges. Most of these exchanges are located in commercially attractive locations in Moscow and we believe represent significant potential to be redeveloped into Class A and Class B offices, hotels or residential properties. We have entered into agreements for the reconstruction of certain of the MGTS buildings for a total amount of \$19.1 million.

We are developing Serebryany Bor II, Barvikha and Zdravnitsa, which are Mosdachtrest settlements. The Serebryany Bor II project involves construction of 59 single-family houses for leasing. We have entered into construction contracts related to this project for a total amount of \$18.2 million.

Our subsidiary Kuntsevo-Invest holds developer's rights and obligations relating to reconstruction of residential property in the Western Kuntsevo district of Moscow in accordance with the Decree of the Moscow City Government # 158 dated March 4, 1997. Pursuant to the Decree, Kuntsevo-Invest is committed to complete construction of 381,430 sq.m of residential living space to be sold in the market ("commercial buildings") and of additional 173,260 sq.m of residential living space to be transferred to the Moscow City Government ("municipal buildings"). As of June 30, 2006, the balance of our obligations under the Kuntsevo residential program was to deliver 381,430 sq.m. of commercial residential space and 160,600 sq.m. of municipal residential space. We have retained a general contractor to perform certain construction works for a total amount of \$17.3 million.

In February 2005, Kuntsevo-Invest entered into an investment agreement with CJSC Inteko pursuant to which Inteko undertook to (1) develop, fund and construct approximately 50% of the commercial buildings and (2) fund the development and construction of approximately 50% of the municipal buildings.

Guarantees by Sistema

At December 31, 2005, loans provided to us by Commerzbank and West LB Vostok in the amounts of \$20.0 million and \$10.4 million, respectively, were guaranteed by Sistema and MGTS, a subsidiary of Sistema, respectively. These loans were paid in full in March 2006.

As of June 30, 2006, borrowings from MBRD in a total amount of \$20.0 million had been guaranteed by Sistema. Our three recent loan facilities in the total amount of \$340.0 million have been guaranteed by Sistema.

Sistema was a party to the contracts relating to the Leningradsky Towers project and undertook specific commitments therein. In particular, Sistema undertook to procure all necessary permits and licenses for the project, guaranteed that the project will be completed within a certain deadline, guaranteed that its affiliates will comply with their contractual duties and undertook to furnish the project company with a bank guarantee for any claims for the repayment of the contract price. We believe Sistema's involvement in the Leningradsky Towers project was important to our securing Siemens as a client and we may be required to continue to involve Sistema in our projects in the future.

Quantitative and Qualitative Disclosures about Market Risks

We are exposed to market risks from changes in both foreign currency exchange rates and interest rates. We do not use financial instruments, such as foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks. We did not hold or issue derivative or other financial instruments for trading purposes as of June 30, 2006.

Foreign Currency Risk

Our principal exchange rate risk involves changes in the value of the ruble and the euro relative to the US dollar. The majority of our revenues, costs and capital expenditures are either priced, incurred, payable or otherwise measured in US dollars. Although most of our transactions are settled in rubles, the price for real estate property and rental rates is tightly linked to the US dollar. Moreover, as of the date of this prospectus, a majority of our borrowings is denominated in US dollars.

Interest Rate Risk

We are subject to market risk deriving from changes in interest rates, which may affect the cost of our future financing. As of June 30, 2006, all of our indebtedness was fixed rate, except for one loan to MBRD in the amount of approximately \$7.7 million with an interest rate of LIBOR plus 2% due to be repaid by March 31, 2010.

Credit Risk

We do not generally face significant credit risk from our tenants, customers or contractors (when advances are provided) due to the structure of our contractual arrangements with such parties. In the case of tenants, such risk is mitigated by the receipt of security deposits and the inclusion of early termination clauses in most leases for non-paying tenants. For our Mosdachtrest settlements, approximately 80% of the leases have a term of one year or less and the lease payments are typically received in advance. In case of contractors, for most advances of over \$0.1 million, we require a bank guarantee for that amount.

INDUSTRY OVERVIEW

The Russian Economy

Since 2000, Russia has demonstrated impressive economic growth driven by government policies that have fostered economic liberalization, fiscal discipline and legal, structural and administrative reforms. The improvement in the Russian macroeconomic environment is also, in large part, the result of the depreciation of the Russian ruble following the 1998 financial crisis and favorable worldwide demand for Russia's primary exports of raw materials.

According to Rosstat, the growth in Russia's GDP was 7.2% and 6.4% in 2004 and 2005, respectively. Although structural and economic reforms have contributed to Russia's economic recovery, surging oil and energy prices, as well as high demand for Russia's metals have remained the key drivers of Russia's improved economic performance. GDP per capita as measured by purchasing power parity increased by nearly 10% in 2005, as compared to 2004, to approximately \$10,820 from approximately \$9,860, and is projected to grow by 9.8% in 2006, according to Economist Intelligence Unit. Although the Russian GDP per capita as measured by purchasing power parity lagged behind the UK, France, Germany, Spain, the Czech Republic, Hungary and Poland in 2005, the gross regional product of Moscow as measured by purchasing power parity was approximately \$25,000, which was comparable with other Western European countries, according to Economist Intelligence Unit. Real disposable income in Russia continued to increase as evidenced by a 9.6% growth in consumer spending in 2005, as compared to 2004, according to Rosstat. In addition, unemployment decreased from 8.3% in 2004 to 7.6% in 2005 and industrial production increased by 4.6% in 2005, as compared to 2004, according to Rosstat. Russia's fiscal and external balance sheets have strengthened largely as a result of increases in oil prices with a current account surplus exceeding 11% of GDP and foreign currency reserves of more than \$182 billion, according to the Central Bank of Russia. In addition, in 2005, Russia had a federal budget surplus of \$59 billion, or 7.7% of GDP, according to Rosstat.

In October 2003, Moody's granted Russia an investment grade rating, which was subsequently matched by Fitch in November 2004 and by Standard & Poor's, or S&P, in January 2005. In July 2006, Fitch upgraded Russia's foreign and local currency Issuer Default Ratings, or IDR, to BBB+. In addition, in September 2006, S&P upgraded Russia's foreign currency rating to BBB+ and its long-term local currency rating to A-. The improved risk profile and growing economy has attracted additional foreign direct investment, or FDI, into Russia, which reached approximately \$13 billion in 2005, as compared to \$9.4 billion in 2004, according to Rosstat.

Real Estate Market Overview

As a result of the growth in the Russian economy and a positive outlook for the future, there has been increased local and international investor interest in the Russian real estate market.

The Russian commercial real estate market has benefited substantially from the country's strong economic growth and high levels of business activity in many sectors of the Russian economy. Attractive development yields and the increasing sophistication of tenants have spurred demand for quality real estate properties. The influx of equity investment capital and the improving lending terms have led to the compression of yields for existing properties. Prior to 2003, most of the development and real estate investment activity was concentrated in Moscow, which is the political, financial and commercial center of Russia. Although the real estate market outside of Moscow remains substantially less developed than other European capitals, such as London, Paris, Berlin, Madrid, Prague, Budapest and Warsaw in terms of prime office stock, total retail stock and internationally-graded hotel rooms, according to Property Market Analysis LLP and Jones Lang LaSalle, the overall expansion of the economy and growing consumer demand are beginning to take hold throughout Russia, most notably in St. Petersburg, the second largest city in Russia in terms of population and income per capita.

The funding of real estate development projects in Russia is characterized by a limited number of institutional participants, a lack of experienced developers and the limited availability of attractive debt financing. By all accounts, the Russian real estate market remains at an early stage of development with relatively few completed transactions, dominated by a handful of participants that are mainly private, closely held companies that rarely share information about their businesses and operating results.

Office market in Moscow and St. Petersburg

There has been significant growth in the office segment in the last few years with most of the development activity concentrated in Moscow and St. Petersburg. The market for office space in these two cities is characterized by strong demand for Class A and Class B office space, low vacancy rates and increasing rental rates. The strong demand for office space is driven by increased business activity and rising corporate profits, while supply remains limited due to the burdensome and complex development process.

Class A, Class B and Class C Office Classification Standards

The Moscow Research Forum, or MRF, an informal association of real estate consultants, including Colliers International, Jones Lang LaSalle, Noble Gibbons and C&W, has set up a classification scheme to determine what constitutes Class A and Class B office building space in Moscow. Important factors include, among others, location, the ratio of leased space to the number of parking places, availability of underground parking, a catering outlet for tenants, 24-hour security and automated inner control and surveillance systems, air-conditioning and professional management. For a complete list of these classification standards, see the Valuation Report.

According to the MRF classification scheme, Class A office buildings must meet at least 16 out of the 20 characteristics, Class B office buildings must meet at least 10 and Class C office buildings must meet at least eight.

This classification scheme, however, has not been approved by any Russian legislative or regulatory act, or rules of any professional association or trade society; nor does it represent any industry standard or customary market practice. It is applicable only to office buildings in Moscow, and may not be directly applicable outside of Moscow. Furthermore, it is not universally accepted by all real estate industry professionals in Russia. For example, the economic classification of office buildings developed by ABN Realty, a Moscow real estate consulting company, employs more stringent criteria for Class A office space.

Any prospective investor in (or tenant of) any of the properties described in this prospectus may choose to employ a different set of requirements when classifying or evaluating our properties. Furthermore, we cannot assure you that any of our Class A, Class B or Class C office buildings would be classified as such in markets outside of Moscow or even by independent real estate consultants, other than C&W, evaluating and classifying office buildings in Moscow.

Moscow

As of June 30, 2006, the total stock of completed Class A and Class B office space in Moscow was approximately 5.03 million sq.m, according to C&W. As of July 2006, the total stock of completed Class A office space, as well as Class A office space currently being developed and planned for future development in Moscow was 8.9 million sq.m, according to developery.ru. Approximately 680,000 sq.m of newly constructed and reconstructed Class A and Class B office space was added to the existing stock in 2005. Although the total volume of international-quality office space has more than doubled in Moscow since 2000, the market remains underdeveloped as demand continues to exceed supply, according to C&W.

In 2005, Moscow had 0.45 sq.m of office space per capita and was one of the least developed cities among comparable European capital cities, according to C&W. The number of Class A and Class B office space leased and sold in 2005 reached 1,000,870 sq.m, growing by 11.2%, as compared to 2004, according to C&W. Furthermore, in the first half of 2006, the market absorbed an additional 545,000 sq.m of office space, compared to 467,000 sq.m in the same period in 2005, according to C&W. The growth in office space leased and sold can be attributed to an increase in demand for quality office space.

Based on completed properties, properties under construction and properties planned for development, we led the market for development of Class A office space in Moscow with 9.5% of the market, followed by ST Group (5.9%), ENKA (5.0%), Capital Group (4.2%) and Mirax (4.1%), according to developery.ru.

For the six months ended June 30, 2006, vacancy rates for Class A and Class B office buildings fell to 3% from 4% as compared to the same period in 2005. These vacancy rates are the lowest in

continental Europe for a major capital city, according to C&W. In Moscow, most of the office projects scheduled for completion in 2006 are already pre-leased. According to C&W, office development projects scheduled for completion in 2007 and 2008 are expected to bring approximately 5.48 million sq.m of combined Class A and Class B office space to the market, an amount unlikely to fulfill the growing demand for international-quality office space. In addition, there is a pipeline of 550,000 sq.m of longer term projects scheduled for completion after 2008. According to C&W, annual take up is expected to stabilize in 2009 and 2010 and the higher supply coming into the market may lead to the increase in vacancy rates.

In Moscow, annual rental rates (net of operating expenses and VAT) at June 30, 2006 generally ranged from \$675 to \$700 per sq.m for Class A office space, according to C&W. These rental rates are more expensive than in several major European capitals, including Paris, Milan and Frankfurt where average annual rental rates are €600 per sq.m, €500 per sq.m and €396 per sq.m, respectively. Base rental rates for Class A office space increased by approximately 9% in 2005 as compared to 2004, and by a further 15% in the first half of 2006 as compared to the same period in 2005. Due to low vacancy levels, rental rates for Class A office buildings are expected to exhibit significant growth in 2006 before stabilizing in 2009 and 2010, according to C&W.

In 2005, rental yields for office space in Moscow were approximately 12%, exceeding the rental yields in Warsaw (6.3%), Prague (6.3%), Berlin (5.8%), London (4.8%) and Paris (4.8%), according to Property Market Analysis LLP and Jones Lang LaSalle.

St. Petersburg

As of June 30, 2006, St. Petersburg had approximately 350,000 sq.m of office space, according to C&W. In St. Petersburg, the demand for quality office space also significantly exceeds supply. As of December 31, 2005, the office space per capita was approximately 0.08 sq.m, according to C&W. Although St. Petersburg's Class A office space is roughly the same quality as Moscow's Class B office space, the quality of St. Petersburg's Class A office space is expected to improve in the future as the market matures and developers respond to local demand for more sophisticated office space. Vacancy rates in St. Petersburg were 5% for the six months ended June 30, 2006, according to C&W. A new supply of approximately 150,000 sq.m of additional office space is scheduled to become available on the market in 2006, and is expected to be immediately absorbed by current demand. As of June 30, 2006, annual rental rates (including operating expenses) were approximately \$650 to \$700 per sq.m and \$450 to \$500 per sq.m for Class A and Class B office space, respectively, according to C&W.

Rental yields for office buildings in Moscow ranged from approximately 18% to 20% in 1998, but have been decreasing since then to between 9% and 12% in Moscow and St. Petersburg, as of June 30, 2006, according to C&W. These yields are expected to diminish further in line with the trends observed in other major Eastern European cities to between 6% and 9% as a result of Russia's improving risk profile and an increase in investments into the real estate office sector. As a result, we expect further appreciation in the value of local real estate properties.

Retail market

The Russian retail real estate sector has grown significantly since 2000 in terms of the number of shopping centers, total retail space available and turnover. According to Rosstat, Russian retail turnover increased from \$83.5 billion in 2000 to \$248.7 billion in 2005. This growth was driven, in part, by significant increases in the disposable incomes of Russian consumers, which rose by 9% in 2005, according to Rosstat. Increases in real disposable income have led to a greater demand for more sophisticated retail concepts evidenced by the entry on the market of well-known international retail chains, such as Auchan, a French retailer, Ikea, an international Swedish retailer, OBI, a German retailer, and Stockmann, a Finnish retailer, among others, as well as the expansion of domestic retailers, such as Perekriostok, M.Video, Technosila, Arbat Prestige, Ramstore and the Seventh Continent. These international and domestic retailers often serve as anchor tenants in professionally-developed retail properties, including shopping and entertainment centers.

Moscow

As of June 30, 2006, according to C&W, the amount of total shopping center space in Moscow was 1.56 million sq.m with 80 modern malls, of which two such shopping centers opened in the first half of 2006, including the 10,000 sq.m Biberevsky and the 70,000 sq.m Gorod. Nonetheless, the number of

shopping centers is small taking into account the large increases in disposable income and private consumption in Moscow. In fact, Moscow has one of the lowest per capita stock of shopping center space compared to other major European capitals, with approximately 150 sq.m of shopping area per thousand inhabitants, according to C&W.

The rental rates for retail space in shopping centers did not change significantly in 2005 and the first half of 2006 as compared to 2004 and the first half of 2005, respectively. As of June 30, 2006, weighted average annual rental rates were approximately \$1,292 per sq.m (excluding operating expenses and VAT), according to C&W. According to C&W, rental rates are forecast to grow in prime central shopping centers and to decline slowly in the older lower quality shopping malls and centers.

St. Petersburg

The amount of retail space available in St. Petersburg is also low compared to other major European cities with 114 sq.m of shopping center space per thousand inhabitants as of June 30, 2006, according to C&W. As of June 30, 2006, St. Petersburg had 10 modern shopping centers, including the new 11,000 sq.m French Boulevard and the 28,000 sq.m Udelniy Park. The number of shopping centers is expected to increase significantly over the next few years with several major retail projects planned for 2006 and 2007.

As of June 30, 2006, annual rental rates for high-end retail space were approximately \$1,250 per sq.m per annum, and the yields for shopping centers in Moscow and St. Petersburg were estimated to be between 9% and 12%, according to C&W.

In other major Russian cities, consumer demand and disposable incomes continue to grow albeit not at the same rates as in Moscow and St. Petersburg. This favorable environment is attracting significant investments in new regional retail development projects.

Residential real estate market in Moscow

Urban residential development

We divide the urban residential real estate market into three main price categories: lower price segment ("panel housing"), medium price segment ("business class") and premium market segment ("elite" apartment buildings).

Panel housing includes a few standard designs of relatively inexpensive prefabricated concrete panels used to construct housing developments. It represents the largest category of housing within the residential market and although panel housing can be constructed quickly, it is generally considered to be of a low quality, selling for approximately \$3,200 per sq.m in Moscow as of June 30, 2006, according to C&W. The prices of panel housing have increased significantly growing by 36.4% in 2005 and by a further 21.3% in the first half of 2006, according to C&W. As demand shifts towards higher quality housing and the availability of large land plots in Moscow suitable for mass construction becomes increasingly restrained, panel housing construction has started to move outside city limits to the surrounding suburbs of Moscow.

The business class residential apartments consist of individually designed apartment buildings, including townhouses. The prices for such apartments in Moscow have increased by 40% during 2005 and by approximately 30% during the first half of 2006 to \$4,500 per sq.m, according to C&W.

The demand for higher quality residential properties in Moscow is expected to continue to grow rapidly in line with the economic growth of the country and the increasing affluence among consumers. The increase in demand is also supported by high residential property yields, compared to alternative investment opportunities in Russia. Sistema-Hals, Mirax Group, Capital Group, Don-Stroy, Inteko, PIK, Krost and Konti are leading developers of residential properties in Moscow.

Suburban residential and land development

Rising levels of personal income, along with the search for environmentally cleaner living and an overall desire for higher standards of living have driven demand for high quality city and countryside residential real estate properties in gated communities consisting of single-family houses and/or townhouses.

Prices for premium suburban residential properties in the Moscow region have grown by approximately 40% to 50% annually since 1999. Between 1999 and 2005, the market for single-family houses grew substantially in terms of the number of purchase and sale transactions, as well as property prices. According to C&W, in the first quarter of 2006, the average price for elite housing increased by approximately 35% in comparison with first quarter in 2005. In the first quarter of 2006, the average price of a single-family house located within 15 km of the Moscow Circle Road, or the MKAD, was \$4,900 per sq.m (taking into account the price of land), according to C&W.

The price of land plots in the Moscow region containing single-family houses varies depending on several factors, such as the proximity to Moscow, ease of access to the city, environmental conditions, availability of utilities, security arrangements, construction quality, quality of documentation and certainty of property rights. The most popular communities are within 25 km from the MKAD along the Rublyovo-Uspenskoye, Novorizhskoye, Pyatnitskoye, Minskoye, Kievskoye, Mozhayskoye, Kaluzhskoye and Dmitrovskoye Highways. While location remains the most important factor for purchasers buying a home in the suburbs of Moscow, such additional factors as the quality of engineering of the home and community, design of the community complex and the proximity to shopping, entertainment and playgrounds are becoming more important drivers of price and value. Only a few developers are able to build large scale single-family house communities with a well-defined concept that cater to homebuyers seeking high end living conditions. Sistema-Hals, Inkom Nedvizhimost, Sapsan and Rodex Group are leading developers of such suburban properties.

The price for land plots on undeveloped land is substantially lower when purchased before the necessary permits for development are obtained and the utilities are provided. As a result, land development projects, represent attractive investment opportunities with high profit margins. The major participants in the land development market are real estate agencies and Russian financial industrial groups, including Inkom Nedvizhimost, MIEL, Sapsan, Nikoil and Absolute Bank.

Hotels

Although the Russian hotel industry has grown significantly within the last decade, the number of hotel rooms available is still significantly lower than that in other industrialized countries, and the current number of hotels cannot support the growing number of visitors entering the country each year. Since the 1990s, several well-known international hotel chains, including Radisson, Kempinski, Marriott, Intercontinental, Holiday Inn, Best Western, Hyatt, Rocco Forte and Sheraton, have begun operating in several major Russian cities.

In Moscow, there are a large number of high-end hotels compared to the number of low-end and mid-tier hotels. However, there is still a shortage of five-star hotels in some of the country's other regional cities that serve as attractive tourist and business travel destinations. To date, the market for mid-tier and budget hotels has not developed sufficiently to satisfy the demand of middle-class business travelers and the increasing number of tourists. The highest level of unfulfilled demand is for quality three-star and economy hotels, representing one of the most unexplored investment niches in Russia.

Hotels in Moscow

According to estimates by the Moscow City Government, the number of tourists coming to Moscow annually is expected to grow from 2.5 million to 5 million within the next decade. By comparison, Berlin attracts approximately 3.2 million tourists annually, Vienna 2.8 million and London 18 million.

The Moscow City Government is involved in the local hotel and retail markets. According to the Moscow Government Committee on Foreign Affairs, the Moscow hotel market is comprised of 183 hotels, which are able to accommodate approximately 69,200 guests. According to Jones Lang LaSalle, the stock of international-grade hotel rooms in Moscow is approximately 8,000, which is one of the lowest among European capital cities. The deficit of quality hotel rooms has resulted in occupancy rates exceeding 70% in Moscow and large increases in room rates, according to Jones Lang LaSalle.

According to the city's long-term plan for hotel development, the number of beds is expected to increase to 200,000 by 2010, of which approximately 40% will be in two- and three-star hotels. The City of Moscow's hotel development plan envisions the construction of mainly four and five-star hotels in the central part of the city, and the construction of middle and economy class hotels in areas outside the city center. Despite the construction of approximately 50 hotels within the last five years in

Moscow, there has not been a substantial increase in room capacity as several major hotels, including Intourist, Moskva and Minsk, as well as Budapest, Tsentralnaya, Peking, Leningradskaya, Sport and Kievskaya have closed or will be closing in the near future for renovation. Given the shortage of available hotel rooms, we anticipate that room rates will remain high, attracting new developers into the hotel market.

Key players in the Russian real estate development industry

The lack of international-grade commercial space in Russia creates attractive opportunities for developers and investors in real estate. CB Richard Ellis estimates that new Class A office development projects currently can generate yields from 22% to 30% and office redevelopment projects can yield an investment rate of return of 18% to 24% in Moscow. This favorable market situation attracted a large number of development companies, most of whom develop either single or a small number of land plots. In addition, several traditional construction companies have launched their own development projects recently in an effort to expand their businesses.

Due to the high fragmentation and lack of transparency in the Russian real estate market, it is impossible to accurately assess the market share or relative position of industry players. Instead, we classify industry players in the following way:

Established Russian developers: Sistema-Hals, Open Investments, Mirax Group, Forum Properties, Plaza Group and Capital Group operate principally in the Moscow market. Large regional developers include Rosevrodevelopment, Renova-Stroy Group, GK Vremya and DVI Group.

Established international developers: Hines, AIG/Lincoln and Enka typically develop large-scale projects through partnerships with local developers.

In-house development companies: Ikea, Ramenka, Metro and Auchan, among others, develop projects solely in furtherance of their own commercial endeavors.

First-time/small Russian developers: Many Russian companies develop projects that are not of international quality.

We expect that increased development costs, including land, construction and marketing costs will lead to the decline of development yields in the medium term, and will force less competitive developers out of the market creating favorable conditions for market consolidation. We believe that in an increasingly challenging market environment only well established large domestic and international developers with local market knowledge, professional project management experience and access to external financing on favorable terms will be able to remain competitive. Furthermore, we believe that consolidation of the market will improve transparency, but also cause volatility of supply in the short to medium term due to delays in the delivery of space.

Construction in Russia is a complicated and time-consuming process given the non-transparent nature of the real estate industry and cumbersome approval processes in place. Domestic real estate developers typically have an advantage as a result of good relationships with local authorities and extensive local knowledge and experience, which allow them in many cases to access the market more effectively than foreign developers. These factors serve as barriers to entry into the Russian real estate market and, at the same time, represent our competitive advantage over several of our existing and potential competitors.

Construction services

The construction market in Russia has grown in line with the overall growth in real estate. For example, services for project management, as well as general contractor and subcontractor work has increased significantly in the last five years as new construction projects come to market.

Investors and developers in the Russian market often seek project management companies to assist them with managing complex construction projects using modern technologies and highly specified materials and engineering systems. According to C&W, the construction costs in connection with office space are approximately \$950 to \$1,300 and \$800 to \$950 per sq.m for Class A and Class B office space, respectively. The construction costs for retail centers and warehouses vary from \$750 to \$1,100 per sq.m and from \$650 to \$950 per sq.m, respectively, according to C&W.

The providers of general contractor and subcontractor services in Moscow include local and international construction companies, such as two of our subsidiaries PSO Sistema-Hals and Hals-Stroy, as well as DSK-1, MSM-5, Mosinzhstroy, Strabag, Enka and Lotte. Certain construction companies are vertically integrated real estate developers, such as SU-155, PIK, Inteco, Glavmosstroy and Don-Stroy, which also provide services to third parties.

Facility management

Growth in the real estate market also drives the demand for property management services. There are a number of international companies operating in the market, such as Hines, Jones Lang LaSalle, Zander, Crown Relocations, Hanscom and Sawatsky, as well as a few Russian companies, such as City-Hals, one of our subsidiaries, Gostinny Dvor, ITC, Gorod and Primeks. The average property management fee for retail and office properties is approximately \$6 to \$15 per sq.m per annum, according to C&W.

BUSINESS

Overview

We are a leading Russian property development company engaged in real estate development, project and construction management, real estate asset management and facility management. Our development efforts are currently focused on Class A and Class B office buildings, shopping centers, mixed-use retail and office complexes, single-family houses, business class residential apartment buildings and land development. Since our establishment in 1994, we have completed more than 30 projects with a total area of over 250,000 sq.m, utilizing funding from internal and external sources. We select our real estate projects through a comprehensive internal approval process with significant decisions and approvals made by a number of committees, including our Board of Directors.

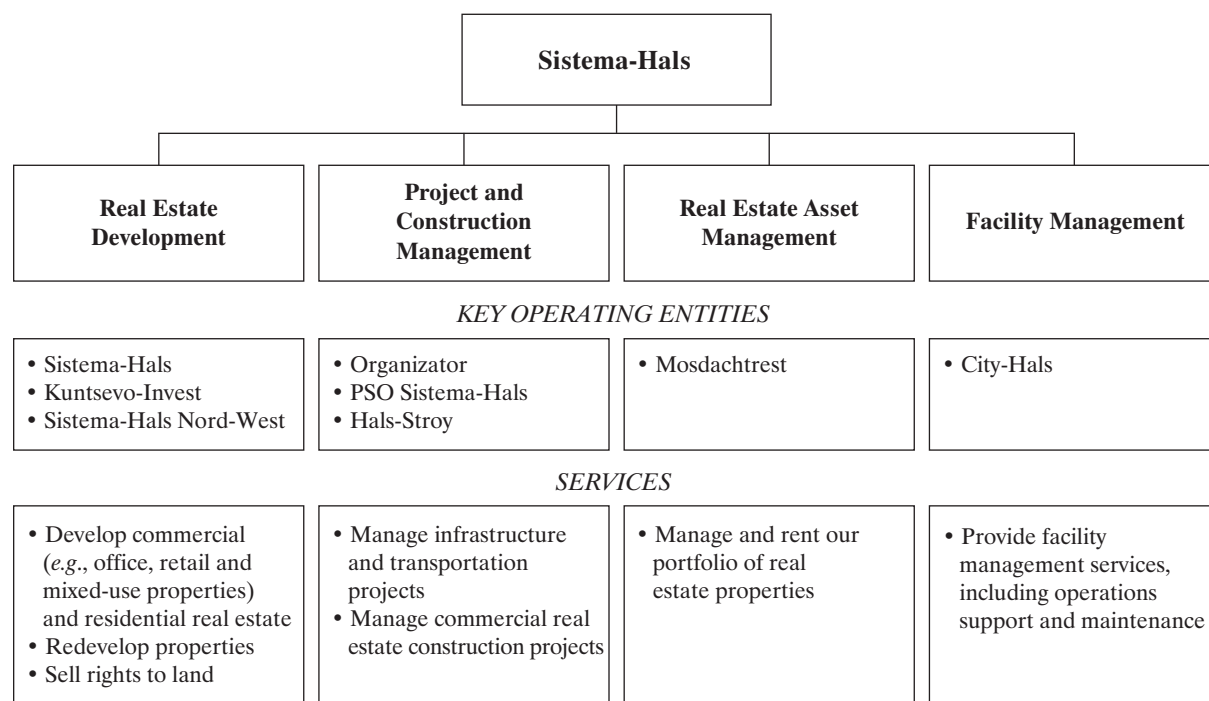
Our revenues are derived principally from the following activities: (1) selling, developing and redeveloping commercial and residential properties, as well as selling rights to land; (2) managing infrastructure and transportation projects; (3) managing and renting our portfolio of real estate properties, completed development projects and other properties held as investments; and (4) providing facility management services. For the year ended December 31, 2005 and the six months ended June 30, 2006, we had revenues of \$93.1 million and \$106.6 million, respectively.

Our portfolio of real estate properties and pipeline of development projects, all of which have been valued by C&W, consist of:

- Five commercial properties in Moscow and the Moscow region, as well as 14 residential settlements in Moscow and the Moscow region containing approximately 1,000 single-family houses. These settlements are owned by our subsidiary Mosdachtrest.
- 64 real estate projects either in the course of development or held for future development, including, among others, Leningradsky Towers, Peking Hotel, Detsky Mir and NIIDAR in Moscow and Hals Mart in St. Petersburg. We expect that these projects will require approximately \$3.0 billion of investments through 2013.
- 102.0 hectares of land in the Moscow region, held by five wholly owned subsidiaries, that we may sell or develop in the future.

In addition, we are considering approximately 40 potential projects, which are at various stages of evaluation and internal approval.

The chart below sets forth our real estate business divisions, the services offered by each division, as well as the key operating entities through which we operate in each division.



The following table sets forth revenues generated by our real estate divisions for the periods indicated:

	Years ended December 31,						Six months ended June 30,			
	2003	% of revenues	2004	% of revenues	2005	% of revenues	2005	% of revenues	2006	% of revenue
(amounts in thousands of US dollars, except percentages)										
Revenues:										
Real Estate Development	18,909	58.1	88,151	80.9	48,960	52.6	12,787	38.5	78,078	73.2
Project and Construction Management	3,501	10.8	8,826	8.1	22,743	24.4	9,438	28.4	13,363	12.5
Real Estate Asset Management	6,224	19.1	10,297	9.4	15,299	16.4	7,521	22.6	11,428	10.7
Facility Management	4,975	15.3	2,558	2.3	7,267	7.8	4,017	12.1	5,023	4.7
Eliminations	(1,074)	(3.3)	(855)	(0.8)	(1,145)	(1.2)	(518)	(1.6)	(1,272)	(1.2)
Total	<u>32,535</u>	<u>100.0</u>	<u>108,977</u>	<u>100.0</u>	<u>93,124</u>	<u>100.0</u>	<u>33,245</u>	<u>100.0</u>	<u>106,620</u>	<u>100.0</u>

Competitive Strengths

Our main competitive strengths are the following:

- **A leading position in the Russian real estate market.** Since our establishment in 1994, we have completed more than 30 projects with a total area of over 250,000 sq.m, mostly in Moscow. According to developery.ru, a source of information about the Russian real estate market, we are one of the top five developers of Class A offices in Moscow, based on our completed projects and our pipeline of development projects. We believe that the value of our projects is maximized due to our ability to provide development services covering each stage of the development process. For example, our development activities include sourcing new properties and projects for development, financing, managing and obtaining necessary government approvals and permissions and, in some cases, serving as the general contractor. We believe our completed projects have helped to establish our reputation for quality and reliability, which, in turn, enhances our access to new development projects and investments. Our completed projects include the DaimlerChrysler headquarters in Moscow, the Hals Tower office building, the future headquarters of TMK, the largest manufacturer and exporter of pipe products in Russia and a hotel for Orco Property Group that will be included in the MaMaison hotel chain. In addition, we are currently developing Leningradsky Towers, where one of the towers will be Siemens' headquarters in Moscow.

- ***A diverse pipeline of 64 development projects and large land holdings.*** We have a pipeline of 64 development projects either in the course of development or being held for future development. Most of our projects are located in Moscow and the Moscow region, and some of our projects are located in other major Russian cities, such as St. Petersburg, Kazan and Krasnoyarsk. Our pipeline of projects is distributed relatively evenly between residential, office and retail properties. Certain of our key projects include the Detsky Mir and Peking Hotel multi-functional complexes and Leningradsky Towers office buildings, which are all in Moscow. For additional information, see “—Properties and Development Projects—Description of Our Key Projects.” In addition, we currently hold certain other commercial and residential properties as investments that we may develop or sell in the future. This includes 102.0 hectares of land in the Moscow region, as well as 14 residential settlements in Moscow and the Moscow region containing approximately 1,000 single family houses. According to C&W, our real estate investment properties and development projects have a market value of \$1.87 billion as of June 30, 2006, of which \$1.51 billion is our expected beneficial share. We believe we are also well positioned to take advantage of expected market growth in such cities as Omsk, Ufa, Samara, Rostov-on-Don and Yekaterinburg through our early market entry into these cities. We believe our portfolio of properties and development pipeline of residential, office and retail projects will provide us with strong growth opportunities given the current high demand for such properties in Russia.
- ***Strong name recognition, a well-established reputation and long-standing relationships with governmental authorities.*** We have been operating in the Russian real estate market since 1994. We believe we have strong name recognition in the Russian real estate market, particularly in Moscow. We believe that our reputation is based largely on our successful completion of more than 30 projects in Russia, as well as our affiliation with Sistema. In addition, we have developed and continue to maintain long-standing relationships with governmental authorities and have accumulated extensive know-how with respect to federal and local real estate regulations and procedures.
- ***Established financial history and transparency of business.*** We believe that the size of our company, our positive credit history and the transparency of our corporate, business and financial affairs give us an advantage over our competitors in relation to the acquisition of land plots, sourcing of new development projects, financings, dealing with governmental authorities and retaining international consultants, as well as tendering for infrastructure and transportation projects. In addition, we have demonstrated positive results with respect to our revenues and net income during the years ended December 31, 2004 and 2005, and the six months ended June 30, 2006.
- ***Expertise in real estate development project management.*** We possess extensive expertise in identifying attractive development projects, and managing and controlling the development process, which we believe enables us to increase returns and control development risks. We carefully select our projects, the locations of such projects and the subcontractors with whom we wish to work, as well as oversee the entire development process from the pre-project design phase to completion.
- ***Experienced management team.*** Our senior management team has substantial and diversified experience in the Russian real estate industry with an average of six years experience. Certain executive officers have worked at various companies that have engaged in the development and construction of real estate projects, as well as property management. We believe that our management team is experienced in adapting internationally recognized real estate concepts and practices to local conditions in Russia and elsewhere in the CIS.
- ***Value-enhancing controlling shareholder.*** We have a substantial competitive advantage as a subsidiary of Sistema, our controlling shareholder, which oversees the strategic direction of our businesses. We believe that being part of the Sistema group will provide us with various investment opportunities and synergies. We are well positioned to develop the property portfolios owned by companies within the Sistema group, including Comstar UTS, Detsky Mir, MGTS, MTS, Rosno and Sitronics. See also “—Ownership Structure—Our Relationship with Sistema.” In addition, we expect that Sistema will join us, in certain circumstances, when investing in certain real estate opportunities.

Strategy

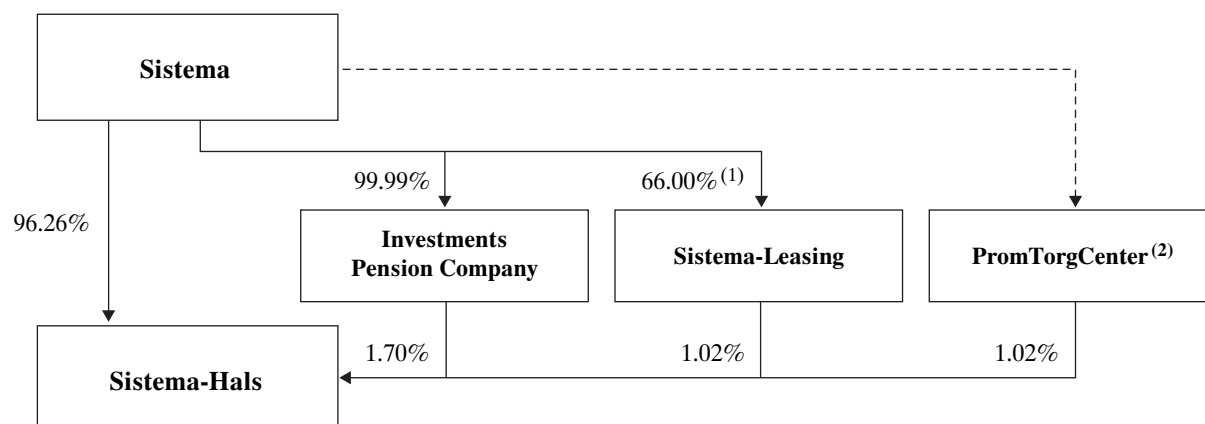
We aim to become the largest real estate developer and a leading real estate asset portfolio manager in Russia and CIS. We intend to maximize returns on invested capital and further enhance our reputation through the selective development of quality projects. To accomplish these goals, we intend to implement the following strategic initiatives:

- ***Continue to develop and, in some cases, retain for rental income, projects in our current pipeline or source new projects.*** We intend to continue to acquire ownership and leasehold rights to development properties for future residential, office and retail projects. Although we do not preclude investments in completed projects, we focus on new developments based on our belief that new projects will provide substantially greater financial returns than investments in completed developments. We intend to focus on developing properties with a gross building area of more than 15,000 sq.m and an internal rate of return of no less than 20%. Upon completion, we plan to include into our real estate asset management division only those buildings that have a gross building area of over 15,000 sq.m and sell smaller buildings to third parties. As a general practice, we aim to develop and hold commercial properties and sell residential properties, excluding the single-family houses in Serebryany Bor, Barvikha and Trudovaya settlements owned by our subsidiary Mosdachtrest. We aim to complete a total of 46,263 sq.m, 260,414 sq.m and 401,489 sq.m of gross building area of residential office, retail, hotel and mixed-use developments in 2006, 2007 and 2008, respectively. See also “—Properties and Development Projects—Production Plan.” We anticipate that our current properties will provide stable cash flows and the potential for capital appreciation. Although most of our revenues are currently derived from real estate development division, we plan to reduce our exposure to risks inherent in the real estate development business, and aim to generate 40% of our total annual revenues from the real estate asset management division in the future.
- ***Redevelop significant properties within the Sistema group’s real estate portfolio.*** Sistema and its affiliates hold significant real estate interests, some of which are no longer required in their operations or are not being utilized efficiently and, as a result, have redevelopment potential. For example, we intend to redevelop properties owned by MGTS into Class A and Class B offices, hotels and residential properties. For additional information, see “—Properties and Development Projects—Description of Our Key Projects—MGTS Program” below. We intend to develop or redevelop these properties which, upon completion, can either be rented or sold.
- ***Focus on high-growth real estate segments, such as Class A and Class B office buildings, shopping centers, mixed-use retail and office complexes, single-family houses and business class residential apartment buildings.*** We intend to focus on the development of large-scale shopping malls capable of accommodating hypermarket and leisure facilities, such as cinemas and food courts. We plan to build such centers in densely populated residential areas and preferably near major public transportation hubs. Furthermore, we aim to develop office space and involve strategic partners where required with the objective of renting or selling these properties once stable income streams are established. In addition, we intend to continue to build single-family houses and business class residential apartment buildings in desirable locations that provide good value to buyers in Moscow and the Moscow region. We also plan to develop a strong network of properties in which we will provide facility management services. As our portfolio of residential properties grows, we may consider developing our own operational division responsible exclusively for the management of residential properties.
- ***Seek out attractive investment opportunities in the Moscow region, other regions of Russia and elsewhere in the CIS.*** As new real estate investment opportunities become available in Russia and the CIS, we intend to continue to seek out and, with the help of independent consultants, analyze their potential for superior returns. We will consider investments in quality commercial and residential properties in Moscow and other Russian and CIS cities, as well as Estonia, Latvia and Lithuania. We currently have projects in six cities in Russia and Ukraine. We aim to capitalize on our strong reputation, comprehensive experience and sound financing resources to take a leading position in our relevant real estate markets.
- ***Form alliances with strong financial and strategic partners.*** In order to maximize the revenue potential from our development projects, we intend to form commercial alliances with strong financial and strategic partners with technical expertise and financial resources to assist us in the development of some of our properties and projects. We plan on cooperating with market

leaders in Russia and other countries where we operate to share local market knowledge and exchange expertise to successfully source and complete development projects.

Ownership Structure

The organizational chart below shows the structure through which Sistema controls 100% of the shares of Sistema-Hals as of the date of this prospectus.



(1) The remaining stake in Sistema-Leasing is owned by companies affiliated with Sistema.

(2) Sistema consolidates PromTorgCenter in its US GAAP financial statements pursuant to FIN 46R.

Our Relationship with Sistema

We are a subsidiary of Sistema, the largest private sector consumer services company in Russia and the CIS with over 70 million customers. Founded in 1993, Sistema develops and manages market-leading businesses in fast-growing service-based industries, including telecommunications through MTS, Comstar UTS and MGTS, real estate through us, technology through Sitronics, insurance through Rosno, banking through MBRD, tourism through Intourist, retail through Detsky Mir Group and media through Sistema Mass-media. The Sistema group of companies employs approximately 70,000 people, and generated approximately \$7.6 billion in revenues for the year ended December 31, 2005 and approximately \$4.6 billion in revenues for the first six months of 2006.

Sistema oversees the strategic direction of our businesses, and we expect that being part of the Sistema group will provide us with various real estate development and other opportunities. For instance, Sistema and its affiliates hold significant real estate interests, some of which are no longer required in their operations or are not being utilized efficiently and, as a result, have redevelopment potential. We are currently assisting Sistema and its affiliates in the redevelopment of several of their buildings, and intend to assist with the redevelopment of 33 buildings owned by MGTS. Furthermore, in 2007, we expect to begin renovating the flagship store of the Russian children's retail chain, Detsky Mir, in Moscow, once the design has been approved by the Moscow City Government. In addition, Sistema provides us with assistance in sourcing sites in Moscow and with development opportunities and we expect that Sistema will join us, in certain circumstances, when investing in certain real estate opportunities.

As we are the real estate business segment of Sistema and have the senior management with real estate expertise within the Sistema group, Sistema has informed us that it will continue to conduct its real estate activities in Russia and the CIS through us. The redevelopment of properties owned within the Sistema group by us is an especially important aspect of Sistema's overall strategy to derive synergies within the group. In particular, we have a development pipeline involving 64 projects, a majority of which involve companies within the Sistema group. Sistema has informed us that it will for a period of two years from the date hereof permit us to be the developer with respect to these projects and will not otherwise cause us to transfer these projects or our expected profits therefrom to another Sistema affiliate outside of our group, other than on a commercial arm's-length basis.

Real Estate Development

The business of the real estate development division is to identify and develop projects from the idea or inception stage to completion. Our activities include the identification of opportunities and the

performance of feasibility studies, which are undertaken with the assistance of international consultants. In addition, we prepare business plans and obtain architectural designs from architectural firms, such as Chapman Taylor HQ, Foster & Partners and Bureau AV. We also obtain the required construction permits and other permissions, raise financing and engage in marketing activities.

Currently, our pipeline of real estate development projects is comprised of 64 projects that have been internally approved. In addition we have approximately 40 potential projects under consideration at various stages of evaluation and internal approval. In certain cases, this division retains our subsidiary Hals-Stroy from the project and construction management division to act as the general contractor; however, we typically engage a general contractor for each project through an open bidding process. Upon completion, we may retain the project in our real estate asset management division as an investment or sell it to a third party. Based on gross building area, approximately 84% of our pipeline of real estate development projects is in Moscow and the Moscow region, 13% in other regions of Russia and 6% elsewhere in the CIS, excluding our Aurora land development project. Moreover, 30% of our pipeline is residential, 40% mixed-use, 14% office, 9% retail and 7% hotel, based on gross building area, excluding our Aurora land development project.

Our rights and obligations with respect to a development project in Moscow are determined and governed by an investment contract or separate arrangement between us and the Moscow City Government. Pursuant to such contract or arrangement, upon completion of the project, we receive title for the structure and enter into a long-term lease agreement for the land. In most cases, particularly in respect of residential apartment buildings, an investment contract requires a certain portion of the project be allocated to the City of Moscow upon completion or monetary compensation be provided to the city. We also enter into similar investment contracts and arrangements with the governments of certain other Russian regions, including the Moscow region. Development projects are typically implemented through project companies, which obtain title to completed buildings and have leasehold rights to land.

In addition, our real estate development division acts as developer for external clients generally through “cost-plus” contracts. See “—Project and Construction Management” below for a description of these contracts. Typical costs include, among others, development and construction costs, such as architectural, general contractor services, construction material costs and the costs associated with various expert evaluations and approvals.

Key completed projects

Bolshaya Ordynka Office Complex

The Bolshaya Ordynka office complex comprises six office buildings located in the historical section of downtown Moscow. The site was previously occupied by dilapidated industrial facilities from Soviet times. From 1996 to 2000, we redeveloped three of the six industrial facilities converting them into Class A office buildings:

- In 1996, we completed the development of the office building at 40/37 Bolshaya Ordynka Street with a gross building area of 9,011 sq.m. The building has four separate sections of varying heights, each with a different number of floors, and in an architectural style designed to blend in with the neighboring historical buildings. Consistent with other Class A buildings in Moscow, the building has an underground parking, high quality air conditioning and communications systems and advanced engineering systems, as well as an interior fit-out using natural construction materials, such as wood, granite and marble.
- In 1999, we completed the development of the DaimlerChrysler headquarters in Moscow at 40/2 Bolshaya Ordynka Street with a gross building area of 7,290 sq.m. We designed the façade of this building to match stylistically the high-tech contemporary interior of glass, steel and wooden panels. For this project, we won several Russian and international awards, including “Best Project of the Millennium” award at the 13th International Construction Awards in Paris in 2001; “Best Project of the Millennium” award at the 15th Golden Europe Awards for Quality in 2001 by Editorial OFICE; and “Best Project” in the field of construction in Moscow from 1990 to 2000 in the Office Buildings/Business Centers category awarded by the City of Moscow.
- In 2000, we completed the development of the Peredny Dvor office building at 40 Bolshaya Ordynka Street with a gross building area of 4,629 sq.m. The building consists of two parts, each with two to four floors that connect to form an arch that serves as the entrance to the Bolshaya

Ordynka office complex. In addition, there is an underground parking garage capable of accommodating 25 cars. The building features a centralized and fully integrated electronic security and engineering management system.

Hals Tower

In 2001, we completed for Sistema the development of the Hals Tower Class B office building at 5 1st Tverskaya-Yamskaya Street in the central part of Moscow. The building consists of three separate sections with a gross building area of 12,237 sq.m. The building has an underground parking garage and a unique vertical aboveground parking garage in the middle of the building with a total capacity of 90 cars. In addition, the building is equipped with a modern and fully automated engineering, air conditioning and telecommunications system. The tenants in this building include, among others, Sistema Telecom, BBDO, Western Union and Raiffeisenbank.

40/3 Pokrovka Street project

The 40/3 Pokrovka Street project is a mixed-use Class A office and hotel complex located in downtown Moscow between the Boulevard Ring and the Garden Ring roads. In October 2006, the entire complex was substantially completed. The complex has a total gross building area of 24,169 sq.m, of which 14,170 sq.m comprises the Class A office space and 9,459 sq.m comprises the hotel space. The complex includes various-shaped structures, each between five and seven floors. We have entered into a contract to sell the office part of the complex to TMK, which intends to use it as its corporate headquarters. The hotel part of the complex was developed for Orco Property Group, which intends to use it as a four-star all suite hotel that will be included in its MaMaison hotel chain. The hotel has an underground parking garage, and is expected to include a health club, indoor swimming pool and conference rooms.

Other completed projects

30/1 Podsosensky Lane

We acted as the developer, project manager and general contractor for this Class A office complex, completing the renovation of the three buildings comprising the complex and the restoration of the buildings' historical interiors in 1996. Two of the three buildings date from the 18th century and are registered as architectural landmarks. The complex is located in the central part of Moscow and has a gross building area of 4,278 sq.m. In addition, there is an underground parking garage capable of accommodating 20 cars.

1/1 Bolshoy Gnezdnikovsky Lane

We acted as the developer, project manager and general contractor for this Class A office building, completing the construction in 1997. The building is located in the historical part of Moscow and has a gross building area of 11,069 sq.m. The building has a high-quality and fully automated engineering, air conditioning and telecommunications system with modern interiors and a glass, steel and granite facade. In addition, there is an underground parking garage capable of accommodating 78 cars.

50 3rd Tverskaya-Yamskaya

We acted as the developer, project manager and general contractor for this 19th century building located in the central part of Moscow. We completed the renovation and conversion of the building into a residential apartment building containing 16 luxury apartments in 1998. We built two additional floors and refurbished the façade of the building with natural stone.

12 Petrovsky Boulevard

We acted as the developer, project manager and general contractor for this Class A office complex, completing the renovation and construction in 1999. The project included the conversion of a 19th century residence into office space and the construction of four additional new office buildings. This office complex is also known as Petrovskoye Podvorye and is located in the central part of Moscow on the Boulevard Ring. It has a gross building area of approximately 15,000 sq.m and an underground parking garage capable of accommodating 48 cars.

20/2 Spiridonovka Street

We acted as the developer, project manager and general contractor for this Class B office building, completing the renovation and conversion of a 19th century private residence into office space in 1999. In addition to renovating five floors of the building, we restored the façade without changing the original architectural style and completed the interior with high-quality construction materials. The building is located in the central part of Moscow and has a gross building area of 2,947 sq.m.

17 Prechistenka Street

We acted as the developer, project manager and general contractor for this Class B office complex, completing the renovation in 2002. The complex, also known as Usadba Davydova, was a private residence in the 18th century, and is registered in Moscow as a cultural and historical landmark. It is located in the central part of Moscow, and has a gross building area of approximately 3,372 sq.m. This building is used as one of Sistema's corporate offices.

30 Kadashevskaya Embankment

We acted as the developer of this Class A office building, completing the construction in 2003. It is located in the historical part of Moscow. The building contains three floors and an underground parking garage and has a gross building area of 6,513 sq.m.

7 Nastasinskiy Lane

We acted as the developer for this Class A office building, completing the construction in 2005. The office building is located in downtown Moscow near three main roads, including Tverskaya Street, the Garden Ring and the Boulevard Ring. This office complex has a gross building area of approximately 7,496 sq.m.

15 Elninskaya Street

We acted as the developer and co-investor of this business class residential apartment building, completing the construction in 2006. This residential complex is also known as Emerald Valley and is located in the Kuntsevo district of Moscow. It comprises two uniquely-designed brick buildings and contains a total of 179 apartments, including studios and one- to six-room single-level and duplex apartments, ranging from 55 to 250 sq.m.

Key operating entities

We conduct our real estate development business primarily through three key operating entities, as follows: Sistema-Hals, Kuntsevo-Invest and Sistema-Hals Nord-West.

Sistema-Hals

Sistema-Hals was incorporated in 1994 by Sistema. It was primarily formed to consolidate Sistema's interests in the Russian real estate and construction industries with a focus on Moscow and the Moscow region. Since its incorporation, Sistema-Hals has had minority shareholders, but it has always been controlled by Sistema. Sistema currently owns a 96.3% interest in Sistema-Hals, and the remaining 3.7% is owned by companies controlled by Sistema. See "—Ownership Structure."

Sistema-Hals acts as our primary operating company, as well as a holding company for our group.

Kuntsevo-Invest

Kuntsevo-Invest was established in 1994 by eight individuals as an investment company to implement the reconstruction of several residential areas in the Western Kuntsevo district of Moscow. In 2002, Sistema acquired through its subsidiaries and affiliates a 51% interest in, and gained control over, Kuntsevo-Invest. In December 2005, we acquired from Sistema's subsidiaries and affiliates an 81% interest in Kuntsevo-Invest. In October 2006, we acquired the remaining 19% interest in Kuntsevo-Invest, increasing our ownership interest to 100%. Since its incorporation, Kuntsevo-Invest completed the construction of eight residential buildings with a total area of approximately 137,000 sq.m. Kuntsevo-Invest is primarily involved in a redevelopment project in the Western Kuntsevo district of Moscow pursuant to a decree of the Moscow City Government. The project involves the

re-housing of Moscow residents living in old residential apartment buildings, demolition of such buildings and construction of new residential apartment buildings on the vacated sites. Kuntsevo-Invest has certain commitments under this decree. See “Management’s Discussion and Analysis of Financial Conditions and Results of Operations—Tabular Disclosure of Contractual Obligations.”

Sistema-Hals Nord-West

Sistema-Hals Nord-West was established in 2001 by Sistema Severo-Zapad, a subsidiary of Sistema, Mechanichesky Zavod and us. Sistema transferred its interest in Sistema-Hals Nord-West to us in 2006, and currently we own a 76% interest and Mechanichesky Zavod holds the remaining 24% interest in Sistema-Hals Nord-West. Sistema-Hals Nord-West provides real estate development and project and construction management services in St. Petersburg. Currently, Sistema-Hals Nord-West is involved in, among others, the Hals Mart project.

Project and Construction Management

The project and construction management division acts as the general contractor and is responsible for managing the construction and completion of projects. In some limited cases, however, we may also act as a subcontractor depending on the particular project. As a general contractor, we oversee the procurement of materials, as well as the selection and utilization of subcontractors and labor. In addition, we may monitor compliance by the contractors with design specifications and the terms of a particular contract. This division provides services both to the real estate development division (through our subsidiary Hals-Stroy) and to external municipal clients (through our subsidiaries Organizator and PSO Sistema-Hals). Hals-Stroy currently provides construction management services to our real estate development division, but may, in the future, bid on projects for other real estate developers. Organizator and PSO Sistema-Hals, both of which are ISO 9001 certified, provide construction management services with respect to tunnel, bridge and other infrastructure and transportation projects, generally on behalf of the Moscow City Government.

We enter into three basic types of construction management contracts with our customers and, in most cases, the projects are financed by our customers or outside investors:

- “Fixed-Price” contracts: we manage the construction of a project for a “fixed” price agreed between the parties before construction begins; however, the price may change due to changes in certain costs of construction and changes to the specifications and scope of the work.
- “Target-Price” contracts: we manage the construction of a project for a “target” price agreed between the parties before construction begins; however, the price may change due to changes in certain costs of construction and changes to the specifications and scope of the work. The contract typically requires the customer to reimburse us for any costs that exceed the “target” price. In addition, we may earn an additional fee if the costs associated with the project turn out to be less than the “target” price.
- “Cost-Plus” contracts: we manage the construction of a project and the customer reimburses us for the actual costs that are incurred, plus a predetermined fee. The fee portion of the contract can be a percentage of the costs incurred under such contract and/or be based on the achievement of specific performance targets or milestones.

On certain projects, particularly those of a significant size or which require specialized technology or know-how, we partner with other real estate specialists, both to increase our opportunity to win a particular contract and to manage more effectively economic, development and execution risks associated with such projects. Our partners typically include general and specialized engineering firms, construction companies, operations contractors and equipment manufacturers. These partnerships may be structured as joint ventures or consortia, with each participating firm having an economic interest relative to the scope and nature of work it is to perform.

Key completed and ongoing projects

Third Transport Ring, Lefortovsky Tunnel

We acted as the construction manager and technical supervisor for this Lefortovsky road-transport tunnel, which is the largest structure on the Third Transport Ring. This tunnel is approximately 3 km long and was built in 2004 underneath a large park with historic 18th century buildings, fountains and

reservoirs. To do so, we designed a complex underground structure existing at various depths, including a deep section with reinforced concrete segments and approach ramps of more than 150 m. In addition, the tunnel includes sophisticated water-sealing and drainage systems.

Third Transport Ring, Kutuzovsky Interchange

We acted as the construction manager and technical supervisor for this interchange between Kutuzovsky prospect and the Third Transport Ring, completing the construction in 2004. The interchange is one of the largest in Europe constituting five levels of a complex transportation system that includes ramps, tunnels and overpasses.

Kievsky Highway

We acted as the construction manager and technical supervisor for reconstructing sections of the Kievsky Highway, which leads from the MKAD to Vnukovo airport. This infrastructure project was completed in 2004. During the reconstruction, we converted the highway into a high-speed modern road with four traffic lanes on each side of the highway and a sophisticated interchange near the Vnukovo airport.

Krasnopresnensky Prospect

We have acted as the construction manager and technical supervisor for the construction work on large sections of Krasnopresnensky Prospect in Moscow and continue to be involved in this project. This project is essential for the development of Moscow's transport infrastructure as the portion of Krasnopresnensky Prospect connecting the city center with the MKAD will be Moscow's largest radial highway. The highway will be constructed to ease traffic on other major highways in Moscow, including Kutuzovsky Prospect, Volokolamskoye and Rublevskoye Highways. It will include the construction of a pedestrian bridge over the Moscow river, as well as a transport intersection with the Third Transport Ring and a rail road. The project will also involve the construction of a sophisticated tunnel system able to accommodate automobile traffic, as well as the metro system. The aggregate cost of the project is estimated to be approximately \$1.3 billion.

Key operating entities

The project and construction management division consists of three key operating subsidiaries Organizer, PSO Sistema-Hals and Hals-Stroy.

Organizer

Organizer was established in 1995 as a project and construction management company. In December 2002, we acquired a 51% interest in Organizer. Gennady Muravin, who is the chairman of the board of directors of Organizer, and his son, Vladimir Muravin, own a 49% interest in Organizer. Organizer is a leading Russian company specializing in the design, construction and renovation of roads and bridges, overpasses and tunnels. Organizer oversees the technical and financial aspects of the construction process, often serving as the developer of transport infrastructure projects primarily for the Moscow City Government. Since its incorporation, Organizer has participated in six large projects, including the construction of Lefortovsky Tunnel and the reconstruction of certain sections of the MKAD, Leningradsky Highway and Kievsky Highway. Organizer is currently involved in the Krasnopresnensky Prospect project.

PSO Sistema-Hals

PSO Sistema-Hals was established in March 2004 with us holding a 51% interest. The remaining 49% interest is directly and indirectly held by Valery Abramson, one of our directors and the general director of PSO Sistema-Hals, and Arthur Mints, the deputy general director of PSO Sistema-Hals. PSO Sistema-Hals was primarily formed to perform project and construction management services on the Krasnopresnensky Prospect project, but subsequently obtained contracts for the construction of the Orlovsky Tunnel in St. Petersburg, the Central Ring Road in the Moscow region and a pedestrian route from Neskuchny Sad to the international business center "Moscow City." In January 2006, PSO Sistema-Hals acquired 25% plus one share of Sibmost for \$2.4 million. Sibmost is a leading project manager and developer of infrastructure projects in the Siberian Federal District, specializing in the management of bridge and over-bridge construction projects.

Hals-Stroy

We established Hals-Stroy in 1997, and acquired full ownership in March 2004. Hals-Stroy received a license for general construction activities in 2003, and acts as a general contractor for certain of our projects. It also selects and determines how best to utilize subcontractors and other labor personnel. Currently, Hals-Stroy is involved in the following projects: Detsky Mir retail projects in Moscow, Kazan and Krasnoyarsk and single-family houses at Serebryany Bor in Moscow.

Real Estate Asset Management

The companies within our group that comprise the real estate asset management division own the following residential and commercial properties.

Mosdachtrest residential settlements

Mosdachtrest is the owner of 14 residential settlements in Moscow and the Moscow region containing approximately 1,000 single-family houses. The total rentable area of these houses is approximately 96,000 sq.m. The total area of the settlements is approximately 275 hectares, approximately 80% of which is held pursuant to a right of perpetual use, approximately 13% is held under long term lease and approximately 7% is held freehold.

Mosdachtrest was established in 1993 through the privatization of a state enterprise formed in 1938. During Soviet times, Mosdachtrest held and managed a large number of summer houses, known as “dachas,” which were provided to individuals at the discretion of the Moscow City Government. By 1999, we held a 36.7% interest in Mosdachtrest and the Moscow City Government held a 30% stake, with the remaining shares owned by companies and individuals not affiliated with us or Sistema. In November 2005 and February 2006, we increased our ownership interest in Mosdachtrest to 56.3% by purchasing shares from Lamineya, a company consolidated by Sistema in its US GAAP financial statements, and directly from Mosdachtrest. In September 2006, we increased our interest in Mosdachtrest to 56.5% by purchasing shares from certain individual minority shareholders. The Moscow City Government currently holds a 33.8% interest and the remaining shares are held by a large number of minority shareholders. The Moscow City Government continues to be involved in the affairs of Mosdachtrest. See “Risk Factors—Risks Relating to Our Business—Any deterioration of our relationships with governmental authorities may have a negative effect on our business.”

The following table sets forth certain information about Mosdachtrest’s residential settlements.

<u>Name</u>	<u>Area (in hectares)</u>	<u>Location</u>	<u>Type of house</u>
Kraskovo	16	Moscow region	Dachas dating from 1930s, intended for summer use only
Klyazma	16	Moscow region	Dachas dating from 1930s, intended for summer use only
Zagorianka	7	Moscow region	Dachas dating from 1930s, intended for summer use only
Trudovaya	16	Moscow region	Newly-constructed houses, put into operation June 2005
Krasnaya Pakhra	9	Moscow region	Renovated dachas, designed for year-round use
Opalikha	5	Moscow region	Dachas dating from 1950s, intended for summer use only
Barvikha	1	Moscow region	Recently renovated houses
Zhavoronki	5	Moscow region	Houses constructed in 1997, intended for year-round use
Zaveti Ilich	46	Moscow region	Dachas dating from 1930s, intended for summer use only
Udelnoe	23	Moscow region	Dachas dating from 1930s, intended for summer use only
Zdravnitsa	25	Moscow region	Dachas dating from 1950s, intended for summer use only

Name	Area (in hectares)	Location	Type of house
Serebryany Bor	31 ⁽¹⁾	Moscow	Mixture of old and newly-constructed houses
Kuchino	51	Moscow region	Dachas dating from 1930s, intended for summer use only
Skhodina	15	Moscow region	Dachas dating from 1930s, intended for summer use only

⁽¹⁾ Includes land to be used for the Serebryany Bor II residential development project.

Rental revenues for the Mosdachtrest settlements, in particular Serebryany Bor, and sales of older dachas in the settlements represent a substantial majority of the revenues of the real estate asset management division. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

35 Bolshaya Tatarskaya Street

The 35 Bolshaya Tatarskaya Street property consists of thirteen commercial building, including two office buildings, formerly utilized by Moscow Radio Plant “Temp” for radio production and storage of new materials. We own the buildings through our subsidiary Sistema-Temp. The two office buildings have a total gross building area of approximately 6,000 sq.m, consisting of Class B and Class C office space.

75 Sadovnicheskaya Street

The 75 Sadovnicheskaya Street property is a five-story Class B office building located in the central district of Moscow, with a gross building area of approximately 8,500 sq.m. There is an underground parking for 46 cars. The building was completed in 1998. We acquired the property in August 2006, and intend to use a portion of the building for our new headquarters. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments.”

Facility Management

The facility management division operates through our wholly owned subsidiary City-Hals, providing a range of site management services, including security, cleaning, staffing, technical support, repair and renovation, as well as general building maintenance. City-Hals provides these services to Sistema subsidiaries, including Detsky Mir, MTS, Rosno and Sistema Telecom. We intend to cross sell our facility management services to clients of real estate development division.

Key operating entity

City-Hals

City-Hals was established in 2001 as a facility management company, in which we initially held a 58% interest. In July 2002, we acquired another 17% interest in City-Hals, and further increased our interest to 100% in December 2005.

Properties and Development Projects

We retained C&W to value certain of our real estate properties and development projects, which we generally refer to herein as “properties.” The valuations and a discussion of the valuation methodology and other assumptions and methodologies are contained in the Valuation Report. The properties in the Valuation Report are valued as of June 30, 2006.

Each property has been valued on the basis of “Market Value” in accordance with the Practice Statement contained in the RICS Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors, or the Red Book. In the Red Book, “Market Value” is defined as: “The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

The properties consist of (1) properties held as investment, (2) properties in the course of development and (3) properties held for future development. According to C&W, as of June 30, 2006,

the aggregate market value of the properties was \$1.87 billion, and our beneficial share of the valuation amounted to \$1.51 billion, categorized as follows:

<u>Category</u>	<u>Number of Properties</u>	<u>Market Value</u>	<u>Our Beneficial Share of Market Value</u>
		(in US dollars)	
Properties held as investment	24 ⁽¹⁾	313,198,000	232,873,904
Properties in the course of development	31	861,333,000	729,632,275
Properties held for future development	33	690,872,000	547,027,960
Totals	<u>88</u>	<u>1,865,403,000</u>	<u>1,509,534,139</u>

⁽¹⁾ One of these properties was acquired after June 30, 2006. See Valuation Report.

The valuations stated above represent the aggregate of the current values attributable to individual properties and should not be regarded as a valuation of the portfolio as a whole in the context of a sale as a single lot. In addition, each valuation does not consider any effect of multiple properties being developed concurrently or released to the market together. The values ascribed to each property are set out in the Valuation Report.

Valuation Methodology

Most of the properties held as investment were valued using the sales comparison approach, whereas almost all of the properties in the course of development or held for future development were valued using the income approach, but taking into account sales of comparables where they were available. Each method has its own limitations, especially in Russia, and we urge you to read the Valuation Report for a full discussion of these limitations. Below we have generally described the basic premises of each of these approaches.

Under the income approach, prospective cash flows from a property and the costs associated with being able to generate those cash flows are discounted back to the present using a market-derived discount rate. The resulting net present value is an indication of the market value. Specifically, with respect to properties in the course of development and properties held for future development, the market value is the net present value of all future income streams less the net present value of all future costs. The costs include all the development costs still outstanding in respect of the property and future incomes are assessed based on current returns for completed projects of a similar nature in the market adjusted to reflect the expected completion date for the particular project and anticipated future trends in rents and/or sales prices. The discount rate used was market derived and reflected the minimum returns a typical investor would require to undertake a project of that type. The discount rate ranged from 15% to 22% for properties in the course of development and from 16.5% to 25% for properties held for future development.

The sales comparison approach involves analyzing all available information on sales of comparable properties that have taken place and making adjustments in the prices achieved to reflect the differences in the properties sold and the property to be valued.

Certain Assumptions and Methodologies

The valuations are based on various assumptions and methodologies. We urge you to read the Valuation Report for a full discussion of these assumptions and methodologies. In general, C&W has assumed a number of matters relating to the nature of the properties and the development process, including:

- land leases from the Moscow City Government will be extended;
- any required variations will be granted without material cost or delay by landlords in cases where the planned development differs from that anticipated by the land lease;
- properties possess good and marketable title, free from any unusually onerous restrictions, covenants or other encumbrances;
- where the interest held in the property is leasehold, there are no unreasonable or unusual clauses which would affect value and no unusual restrictions or conditions governing the assignment or disposal of the interest;

- for properties where only an investment contract with the governmental authorities exists, a ground lease and an ownership certificate with respect to the building will be issued upon completion of the development;
- properties are erected and are being occupied and used in accordance with valid planning permissions;
- for properties where all required planning permission have not been obtained, such permission will be obtained without delay and without effect on value or marketability;
- there are no latent defects, wants of repair or other matters which would materially affect the valuation and no hazardous materials or techniques have been used in the construction of the property; and
- there are no adverse ground conditions which would affect building costs.

C&W has also used various valuation methodologies intended to remove certain variables from the valuations. These valuation methodologies include, for example:

- where appropriate, C&W considered our business plan to develop each property, but each valuation reflects C&W's opinion of an appropriate development that could reasonably be expected to form the basis of a bid for a property by a third party, *i.e.*, the "Highest and Best Use" has been considered for each property. The "Highest and Best Use" is defined in Paragraph 3.4 of International Valuation Standards as: "The most probable use of a property which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of the property being valued." Therefore, C&W's valuations do not necessarily reflect our intended investment/development program;
- commencement dates and development periods have been determined by C&W based on each property's particular circumstance, which commencement dates for some properties are earlier than our planned commencement dates;
- construction costs have been assessed by C&W in accordance with standard rates in the market that a third party developer/purchaser would expect to have to pay in the course of the development of each project, which are generally lower than our budgeted construction costs;
- no provision is made for costs of any debt financing, which we include in our budgeted costs; and
- no allowance is made for any expenses in connection with sale of properties, which we include in our budgeted costs.

In addition, the valuations are based on the information which we have supplied to C&W, including information regarding our ownership interests in, or rights to revenues relating to, the properties. C&W has relied on such information as being correct and complete, without independent verification.

See also "Risk Factors—Risks Relating to Our Business—The real estate appraisals with respect to the properties and projects included in this prospectus may not reflect their actual market values."

Production Plan

The table below categorizes by type of development the total amount of gross building area in relation to the 31 properties in the course of development and 33 properties held for future development that we plan to substantially complete in each of the years presented therein. As described above, this plan differs in certain respects from the commencement dates and development periods assumed by C&W for purposes of their valuations.

Type of Development	GBA (sq.m) in relation to properties planned to be substantially completed			
	2006	2007	2008	2009 and beyond
Residential	25,592	97,571	123,775	552,934
Office	—	—	266,941	229,488
Retail	20,671	162,843	—	72,244
Mixed use development	—	—	—	1,141,322
Hotels	—	—	10,773	76,000
Single-family houses	14,656	—	33,800	—

The production plan above is forward-looking information and the plan may not be achieved due to a number of factors. See “Cautionary Note Regarding Forward-Looking Statements” for a discussion of these factors. See also “Risk Factors” for a discussion of risks we face in conducting our business, which, if they materialize, may prevent us from achieving our production plan. In particular, our plans for 2008 and beyond are especially susceptible to uncertainty and change, as compared to our plans for 2006 and 2007.

Furthermore, the completion dates shown above may not correspond to the periods in which we would recognize revenues related to the projects in our financial statements. The timing of the recognition of revenue depends on the nature of our development activities related to the project, as well as whether we sell the project upon completion or retain it for investment. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies.”

Development Pipeline

The following table sets forth certain information relating to our major properties and development projects that were valued by C&W. The below information has been derived from the Valuation Report, except for the information relating to our current rights in the projects set forth in the last column of the table. Additional information on these properties may be found in the Valuation Report. Certain information set forth in the table contains current estimates and projections related to projects that are not completed and may only be at the early stages of development. Such estimates and projections can change in the future.

Property	Estimated market value (on 100% equity basis), \$ mln	Expected beneficial share in project	Market value according to beneficial share in project, \$ mln	Estimated GBA, sq.m ⁽¹⁾	Estimated cost to complete, \$ mln	Expected use upon completion	Description of our current rights in project ⁽²⁾
Property currently in the course of development							
Residential							
1. 9 Aviatorov Street, Moscow	12.5	100%	12.5	25,592	5.3	Sell	AD; IC; STL
2. 30-A Bolshaya Gruzinskaya Street, Moscow	3.5	50%	1.7	6,070	6.0	Sell	AD to MGTS ⁽³⁾
3. 25-A Dnepropetrovskaya Street, Moscow . Kuntsevo, Moscow	14.1	50%	7.1	23,390	17.1	Sell	AD; IC
4. 40 Akademika Pavlova Street	14.1	100%	14.1	35,314	30.1	Sell	AD; IC
5. 56 Akademika Pavlova Street	40.0	100%	40.0	65,042	65.4	Sell	AD; IC
6. 38 Akademika Pavlova Street	20.4	100%	20.4	65,159	38.1	Sell	AD; IC
7. 32 Yartsevskaya Street	24.7	100%	24.7	53,057	52.4	Sell	AD; IC
8. 36-B Molodogvardeyskaya Street	6.1	100%	6.1	11,402	9.3	Sell	AD; IC
9. 111 Rublevskoye Highway	24.8	100%	24.8	25,935	22.0	Sell	AD; IC; STL
10. 27-V Yartsevskaya Street	23.7	100%	23.7	29,910	28.1	Sell	AD; IC; STL
11. 31 Yartsevskaya Street	12.6	100%	12.6	17,982	17.8	Sell	AD; IC
12. 34 Yartsevskaya Street	18.1	100%	18.1	48,057	40.7	Sell	AD; IC
13. 39-A Michurinsky Prospect, Moscow	42.8	50%	21.4	40,000	37.7	Sell	AD; IC
14. 4-A Nakhimovsky Prospect, Moscow	25.7	50%	12.9	44,451	33.9	Sell	AD; IC
Office							
15. 3 Bakuninskaya Street, Moscow	9.9	50%	5.0	12,000	15.9	Own to lease	AD to MGTS ⁽³⁾
16. 19 Daev Lane, Moscow	6.4	50%	3.2	9,155	9.6	Own to lease	AD to MGTS ⁽³⁾
17. Leningradsky Towers, 39 Leningradsky Prospect, Moscow	146.8	100%	146.8	110,070	204.9	Sell one tower; and own to lease other tower	AD; IC; STL
18. 7/1 Nastasinskiy Lane, Moscow	4.1	100%	4.1	10,140	10.3	Own to lease	AD to MGTS ⁽³⁾
19. 2 Novy Arbat Street, Moscow	26.4	50%	13.2	21,100	24.5	Own to lease	AD to MGTS ⁽³⁾
20. 5 Stolyarny Lane, Moscow	16.4	50%	8.2	21,500	26.6	Own to lease	AD to MGTS ⁽³⁾
21. 5 Vsevolozhsky Lane, Moscow	0.9	50%	0.4	7,910	9.3	Own to lease	AD to MGTS ⁽³⁾
Retail							
22. Detsky Mir, Kazan	23.3	100%	23.3	20,671	9.6	Own to lease	Freehold land title to uncompleted building
23. Detsky Mir, Krasnoyarsk	4.3	100%	4.3	37,343	25.9	Sell	Freehold land
24. Hals Mart, 7 Pulkovskoye Highway, St. Petersburg	60.2	100%	60.2	125,500	97.8	Own to lease	Freehold land

Property	Estimated market value (on 100% equity basis), \$ mln	Expected beneficial share in project	Market value according to beneficial share in project, \$ mln	Estimated GBA, sq.m ⁽¹⁾	Estimated cost to complete, \$ mln	Expected use upon completion	Description of our current rights in project ⁽²⁾
Mixed use							
25. NIIDAR, 1 st Bukhvostova Street, Moscow .	106.0	100%	106.0	642,000	996.5	Residential part for sale; other premises sell and for own to lease	AD
26. 11 Rogozhsky Val, Moscow	29.2	50%	14.6	59,000	69.4	Own to lease	AD to MGTS ⁽³⁾
Hotel							
27. 5 Milutinsky Lane, Moscow	10.7	50%	5.3	10,733	1.3	Own to lease	AD to MGTS ⁽³⁾
Single-family houses							
28. Serebryany Bor II, Moscow	75.0	56.3% ⁽⁶⁾	42.2	14,656	36.9	Own to lease	Long-term leasehold land; AD
29. Serebryany Bor III, Moscow	5.2	56.3% ⁽⁶⁾	3.0	18,000	n/a	Own to lease	Long-term leasehold land
30. Zdravnitsa, Moscow Region	8.2	56.3% ⁽⁶⁾	4.6	16,600	17.8	Own to lease	Freehold land
Land development							
31. Aurora, Moscow region	45.1	100%	45.1	—	26.5	Sell	Freehold land
Property held for future development							
Residential							
32. 1 3 rd Lusinovsky Lane, Moscow	10.0	100%	10.0	10,860	10.0	Sell	AD to MGTS ⁽⁵⁾
33. 3 Krestovki River Embankment, St. Petersburg	20.0	50%	10.0	40,000	41.9	Sell	Freehold land
34. 36 Lomonosovy Prospect, Moscow	7.0	100%	7.0	11,617	12.0	Sell	AD to MGTS ⁽⁵⁾
35. 29 Melnikova Street, Moscow	9.7	100%	9.7	12,317	13.4	Sell	AD to MGTS ⁽⁵⁾
36. 28 Nagornaya Street, Moscow	10.0	100%	10.0	19,817	19.9	Sell	AD to MGTS ⁽⁵⁾
37. 13 Petrovsky Prospect, St. Petersburg	25.9	51%	13.2	53,360	36.9	Sell	Contract with owner of portion of property to be redeveloped
38. 5 Photievoy Street, Moscow	10.5	100%	10.5	14,267	14.0	Sell	AD to MGTS ⁽⁵⁾
39. 5/1 Selskokhozyaistvennaya Street, Moscow	2.8	100%	2.8	14,830	15.0	Sell	AD to MGTS ⁽⁵⁾
40. 61-A Sevastopolsky Prospect, Moscow	4.8	100%	4.8	9,383	10.0	Sell	AD to MGTS ⁽⁵⁾
41. 3 Simferopolsky Boulevard, Moscow	3.9	100%	3.9	9,360	6.8	Sell	AD to MGTS ⁽⁵⁾
42. 10-B Usievicha Street, Moscow	4.6	100%	4.6	13,250	12.0	Sell	AD to MGTS ⁽⁵⁾
43. Yalta Fish Processing Plant, 15 Moskovskaya Street, Yalta, Ukraine .	3.2	75%	2.4	91,150	n/a	Sell	Freehold land
Office							
44. 15/17 1 st Krasnoselsky Lane, Moscow	1.3	100%	1.3	10,930	12.6	Own to lease	AD to MGTS ⁽⁵⁾
45. 57/1 Aviatsionnaya Street, Moscow	8.4	100%	8.4	21,020	17.5	Own to lease	AD to MGTS ⁽⁴⁾
46. 4-A Bolshaya Cherkizovskaya Street, Moscow	4.1	100%	4.1	11,230	7.4	Own to lease	AD to MGTS ⁽⁵⁾
47. 15 Demiana Bednogo Street, Moscow	6.5	100%	6.5	17,590	17.9	Own to lease	AD to MGTS ⁽⁴⁾
48. 33 Dubinskaya Street, Moscow	3.0	100%	3.0	7,637	7.1	Own to lease	AD to MGTS ⁽⁵⁾
49. 10-A Grima Street, Moscow	6.7	100%	6.7	5,219	5.6	Own to lease	AD to MGTS ⁽⁵⁾
50. 34 Kastanaevskaya Street, Moscow	4.3	100%	4.3	7,250	5.0	Own to lease	AD to MGTS ⁽⁵⁾

Property	Estimated market value (on 100% equity basis), \$ mln	Expected beneficial share in project	Market value according to beneficial share in project, \$ mln	Estimated GBA, sq.m ⁽¹⁾	Estimated cost to complete, \$ mln	Expected use upon completion	Description of our current rights in project ⁽²⁾
51. 23 Klenovy Bulvar, Moscow	1.9	100%	1.9	8,480	7.6	Sell	AD to MGTS ⁽⁴⁾
52. 45 Leninsky Prospect, Moscow	2.5	100%	2.5	12,320	16.3	Own to lease	AD to MGTS ⁽⁵⁾
53. 52 Marshala Zhukova Prospect, Moscow	3.8	100%	3.8	10,442	9.4	Own to lease	AD to MGTS ⁽⁴⁾
54. 34 Nagatinskaya Street, Moscow	5.0	50%	2.5	11,100	8.7	Own to lease	AD to MGTS ⁽⁴⁾
55. 4-G Nagatinskaya Street, Moscow	7.5	100%	7.5	17,650	18.3	Own to lease	AD to MGTS ⁽⁴⁾
56. 103 Oktyabrskaya Street, Moscow	12.9	100%	12.9	19,271	21.8	Own to lease	AD to MGTS ⁽⁴⁾
57. 22 Rochdelskaya Street, Moscow	12.6	50%	6.3	14,150	17.4	Own to lease	Long-term leasehold land; AD
58. 68 Vavilova Street, Moscow	6.4	100%	6.4	11,230	6.7	Own to lease	AD to MGTS ⁽⁵⁾
59. 3 Zorge Street, Moscow	4.0	50%	2.0	18,443	16.9	Own to lease	AD to MGTS ⁽⁴⁾
Retail							
60. Detsky Mir, 5 Teatralny Proezd, Moscow	121.1	100%	121.1	72,224	172.5	Own to lease	AD
Mixed use							
61. Hals-Park (former Sport Hotel), 90/2 Leninsky Prospect, Moscow	206.7	50%	103.4	390,000	436.6	Own to lease	— ⁽⁶⁾
62. Kamelia, 89 Kurortny Prospect, Sochi	3.2	100%	3.2	76,00	n/a	Sell	
63. 8 Povarskaya Street, Moscow	12.4	50%	6.2	50,332	60.0	Own to lease	AD; IC
Hotel							
64. Peking Hotel, 5 Bolshaya Sadovaya Street, Moscow	144.4	100%	144.4	109,072	169.1	Own to lease	AD; STL; ownership of certain buildings to be redeveloped

⁽¹⁾ GBA means gross building area.

⁽²⁾ With respect to each project, our rights are defined and governed by the following:

- An AD is an authoritative decision issued by the federal, regional or local authorities, as the case may be, to us or one of our project companies with respect to a specific land plot, or to MGTS in the case of the MGTS program, which allows the named party to act as the developer. For a detailed description of the rules governing development and construction in Russia, see “Regulation—Real Estate Development and Construction.”
- An IC is an investment contract between the governmental authority holding title to land and the developer, which sets out the rights and obligations of the parties to the development process and provides the legal basis for the transfer of title to the structure under development on such land to the developer.
- An STL is a short-term lease agreement with respect to the land plot underlying the structure being developed. A short-term lease is typically granted for the purpose and period of construction.

⁽³⁾ This project is part of stage 1 of the MGTS program, where we expect to act as the developer. See “—Description of Our Key Projects—MGTS Program.”

⁽⁴⁾ This project is part of stage 2 of the MGTS program, where we expect to act as the developer. See “—Description of Our Key Projects—MGTS Program.”

⁽⁵⁾ This project is part of stage 3 of the MGTS program, where we expect to act as the developer. See “—Description of Our Key Projects—MGTS Program.”

⁽⁶⁾ See “—Litigation.”

Description of Our Key Projects

In this subsection, we describe key projects in our pipeline, each of which is in the early stages of development and where we have not commenced construction, except for the Leningradsky Towers project. Therefore, we cannot assure you that these projects will continue to be developed in accordance with our plans, or at all. In addition, the current estimates and projections related to these key projects are subject to change. See “Risk Factors—Risks Relating to Our Business—Most of our projects are in the early stages of development and we cannot guarantee their successful completion. In addition, we have included in our business plan and in the Valuation Report certain projects that are subject to formal agreements, which have not yet been entered into. Our failure to enter into such agreements or to complete our projects could have a material adverse effect on our business, financial condition and results of operations.

With respect to certain key projects, including the Peking Hotel, MGTS program and NIIDAR, we are required to enter into investment contracts with the Moscow City Government, which determine, among other things, the amount of compensation due to the Moscow City Government for additional engineering and transport infrastructure costs borne by the city. Although there is a methodology for calculating the compensation owed to the Moscow City Government in connection with the construction of residential premises, there are no rules or instructions governing the calculation of the compensation owed by office and other commercial developers, as of the date of this prospectus. Based on our past experience, we expect that we will owe the Moscow City Government an amount of money that represents approximately 30% of the newly developed space with respect to these key projects.

In addition, we have not determined the source or method of financing with respect to each of our key projects, excluding the Siemens tower part of the Leningradsky Towers and the buildings comprising the first stage of the MGTS program. We have, however, financed by ourselves all pre-construction works and document preparation and may continue financing these projects through bank loans or debt facilities or enter into a financing or co-investment arrangement with third parties.

Peking Hotel, 5 Bolshaya Sadovaya Street—4 star hotel, office space and retail and entertainment center

The Peking Hotel is a historical landmark located in the center of Moscow. It is located near two of Moscow’s main roads: Tverskaya Street and the Garden Ring. Tverskaya Street represents one of the most expensive areas of real estate in Moscow with high-end boutiques, shopping centers and restaurants.

We intend to develop a multi-functional complex consisting of a four-star hotel, office space and a retail and entertainment center. The gross building area of this project will be 109,072 sq.m, of which 31,655 sq.m will be office space and 11,287 sq.m will be retail space. The hotel will have 688 rooms. The buildings will include 1,044 underground parking spaces.

Our project company Beijing-Invest has the right to develop the project pursuant to a decree of the Moscow City Government issued in December 2002. We hold a 90% interest in Beijing-Invest and the remaining 10% interest is held by Intourist, a subsidiary of Sistema. The project contemplates that all buildings currently existing on the land plot assigned for development, except for the Peking Hotel, will be demolished. Part of the Peking Hotel is considered an architectural monument and, as such, is protected from being substantially reconstructed. We intend to reconstruct the first two floors of the hotel by combining them into one floor to be used as retail space. To implement the project, we need to enter into an investment contract with the Moscow City Government, which will determine, among other things, the form and amount of compensation to be paid to the city. In addition, one of the buildings which we plan to demolish in the course of development of the project was acquired by Beijing-Invest on the condition that one of the tenants will be provided with similar space within close proximity of the building. Accordingly, we are negotiating the purchase of a building adjacent to the land plot in order to house this tenant.

We estimate that the development costs will be approximately \$216.9 million. Development will take place over a three-year period with construction expected to be completed in the fourth quarter of 2008.

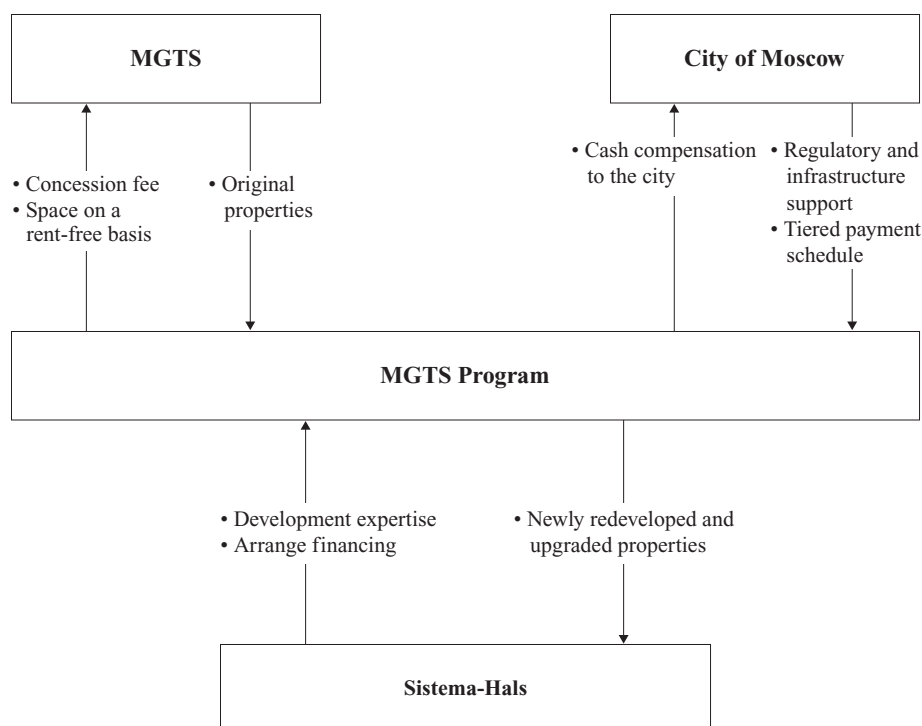
MGTS Program

MGTS's ongoing replacement of its outdated analog equipment with modern digital equipment in its telephone exchange buildings is expected to result in a significant reduction in the space required in these buildings to house this equipment. Most of these telephone exchanges are in commercially attractive locations in Moscow and we believe represent significant potential to be redeveloped into Class A and Class B offices, hotels or residential properties. MGTS is part of the Sistema group.

In December 2003, MGTS' long-term investment program which contemplate the renovation of its telephone exchanges and their redevelopment, was approved by a decree of the Moscow City Government. In June 2004, the Moscow City Government and MGTS entered into a framework agreement setting forth the rights and obligations of the parties with respect to the redevelopment of these telephone exchanges and the general procedure for the preparation and approval of the project documentation. The framework agreement, as amended in December 2005, contemplates the execution by the parties of a general investment contract to be later supplemented by additional agreements containing terms and conditions specific to the redevelopment of individual properties. The supplemental agreements will include either a financial amount to be paid to, or a specified portion of the redeveloped premises in the completed building to be allocated to, the City of Moscow. The general investment contract is expected to be signed by the end of 2006, but we cannot assure you that it will be entered into in that timeframe or at all. The execution of project-specific supplements is subject to the preparation by MGTS, and approval by the Moscow City Government, of pre-project documentation and business plans with respect to the properties that will be redeveloped.

The framework agreement allows MGTS to select construction companies and additional outside investors to finance the individual MGTS projects. We have reached an understanding with MGTS with respect to the key terms of our engagement to redevelop nine buildings in 2008, which we refer to as first stage of the MGTS program. We have partnered with UralSib Financial Corporation as a financial investor during this first stage. We expect that the first stage of the MGTS program will be fully financed by UralSib, including any cash compensation due to the Moscow City Government. We have established Telecom-Development with UralSib, and Telecom-Development is the owner of the project companies to be used for the redevelopment of each of the buildings. Profits from the sale or rent of buildings will eventually be distributed between UralSib and us in equal shares. These transactions will be performed on an arm's length basis. In order to formalize our participation in the first stage of the MGTS program as an investor and developer entitled to obtain property rights in the completed buildings, we will need to enter into legally binding contracts with MGTS, which we expect will occur after MGTS has executed the general investment contract with the Moscow City Government. Although we believe that MGTS will select us as the developer and investor for the MGTS program, we cannot assure you that this will occur. We have, however, already commenced acting as fee developer in connection with the initial phases of the MGTS program.

The following chart demonstrates the relationship between us, MGTS and the City of Moscow with respect to the MGTS program.



In addition, we have identified nine additional buildings to be redeveloped in 2008, which we refer to as the second stage of the MGTS program, and another 15 buildings to be redeveloped in 2009, which we refer to as the third stage of the MGTS program. These 33 projects constitute a significant portion of our current development pipeline. According to C&W, these projects had a market value of approximately \$248.9 million as June 30, 2006, of which approximately \$192.7 million is our expected beneficial share. In total, we expect the MGTS program to involve the redevelopment of more than 100 buildings to be completed by 2015.

Reconstruction of Detsky Mir, Moscow—retail and entertainment center

Detsky Mir, or “Children’s World,” was established in 1957 as a state-owned retailer of children’s apparel, footwear, toys and accessories. Detsky Mir is a large retailer in the Russian children’s goods market in terms of revenues, and is among the most recognized names in Russia. The flagship store is located in the center of Moscow on Lyubyanka square. Detsky Mir is part of the Sistema group.

In August 2003, the Moscow City Government approved our general concept for the reconstruction of Detsky Mir’s flagship store. We hired RTKL International Ltd. to develop the project from a concept to a scheme design, which involved defining and documenting the size, pattern, shape, scale, material and finish for purposes of providing a basic description of the project’s aesthetic and spatial elements. We also engaged Mosproject-2, an architectural design firm, and Jones Lang LaSalle to provide consulting services and assist us with seeking out valuable tenants to occupy the premises.

In December 2005, the Moscow City Government included the building in the regional register of historical and cultural monuments, which precluded us from altering certain exterior elements of the building, including the design of its façade, which we had intended to change under the initial design developed by the architects. We have adjusted our design to comply with such restrictions and expect to commence construction in 2007.

The building currently has a gross area of 57,568 sq.m, of which 33,329 sq.m is retail and entertainment space. In addition, there are parking spaces for 170 cars. The planned gross redevelopment is 72,224 sq.m, of which 38,770 sq.m will be retail space. We estimate that the development costs will be approximately \$156.3 million, and we plan to hold the retail and entertainment center to generate rental revenues for six years after the project’s completion. We anticipate that the construction phase of the project will take place over a period of more than two years with an expected completion date to be in the fourth quarter of 2009.

Leningradsky Towers, 39 Leningradsky Prospect—office building

This project involves the construction of a Class A office complex consisting of two towers, one of which will be the Russian headquarters of Siemens and the other may be sold or leased. The site is located on Leningradsky Prospect, one of Moscow's major roads. We consider this location to be a rapidly developing business area with well-developed infrastructure and access to public transportation. We believe that the presence of Siemens in one of the two towers will have a positive impact on the project and attract other significant buyers or tenants.

In July 2003, we and Sistema concluded a Framework Investment Agreement, or FIA, with the Siemens group. The FIA contemplated the construction of an office building with a gross building area of approximately 40,000 sq.m.

In September 2003, we entered into an investment contract with the Central Army Sport Club, or CASC, an entity organized under the Russian Ministry of Defense, whereby we would construct the Siemens tower on a land plot with a total area of approximately one hectare. CASC holds the land pursuant to a right of perpetual use. Under this investment contract, CASC was entitled to 30.1% of the total area of the completed building or, alternatively, we could provide CASC with 12,000 sq.m of residential housing. We engaged third parties to prepare design and construction documentation, including an architectural design by Bureau AV and other documentation by Hochtief Aktiengesellschaft. In addition, we secured a construction permit and a permit for excavation works. We also received all necessary permits and approvals for the commencement of construction with respect to the first tower.

In the course of preparing the urban-planning documentation, we amended our investment contract with CASC whereby we would develop for CASC, a sports complex, military barracks and an underground parking lot on a one hectare land plot adjacent to the initial land plot. To reflect these changes, the parties to the FIA substantially restructured the project in December 2005 to include two office buildings on the premises, one for the Siemens group and the other for sale or lease. Under the new terms, the gross building area of the two towers is expected to be 110,070 sq.m and include parking spaces for 700 cars.

In addition, we agreed to provide CASC with 17,437 sq.m of residential housing in lieu of a 30.1% portion of the project. We have purchased 6,495 sq.m of residential housing which we intend to transfer to CASC. In addition, we have completed the sports complex, military barracks and underground parking lot, which are pending official commissioning and state registration as completed buildings.

In November 2005, after receiving all the necessary permits and approvals for the original project, we commenced construction of the common foundation and stylobate for the towers. In addition, we are in the process of securing construction permits and approvals for the second tower or, alternatively, amending the original construction permit for the first tower in order to reflect the changes to the scope and nature of the project. We have also engaged Colliers International to analyze the competitive environment for the second tower, classify and rate the building, locate potential tenants and provide an estimate of rental rates and a sale price of the completed building.

In September 2006, underground water and subsoil penetrated an underground wall built to secure the foundation pit at the construction site causing significant damage to a portion of Leningradsky Prospect. Although no one was injured, Moscow City Government officials initiated an investigation of the incident and concluded on October 5, 2006, that the incident was caused by defects in the underground wall and that our general contractor TopFloor-Invest was ultimately responsible. The investigation commission also determined that Gelion, the technical supervisor of the project, and MAKOM, a company responsible for monitoring the effects of the construction on the surrounding buildings, failed to notice signs that the subsoil was shifting. Prior to resuming construction, the government commission required us to take a number of steps, including, among others, undertaking an additional review of the project design and monitoring the subsoil and state of the surrounding buildings on a regular basis to ensure that the site remain safe for the duration of the construction period. These conditions may delay the completion of the Leningradsky Towers project and increase our construction costs.

The construction of Leningradsky Towers is expected to take two years and be completed in the third quarter of 2008.

NIIDAR Scientific and Research Complex of Distant Radio Connections, 1st Bukhvostova Street—multipurpose facility

We intend to develop a multipurpose residential, office and retail complex on approximately 15 hectares of land mostly occupied by NIIDAR institute. The site is located in the eastern part of Moscow. The property lies immediately adjacent to a metro station and lies between the existing third transport ring and the planned fourth transport ring. The site is surrounded by mostly residential buildings. NIIDAR is part of the Sistema group.

We set up a project company, Open Joint Stock Company Investments to the Technologies Development, or IRT, to serve as the developer for this project. IRT intends to purchase industrial and administrative premises in the city of Saransk, located approximately 600 kilometers to the east of Moscow, and relocate NIIDAR to those premises. IRT intends to develop 9.26 hectares of land currently leased by NIIDAR from the Moscow City Government. Furthermore, we intend to acquire buildings located on 5.85 hectares of adjacent land from third parties. All existing buildings on both land plots are planned to be demolished.

The total gross building area of the project will be 642,000 sq.m, of which 211,000 sq.m will be residential space, 60,000 sq.m will be retail space, 96,000 sq.m will be office space in a tower, and 112,000 sq.m will be office space in a business park. In addition, we intend to build an underground parking facility capable of accommodating more than 7,500 cars. The Moscow City Government approved this development in August 2005.

We estimate that development costs will be approximately \$1.1 billion. The project will take place over a six-year period with construction expected to be completed in the second quarter of 2013.

Hals Mart, Pulkovskoye Highway, St. Petersburg—regional mall

We plan to construct, operate and manage this project, which will be a large regional mall, situated on a land plot owned by our wholly owned subsidiary Hals-Invest Development. The land plot comprising approximately 12.5 hectares is located on Pulkovskoye Highway in the Moskovsky district in the southern part of St. Petersburg. In addition, our wholly owned subsidiary Kaskad owns an adjacent land plot comprising 5.2 hectares, where we plan to develop parking facilities for the mall.

Our subsidiary Sistema-Hals Nord-West will serve as the developer of this project responsible for obtaining a construction permit and project documentation.

We estimate that development costs will be approximately \$137 million and, upon completion, we expect to maintain ownership of the property to generate rental revenues. Development will take place over a one-year period with construction expected to be completed in the fourth quarter of 2007.

Big City

Since 2001, the Moscow City Government has expressed an interest in redeveloping a large tract of mostly industrial land located within the Moscow city limits into a community of complementary commercial, residential and retail developments. The development has become known in Russia as “Big City.” The total area of Big City is approximately 985 hectares. The area benefits from relatively close proximity to the center of Moscow, as well as to major highways. In addition, the area is bordered in the south by the Moscow river and adjacent to “Moscow City,” an area of approximately 110 hectares currently being developed for mostly commercial high-rise buildings.

In 2005, we were selected by the City of Moscow to prepare the urban planning for the area, together with the preparation of financing plans for the various stages of development. To assist us with these matters, we retained Knight Frank and RTKL International Ltd., ARUP and Thames Gateway.

In April 2006, the master plan (*i.e.*, urban-planning concept) for the development of Big City prepared by us was generally approved by the Public Council headed by the Mayor of Moscow. The master plan contemplates the formation of a well-balanced real estate development area consisting of residential and commercial properties, including offices, retail centers and hotels. Although the scheduled completion date for Big City is 2020, we anticipate that the project will be completed closer to 2030. The development of Big City remains subject to the approval, in its entirety by the Moscow City Government, as does each individual project to be developed in Big City.

The following table demonstrates the zoning proposal under the master plan as compared to the current zoning situation:

	<u>Current Situation</u>	<u>Master Plan</u>
<i>Total Area, thousands sq.m</i>	3,664.6	17,550.0
residential	35.7	8,640.0
commercial	44.8	5,287.0
public	22.3	2,643.3
industrial and utility	3,561.8	980.0
<i>Population, thousands</i>		
resident	12.0	134.0
daily visiting	19.9	223.0
<i>Transport Infrastructure, km</i>		
roads	41.0	78.6
metro	—	25.3
railroads	4.2	8.5
parking spaces, thousands	12.5	170.0

Going forward, we intend to participate in the development of Big City in various capacities, including as investor, developer, project manager and general contractor. We intend to take part in the development of Big City through financial and strategic partnerships, or individually.

Licenses

Our revenues are derived from activities conducted pursuant to various licenses issued by Russian governmental authorities. Our current construction licenses expire in 2007 to 2011; however, our construction activities remain subject to licensing only until January 1, 2007, according to the Federal Law on Licensing of Certain Types of Activities.

The following table sets forth a list of material licenses held by us and certain of our key operating subsidiaries:

<u>Licensee</u>	<u>Licensed Activity</u>	<u>License Number</u>	<u>Expiry Date</u>
<i>Licenses to Construct Buildings and Facilities</i>			
Sistema-Hals	• General construction, developer, building owner and general contractor activities, including clean-up work, roofing and insulating.	756744	March 29, 2007
PSO Sistema-Hals	• General construction, developer, building owner and general contractor activities, including clean-up work, excavation and road construction.	545566	October 18, 2007
Organizator	• General construction, developer and building owner activities, including construction, engineering and developing tender documents.	306860	September 5, 2007
Hals-Stroy	• Building owner and developer activities.	343017	August 1, 2007
Hals-Stroy	• General construction, developer, building owner and general contractor activities, including clean-up work, roofing and insulating.	212558	February 27, 2008
Kuntsevo-Invest	• Building owner and developer activities.	307969	September 12, 2007
Mosdachrest	• General construction, developer, building owner and general contractor activities, including clean-up work, roofing, insulating, flooring, subsoil works and road construction.	668971	February 20, 2008

<u>Licensee</u>	<u>Licensed Activity</u>	<u>License Number</u>	<u>Expiry Date</u>
City-Hals	<ul style="list-style-type: none"> General construction, developer and building owner activities, including construction, engineering and developing tender documents. 	341674	July 25, 2007
<i>Licenses to Design Buildings and Facilities</i>			
Sistema-Hals	<ul style="list-style-type: none"> Architectural, construction and technological solutions, among others. 	756745	March 29, 2007
PSO Sistema-Hals	<ul style="list-style-type: none"> Architectural, construction and technological solutions, as well as transport infrastructure activities, among others. 	545262	February 14, 2008
Mosdachtrest	<ul style="list-style-type: none"> Architectural, construction, general design and technological solutions, among others. 	215885	March 6, 2008
<i>Licenses to Operate Heating and Electric Systems</i>			
City-Hals	<ul style="list-style-type: none"> Intake, transfer and distribution of heat. Repair and maintenance of heating systems. 	007478	August 9, 2009
City-Hals	<ul style="list-style-type: none"> Operate electric systems. 	007447	August 9, 2009
Mosdachtrest	<ul style="list-style-type: none"> Intake, transfer and distribution of heat. Repair and maintenance of heating systems. 	0000070	July 13, 2009
<i>Telecommunication Licenses</i>			
City-Hals	<ul style="list-style-type: none"> Provision of local telephone services 	20139	November 22, 2011

Significant Policies and Procedures

Idea/Initial Screening

We receive on average approximately 10 to 20 investment proposals each month primarily from property developers, real estate brokers and various other intermediaries. Approximately 60% of such proposals are rejected immediately after an initial screening, and the remaining 40% are analyzed in more detail and approximately half of these are presented in the form of an investment opportunity memorandum, prepared by the strategy and business development departments, to the Investment Committee. The Investment Committee, headed by our Chief Financial Officer, is comprised of representatives from the construction, legal, finance, marketing and business development departments. If the memorandum is approved, then it is presented to the Management Board, which is comprised of certain key employees and representatives from our management. At this stage, we primarily examine whether the proposed project fits into our portfolio of properties, the clarity of ownership title, the extent to which the design concept requires changes and the expected financial returns.

Each project approved by the Management Board is then presented to our Board of Directors for approval. The Board of Directors considers how the project fits into our overall strategy, reviews the project-specific risks and evaluates the availability of financial and management resources for such project. If our Board of Directors approves the project, then a dedicated project team is created and assigned to the project, and a project development budget is prepared and approved.

Concept/Pre-Design Documentation

The Investment Committee generally approves a proposal for a pre-development investigation simultaneously with a budget for such investigation. At that point, we usually create a project company for operational efficiency and risk management purposes. The pre-development investigation of the market is usually conducted by external real estate consultants, such as C&W, Jones Lang LaSalle, Knight Frank and Colliers International, and the process consists of a financial and legal due diligence review, including:

- a technical survey of the project site;
- a legal investigation of the property/land ownership rights and acquisition history;

- market research, normally undertaken with the help of independent consultants; and
- development of a detailed financial model showing potential financial returns taking into account a range of assumptions.

At the pre-design stage, we prepare a number of documents, including a feasibility study to ensure that the future building is in line with the development plans, general architectural and planning solutions for the City of Moscow, as well as floor plans. We may, in some cases, prepare a visual and landscape analysis with the assistance of licensed local firms, such as Mosproject-2 and Bureau AV. The pre-design documentation is then submitted to the local authorities, various local supervisory bodies (e.g., fire prevention) and the Moscow Architectural Committee for approval. Once we have received all necessary approvals and certificates, the Moscow Architectural Committee issues a permit for the development of the initial project documentation.

Design/Technical Design Documentation

Project design documentation typically takes six months to one year to develop and is critical because it highlights to our general contractors, subcontractors and technical supervisor all of the required approvals.

We prepare the initial project design documentation with the assistance of a licensed specialist firm, and it typically includes a land plot scheme with a layout of the building, as well as the technical specifications for a power grid, sewage system and gas and water supplies. In addition, we prepare for the project design and layout plans, engineering and environmental solutions and a construction schedule, all of which are subject to review by environmental experts and a government commission of experts from various fields. The project documentation is then submitted to the Moscow Architectural Committee for a construction permit, and to the Moscow Chief Architect's Bureau for approval.

Construction

At the construction stage, which commences upon receipt of the construction permit, we oversee the entire construction process. In addition, we monitor the preliminary build out of the building's infrastructure, including the gas, heating, electricity, sewage, water and telephone line connections. We also control the final site clean up and finishing phase. In particular, we supervise the following:

- quality control: our engineers are present at the construction site, supervising the quality of the work and providing the approval for each completed stage before the project progresses to the next stage;
- quantity control: our site supervisors control the amount, type and use of construction materials;
- cost control: our engineers are responsible for collecting all expense receipts and ensuring that all costs are calculated accurately; and
- continuous permitting and filing: the site supervisors are responsible for the ongoing submission of all necessary documentation to the relevant regulatory bodies and authorities while the project is in progress.

We prepare and submit to our Management Board an annual report on the progress of construction for each of our projects in development.

Completion

Upon completion of construction, the building is subject to commissioning, or approval, by the special state acceptance committee. When such approval is granted, the rights to the completed building, including the rights of the investors who financed the construction, can be registered. See "Regulation—Acceptance procedures." A completion report is also submitted to our Board of Directors for its final endorsement once the project is completed.

Project Management Expertise

Our President appoints a project manager to manage the development of each real estate project. The project manager reports directly to the President and the Investment Committee, each of whom monitors the project on an ongoing basis with a particular focus on the project design, selection of the

general contractor (in the event that we are not serving in this role) and compliance with the project budget.

Risk management

Risk management is critical to our success. We constantly monitor and seek to mitigate the following risks:

- ***Operating risks.*** To mitigate operating risks, we prepare operating and capital expenditure budgets for each project and for the company as a whole, conduct tenders to select qualified general contractors and subcontractors. In addition, we have implemented construction draw procedures, cash controls and periodic reporting of our financial and operational results to the Board of Directors and the Management Board. The Investment Committee is responsible for making investment decisions and the Budget Committee responsible for supervising and controlling our capital and operating budgets.
- ***Legal risks.*** We examine relevant legal documentation in connection with all new projects that have been approved for development. We also develop our real estate projects through project companies to isolate our liability exposure.
- ***Credit risk.*** Prior to entering into material contracts, for example, we check the financial condition and creditworthiness of the counterparty, its experience, expertise and reputation in the market. In addition, we review and approve on a quarterly basis our aggregate credit exposure to counterparties and customers.

Litigation

Other than as set forth in this subsection, there are no governmental, legal or arbitration proceedings against our group (including any such proceedings which are pending or threatened of which we are aware), during the 12 months preceding the date of this prospectus which may have, or have had in the recent past, significant effects on our financial position or profitability.

Since January 1, 2005, individual co-investors (*i.e.*, purchasers) of residential buildings developed by Kuntsevo-Invest have initiated 17 separate court actions against Kuntsevo-Invest and certain of its project companies in the total amount of approximately \$2.7 million. These individuals have sued to have construction defects remedied, fit-out works finalized and be compensated for the delayed delivery of their apartments, among other claims. In all but one action, the Russian courts have ruled in favor of Kuntsevo-Invest. One plaintiff, however, was awarded approximately \$24,000 for damages and court fees, and three settlements were approved involving the transfer of apartments by us to the plaintiffs. As of the date of this prospectus, there were nine lawsuits still being considered by various courts in connection with the Kuntsevo-Invest properties, none of which was for a substantial amount.

On March 30, 2004, Amiral B.V. (Russia), a Russian limited liability company in which we have a 50% interest, entered into a contract with the three companies that own Hotel Sport to redevelop the hotel. Under the contract, Amiral B.V. (Russia) agreed to destroy the existing hotel and construct a new mixed-use hotel, retail and business center on the site. The project was initially approved on May 21, 2004 by Moscow City Government Decree 973-RP and the Hotel Sport building was subsequently demolished. However, on July 5, 2006 the Moscow City Government adopted Decree 1257-RP abolishing its previous decree based on the failure of the co-owners to develop the land plot in a timely manner after the original building had been destroyed. As a result, the development of the project, which had an estimated market value of \$206.7 million (of which \$103.4 million was attributed to us) according to C&W, has been suspended. In August 2006, two of the co-owners filed claims in the Moscow Arbitration Court against the Moscow City Government seeking to invalidate the cancellation of Decree 973-RP. The Moscow Arbitration Court issued a temporary injunction suspending the effectiveness of Decree 1257-RP but, as of the date of this prospectus, had not issued a final ruling on this lawsuit.

Employees

The number of employees in our real estate development and project and construction management divisions has been steadily and significantly growing in the past three years in line with the

number of projects handled by these divisions. The following table sets forth the number of our employees in each of our business divisions as of December 31, 2003, 2004 and 2005 and June 30, 2006.

	Number of Employees			
	At December 31,			At June 30, 2006
	2003	2004	2005	
Real Estate Development	173	199	301	383
Including Sistema-Hals	115	112	150	239
Project and Construction Management	90	103	179	214
Real Estate Asset Management	262	248	267	182
Facility Management ⁽¹⁾	278	143	144	41
Total	<u>803</u>	<u>693</u>	<u>891</u>	<u>820</u>

⁽¹⁾ Including Hals-Management, a company we disposed of in May 2006. Hals-Management had 258 employees, 120 employees and 116 employees as of December 31, 2003, 2004 and 2005.

We and our subsidiaries make mandatory contributions to the governmental pension scheme in the Russian Federation. Historically, we have not provided any additional benefits to employees upon their retirement, and afterwards. We are in the process of establishing a new corporate pension scheme, which may include additional retirement benefits. We estimate that our commitments in respect of such future benefit payments to retirees, if any, would be insignificant for 2006.

In 2006, Sistema established a general retirement savings program for its employees, as well as for the employees of its subsidiaries, including us. We decided to promote this retirement program within the group and, as a result, are required to contribute approximately \$1,000 to each new member account when an employee becomes a member of this program.

None of our employees is a member of a trade union.

Intellectual Property

We have registered a number of trademarks in Russia, including, Sistema-Hals and Organizator. In addition, PSO Sistema-Hals is a co-holder of two patents relating to the construction of tunnels.

REGULATION

Below we describe certain key provisions of Russian legislation relating to real estate (including land), construction, development and other areas of our business activities. This description, however, is not comprehensive and is qualified in its entirety by reference to applicable Russian law.

General Provisions of Russian Law

Russia historically has had almost no formal regulation of private real estate ownership and many aspects of real estate law remain underdeveloped. While private ownership of buildings was introduced at the beginning of privatization in Russia in the early 1990s, there was no uniform regulation of private ownership of land until the adoption of the Land Code in 2001. The Land Code together with the Civil Code and other laws permit private land ownership and the transfer of land from one person to another. Currently, the majority of land in Russia is not privately owned, but is still held by the Russian federal, regional or local governments or authorities.

Russian law provides for the creation of a unified land cadastre that records the details of land plots, such as their measurements and boundaries. As a general rule, only land plots with a state cadastre number may be bought and sold. Most land in the Russian Federation, however, has not yet been incorporated into the unified land cadastre. All land is categorized as having a particular purpose, as follows:

- agricultural land;
- settlement land;
- land used for industrial purposes, power engineering, transportation, communication, radio broadcasting, television, space-related activities, defense, security and other specialized purposes;
- land of specifically-secured territories or installations;
- forestry land;
- waterfront land; and
- reserve land (or land which is owned by the state, is not used for commercial purposes and which can be transferred to any of the other categories).

The Land Code requires that each category of land be used in accordance with its designated purpose. The land within each particular category is also subject to specific requirements established by federal, regional and local laws and regulations regarding the use of such land. For example, the settlement lands are subject to specific zoning and permitted uses, including residential, administrative and business, industrial, engineering and transport infrastructure, recreational, agricultural, special purpose and military.

Under Russian law, government- and municipally owned land plots may be sold or leased to Russian and foreign persons or legal entities. However, certain land plots are barred from circulation and may not be sold or leased to either Russian or foreign persons (*e.g.*, national parks and land used for military purposes). Other land plots may be restricted from being transferred to private ownership, but they may be leased (*e.g.*, land occupied by historic and cultural heritage sites). Foreign nationals and foreign entities may acquire ownership any type of land that Russian citizens or entities can own, other than land categorized for agricultural land, land located near Russian borders and certain other territories yet to be specified by the Russian government.

Land used for agricultural purposes is regulated by the Federal Law on Turnover of Agricultural Land, which provides for significant restrictions and special protections relating to agricultural land plots. Regional governments and, in some cases, local authorities have pre-emptive rights to purchase agricultural land plots offered for sale. As a general rule, only agricultural land plots of poor quality can be reclassified and sold, in certain circumstances, as long as the purchaser of such land plots pays to the state budget an amount of compensation for the loss of agricultural production, as determined by local authorities. Reclassification of agricultural land plots of good quality for non-agricultural purposes is permitted only in limited cases, such as when the land plot can no longer be used for agricultural purposes, or its cadastre value is lower than the average regional cadastre value of the land. Valuable agricultural land plots generally cannot be reclassified under any circumstances.

Although the Land Code sets out the principle of a unified approach to land and buildings located on that land, land and buildings are currently treated separately under Russian law and it is still possible, and quite common, for a land plot and the building situated on such plot to be owned by different persons.

The Land Code establishes the procedure for privatizing both state- and municipally owned land. The Land Code also determines the maximum payment owners of buildings on a plot of land may be required to make for the land. Although private ownership of land is increasing, it remains relatively rare in most parts of Russia. With a few exceptions, the land in Moscow is owned by the City of Moscow Government. In addition, the sale and lease of land in the City of Moscow is subject to a separate regulatory regime administered by the City of Moscow Government and set forth in the Moscow Law on Land Use and Construction in the City of Moscow dated May 14, 2003, or the Moscow Land Law. The majority of land in Moscow is occupied pursuant to lease agreements between owners of the structures on the land and the City of Moscow. Typically, the investor receives land lease rights for an initial three to five-year term (*i.e.*, for the period of construction). As a general rule, such land lease rights are granted by the City of Moscow 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. Subject to the successful implementation of the land plot development and the fulfillment by the investor of the various obligations under the investment contract with the City of Moscow, the investor receives land lease rights for a term of 25 to 49 years, at the discretion of the Moscow City Government. As a rule, such land leases contain renewal rights. Renewal rights remain largely untested to date given the fact that most existing leases remain unexpired and are decades away from expiration. In accordance with applicable Moscow legislation, a developer becomes the owner of the building/structures on the land in Moscow, but does not become the owner of the land on which such building/structures are located.

Under the Land Code, legal entities generally have one of the following rights with regard to land plots: (1) ownership; (2) right of free use for a fixed term; or (3) lease. Legal entities may also have a right of perpetual use of land that was obtained prior to the enactment of the Land Code; however, the Federal Law on the Introduction of the Land Code requires legal entities using land pursuant to a right of perpetual use (excluding certain state-owned enterprises and state and local authorities) either to purchase the land from, or to enter into a lease agreement relating to the land with, the relevant government or locality which owns the land by January 1, 2008. Most land used by legal entities in Russia is held by them pursuant to a right of perpetual use. This requirement also applies to land on which buildings are located. At the discretion of a purchaser of the relevant premises, such land plots can be transferred to the purchaser either by lease or title transfer.

Russian law provides that land or buildings may be expropriated for “state or local needs.” The owner of expropriated real estate is entitled to one year’s advance notice together with payment of the full market value and compensation for any other losses suffered.

Real estate development and construction

Construction and development of real estate in Russia is primarily governed by, among others, the Civil Code, Land Code, Federal Law on the State Registration of Rights to Immovable Property and Transactions Therewith and construction rules and regulations. In addition, the Urban Construction Code and the Federal Law on Entry into Effect of the Urban Construction Code came into force on December 30, 2004, and it also governs the construction and development of real estate in Russia. Construction and development is a multi-stage process, which involves compliance with burdensome regulatory requirements, and the coordination of work between many specialists and authorizations from a large number of authorities at the federal, regional and local levels. In particular, Rosstroy, the Federal Service for Supervision in the Sphere of Use of Natural Resources, the Federal Service on Ecological, Technological and Nuclear Supervision and regional state architectural and construction supervisory bodies are involved in the process of authorizing and supervising real estate development.

The main stages for the construction of a building typically include the following:

- obtaining the lease or ownership rights to the land;
- changing the zoning status, in some cases, of the land for the purposes of development;

- preparing the project (design) documentation prior to the commencement of construction, which includes, *inter alia*, (1) initial authorization documentation (2) urban-planning documentation and (3) project documentation;
- obtaining infrastructure/utilities documentation from the relevant organizations;
- obtaining a construction permit from the competent federal, regional or local authorities;
- performing construction works;
- carrying out the acceptance procedure for a new building by a commission from representatives of various state authorities; and
- registering title to the new building.

Some of these key stages are described in more detail below.

Obtaining rights to land plots

Russians and foreigners may acquire land held by state or local authorities for the development and construction of buildings. The Land Code prohibits refusal by state or local authorities to grant land plots for construction purposes except where the sale of land plot is restricted by federal law, or the land plots are reserved for state or local needs. Any refusal can be appealed in the Russian courts.

The Land Code draws a distinction between land plots granted for construction purposes with and without prior approval for the location of a building or other facilities on the land. The grant of ownership or lease of land plots for construction purposes without such approval can only be made by tender or auction. A land plot for construction purposes with prior approval for the location of a building or facility on the land can be acquired through a lease (but not ownership) and this method does not require a tender or auction.

Selection of a land plot for construction purposes is made on the basis of an application specifying the intended purpose of the building or facility, its intended location and the estimated size of the land plot. The application may be accompanied by a project feasibility study or other calculations. The selection results are documented in an act on selection of a land plot for construction purposes. The act on selection must be approved by a decision on the preliminary authorization of the building location. This decision is valid for three years and constitutes the basis for the designation of the land plot boundaries and for the state cadastre registration. The decision on preliminary authorization of a building location constitutes the basis for a decision to grant the land plot for construction purposes. The decision to grant, in turn, is the basis for execution of a land plot lease agreement. As a general rule, all of the abovementioned decisions are currently to be taken by the federal, regional and local authorities in charge of granting land plots (*e.g.*, in Moscow, such decisions are taken either by the Moscow City Government or by heads of the administrative districts of Moscow).

Obtaining construction permits

Construction on an allocated land plot may only be carried out after obtaining a construction permit. The construction permit has to be obtained either by the owner or by the tenant of the land plot. Obtaining a construction permit is a multistage process, which includes obtaining approvals and registering the project documentation by a number of governmental bodies including architectural and urban development agencies, environmental management and protection agencies and governmental bodies that oversee public health issues. A construction permit is issued for a term of not more than three years, but it may be extended. Construction permits may also be amended once the construction has begun to the extent the scope and nature of the project has changed. See “Business—Description of Our Key Projects—Leningradsky Towers, 39 Leningradsky Prospect.” A construction permit may also be cancelled prior to its expiry date; in particular, in the event of a fundamental breach of the project documentation and/or the building and architectural rules and regulations or on other grounds.

Subject to compliance with statutory requirements, the owner or the tenant of the land plot can enter into agreements with investors to raise funds for construction on the property.

Acceptance procedures

Upon completion of construction, the building is to be approved by the special state acceptance committee consisting of representatives for the investor, developer, executive authorities, contractors,

construction designers, operating organization, governmental bodies that oversee public health issues, state fire supervision services, architectural and urban development agencies, environmental management and protection agencies and other state agencies responsible for monitoring the building. When such approval is granted, the rights to the completed building, including the rights of the investors, who financed the construction, can be registered. After state registration of the rights to the immovable property constructed on the leased land plot, the owner of such immovable property obtains the exclusive right to acquire the title to the land plot or to enter into a long-term land lease.

State registration of rights to immovable property and certain transactions

All rights to immovable property (including land plots and buildings) and certain transactions therewith are subject to state registration in the Unified State Register of Rights to Immovable Property and Transactions Therewith, or the “Register of Rights.” The rights and transactions that are subject to registration in the Register of Rights include, but not limited to, the following: the right of ownership to newly-built buildings and facilities, the right of ownership to land plots, the disposal of immovable property pursuant to a trust, servitude, transfer of title to immovable property through a sale and purchase transaction, mortgage agreements, agreements on share participation in construction, land plot and building lease agreements concluded for a term of over one year all require registration. Such rights to immovable property only arise at the time of their state registration. Rights to immovable property and transactions therewith are registered by the department of the registration authority (*i.e.*, the Federal Registration Service) in the relevant territory where the property is located. Interested persons or entities can gain access to the Register of Rights in order to obtain information with respect to specific real estate sites. However, if a court determines that information from the Register of Rights is false, persons who entered into a transaction in reliance on such false information may lose their property rights.

Failure to register a transaction with immovable property as described above may result in the transaction being deemed null and void.

Liabilities of land and building owners

Owners of land plots and buildings are required to comply with federal, regional and local legislation, which includes, among others, environmental, public health, fire, residential and urban-planning rules and regulations. The owner of a building generally bears all liabilities that may arise in connection with the building. Owners and leaseholders are required to use the land plot in accordance with its permitted use (*i.e.*, zoning requirements), not cause harm to the environment, assume the liability and financial costs relating to compliance with various land use standards and not allow the pollution of, littering on or degradation of the land plot. Regional or local legislation, or an investment or lease contract entered into with the regional or local authorities, may also subject the owner to various financial obligations, such as the financing of local engineering services, transportation and social infrastructure, as well as reimbursing certain expenses to the previous tenants of the land plot.

Mortgages

Under Russian law, a mortgage is a form of security taken over real estate to ensure due payment of money owed or proper performance of any other obligation. If the debtor defaults, the mortgagee can pursue a claim in the Russian courts for the sale of the mortgaged property and for the settlement of its claim out of the proceeds of such sale.

In the event of bankruptcy, a mortgagee will have preferential rights over unsecured commercial creditors but will rank behind some other classes of creditors. See “Description of Share Capital and Certain Requirement of Russian Legislation—Description of Share Capital—Distribution to Shareholders on Liquidation.” As long as the mortgage is properly entered into the Register of Rights, it will bind any subsequent purchaser or other owner.

A mortgage of a lease normally requires only a notification to the tenant (and not its consent). Unless the mortgage terms provide otherwise, a mortgage of land applies to the mortgagor’s buildings on the land, as well. In addition, if land or buildings are acquired or constructed using debt finance provided for the specific purpose of financing the acquisition or construction, then the land and buildings are deemed to be mortgaged in favor of the lender unless otherwise provided by law or by the parties’ agreement (without the need to enter into a mortgage agreement). Nonetheless registration of the mortgage in the Register of Rights is required.

Financing of Construction

Construction may be financed by both funds provided by the landholder and/or third parties. Funds may be raised through, among other ways, borrowings or direct investment in the construction by outside investors. Raising funds from future owners of apartments at various stages of construction has been one of the principal ways of financing residential construction in Russia. This type of financing is regulated by the Federal Law On Participation in Cost Sharing Construction of Apartment Houses and Other Real Estate, or the “Cost Sharing Law.” The Cost Sharing Law aims to protect the rights and interests of corporate and, especially, private investors in cost sharing projects by introducing the following safeguards:

- cost sharing financing may be raised only by a developer who has received a construction permit, published a project declaration and registered its title to the land plot intended for the construction;
- cost sharing investment contracts are subject to state registration;
- investors’ funds are secured against the developer’s default under the investment contract by the mortgage of the land plot and the project under construction;
- individual investors are entitled to an increased statutory interest payable by the developer who failed to perform under the investment contract; and
- administrative liability is contemplated for developers who raised cost sharing financing in violation of the Cost Sharing Law, including, among other things, the failure to obtain a construction permit, publish a project declaration or make full disclosure in such a declaration and comply with reporting requirements.

The Cost Sharing Law proved to be too cumbersome for developers and resulted in the slowdown of residential housing construction in Russia. Amendments to the Cost Sharing Law adopted in July 2006, which relaxed some of the restrictions imposed on developers and reduced their potential liability, are intended to balance the interests of developers and investors participating in cost sharing financing projects.

Real estate asset management

Real estate asset management activities are broadly regulated by the Civil Code rules governing various real estate transactions as described elsewhere in this prospectus.

Facility management

The provision of facility management services, including staffing, technical support, repair and renovation services to our customers’ facilities, as well as general building operation and maintenance, is regulated by, among others, the Civil Code rules governing contracts for the provision of such services and by health, safety, fire and sanitary laws.

Land and real property taxation

Property tax

The property tax is established by the Tax Code of the Russian Federation. The payers of the tax are Russian and foreign organizations carrying out business activities through permanent establishments in Russia or through the ownership of real property in the Russian Federation. The tax rate is established by regional authorities, but may not be higher than 2.2%. As of the date of this prospectus, the tax rate in most major regions, including the City of Moscow, was 2.2%. The taxable base is the average annual net book value (generally calculated as the cost per statutory accounts less statutory depreciation) of the property. In general, the taxable base includes most fixed assets, including real estates properties. However, land and certain non-productive types of property are specifically excluded from the taxable bases, which is payable on a quarterly basis in Russia.

Land tax

The land tax is also established by the Tax Code of the Russian Federation. Among the payers of the tax are physical persons and legal entities holding title to land plots in the Russian Federation. The tax rate is established by the local Russian authorities (*e.g.*, in Moscow and St. Petersburg: by the city

governments of the cities), but may not be higher than 0.3% of the taxable base for agricultural and residential lands and higher than 1.5% of the taxable base for other lands. The taxable base is the cadastre value of the land plot. For legal entities, the tax is payable on a quarterly basis.

Land rent

Persons and legal entities in Russia pay a land rent to regional or local bodies pursuant to land lease agreements. The general rules for assessing land rent are established by the relevant regional and local authorities. The federal law authorizes regional and local authorities to establish individual land rent rates for certain categories of land and lessees. Under Russian law, local authorities may require the payment of a separate, and sometimes significant, fee for the right to conclude a lease agreement with them. The terms for making land rent payments by a lessee are governed by the particular land rent agreement between the lessee and the regional or local authorities.

MANAGEMENT

Our directors and executive officers and their respective year of birth and positions are as follows:

Name	Year of Birth	Position
Dmitry L. Zubov ⁽²⁾	1954	Chairman of the Board
Felix V. Evtushenkov	1978	Director, President
Azariy A. Lapidus	1958	Director, First Vice-President—Civil Construction
Valery M. Abramson	1961	Director, General Director of PSO Sistema-Hals
Michael Golomb	1975	Vice-President—Finance and Investments
Yevgeny A. Kolodkin	1975	Vice-President—Strategy and Development
Igor N. Kascheev	1978	Vice-President—Asset Management
Alexei N. Buyanov ⁽¹⁾⁽²⁾	1969	Director
Douglas N. Daft ⁽¹⁾⁽³⁾	1943	Director
Sergey A. Drozdov	1970	Director
Alexander Y. Goncharuk	1956	Director
Valery I. Telichenko ⁽¹⁾⁽²⁾⁽³⁾	1947	Director

⁽¹⁾ Member of the Audit Committee of the Board of Directors.

⁽²⁾ Member of the Nomination and Compensation Committee of the Board of Directors.

⁽³⁾ Independent director per FSFM requirements.

Dmitry L. Zubov has served as the Chairman of our Board of Directors since November 2003. Mr. Zubov has served as the deputy chairman of the board of directors of Sistema since 1999. From 1998 and 1999, he served as a director of ABN-Sistema and PromKhimInvest. From 1996 and 1997, he served as the Deputy Chairman of the board of directors of Moseximbank. Mr. Zubov is a member of the board of directors of Region and Sistemny Project. All of these companies are affiliated with Sistema. Mr. Zubov graduated from the Moscow Aviation Institute in 1977 and holds a doctorate degree in economics. His business address is 17/8/9 Prechistenka Street, Building 1, Moscow 119034, Russian Federation.

Felix V. Evtushenkov has been a member of our Board of Directors since June 2004 and has served as our President since November 2003. From 2000 to 2003, Mr. Evtushenkov served as our Deputy General Director for Strategy and Marketing. From 1998 to 2000, he served in various positions within Sistema. He also serves on the board of directors of Detsky Mir-Center and Detsky Mir. Mr. Evtushenkov graduated from the Moscow University of International Law and Economics in 2000. His business address is 35/4 Bolshaya Tatarskaya Street, Moscow 115184, Russian Federation.

Azariy A. Lapidus has been a member of our Board of Directors since March 2005 and has served as our First Vice-President—Civil Construction since March 2006. From March 2005 to June 2006, Mr. Lapidus served as the Deputy Chairman of our Board of Directors. From 2004 to 2006, Mr. Lapidus served as the President of SUE Holding, and from 1989 to 2004, he served as the General Director of SUE Project. He was a founder of SUE Project and its predecessor companies that later merged into SUE Holding. In addition, he is a professor at the Moscow State University of Civil Engineering. Mr. Lapidus graduated from the same university in 1980 with a doctorate degree in technical science and has authored numerous publications on construction. Mr. Lapidus was awarded the title “The Honorable Constructor of the Russian Federation” in 1998. His business address is 35/4 Bolshaya Tatarskaya Street, Moscow 115184, Russian Federation.

Valery M. Abramson has been a member of our Board of Directors since June 2005 and has served as General Director of our subsidiary PSO Sistema-Hals since 2004. From 2001 to 2004, Mr. Abramson served as President of Metrogiprotrans. He also served as an Acting General Director and Deputy General Director from 2000 to 2001 and from 1999 to 2000, respectively, at Metrogiprotrans. Mr. Abramson graduated from the Gubkin Russian State University of Oil and Gas in 1982 with a degree in information technologies and the Moscow Institute of Physics and Technology in 1984 with a degree in automated control systems. In addition, Mr. Abramson holds a doctorate degree in economics from the Academy of Labor and Social Relations in Moscow. His business address is 35/4 Bolshaya Tatarskaya Street, Buildings 23-24, Moscow 113184, Russian Federation.

Michael Golomb has served as our Vice-President—Finance and Investments since August 2005 and was a consultant to us from April to July 2005. Mr. Golomb is a member of the board of directors

of the Moscow Bank of Reconstruction and Development, a subsidiary of Sistema, a position he has held since May 2006. From 2002 to 2005, Mr. Golomb managed the compliance and external reporting division of Trimble Navigation Ltd., and from 2001 to 2002, he served as the corporate controller at Entegri Solutions Corporation. Previously, he also worked for PricewaterhouseCoopers. Mr. Golomb holds a dual-bachelor degree in economics and diplomacy of world affairs from Occidental College, California, in 1996, and an MBA in finance from Santa Clara University, California in 2000. He is also a certified public accountant in the United States of America. His business address is 35/4 Bolshaya Tatarskaya Street, Moscow 115184, Russian Federation.

Yevgeny A. Kolodkin has served as our Vice-President—Strategy and Development since October 2006. From 2005 to 2006, Mr. Kolodkin served as Head of Corporate Development Department of Sistema. From 2000 to 2005, he worked in the investments divisions of Sistema and Sistema Telecom. Prior to joining Sistema in 2000, Mr. Kolodkin had worked as a consultant at Bain & Company in Moscow, Sydney and London. Mr. Kolodkin graduated from the Plekhanov Russian Economic Academy in 1997 with a degree in economics. He also holds a bachelor degree in marketing from Arnhem Business School, the Netherlands. His business address is 35/4 Bolshaya Tatarskaya Street, Moscow 115184, Russian Federation.

Igor N. Kascheev has served as our Vice-President—Asset Management since March 2006. From 2004 to 2006, Mr. Kascheev headed our Land Property Department. From 2003 to 2004, he worked in the Legal Department of Capital Group. From 2001 to 2003, Mr. Kascheev worked in our Business Development Department. Mr. Kascheev graduated from the Moscow State Law Academy in 2001 with a degree in law. His business address is 35/4 Bolshaya Tatarskaya Street, Moscow 115184, Russian Federation.

Alexei N. Buyanov has been a member of our Board of Directors since June 2004. Mr. Buyanov currently serves as Chief Financial Officer of Sistema, a position he has held since 2002. From 1998 to 2002, he served as a Vice President of MTS and, from 1996 to 1998, he served as a Vice President of Sistema-Invest. In addition, Mr. Buyanov is a member of the Board of Directors of Ecu Gest Holding, MTS, Rosno, Alliance-Rosno Asset Management, Sistemny Project, Sistema Finance, Sistema Holding, East-West United Bank, Sistema Telecom, Detsky Mir Center and the Moscow Bank of Reconstruction and Development. All of these companies are affiliated with Sistema. Mr. Buyanov graduated from the Moscow Institute of Physics and Technology in 1992 with a degree in physics. His business address is 10 Leontievsky Lane, Moscow 125009, Russian Federation.

Douglas N. Daft has been a member of our Board of Directors since June 2006. From 2000 to 2004, Mr. Daft served as Chairman of the Board of Directors and Chief Executive Officer of The Coca-Cola Company. Prior to that, he had held various management positions at The Coca-Cola Company, such as President of the Middle and Far East Group, President of the Pacific Group, President of the North Pacific Division and President of the Central Pacific Division. From 2000 to 2004, he served as a member of Sistema International Advisory Council. Mr. Daft holds a bachelor's degree in mathematics from the University of New England, Australia and a post-graduate degree in business administration from the University of New South Wales, Australia. His business address is 465 Stratton Road, Williamstown, Massachusetts 01267, USA.

Sergey A. Drozdov has been a member of our Board of Directors since June 2005. Mr. Drozdov currently serves as Head of Corporate Property at Sistema, a position he has held since 2002. Mr. Drozdov has also been a member of the Board of Directors of Sistema since 2002. From 1998 to 2002, he served as a Vice-President of Sistema-Invest. In addition, Mr. Drozdov currently serves as the Chairman of the Board of Directors of Detsky Mir, Detsky Mir-Center and Reestr and is a member of the Board of Directors of, Sistema Telecom, Sistema-Invest, Medexpress and Sistemny Project. All of these companies are affiliated with Sistema. Mr. Drozdov graduated from the State Academy of Management in 1993 with a degree in economics. His business address is 17/8/9 Prechistenka Street, Building 1, Moscow 119034, Russian Federation.

Alexander Y. Goncharuk has been a member of our Board of Directors since June 2006. Mr. Goncharuk currently serves as the President of Sistema, a position he has held since February 2006, and has served on the Board of Directors of Sistema since 1998. From 2003 to February 2006, Mr. Goncharuk served as the Chief Executive Officer of Sitronics, a subsidiary of Sistema, and currently serves as its chairman. From 1998 to 2003, Mr. Goncharuk served as President of Sistema Telecom, which is responsible for overseeing Sistema's telecommunications businesses. During this time, he served on the Board of Directors of Mobile TeleSystems, including serving as

chairman in 1998 and from 2002 to 2003. From 1995 to 1998 he served as a Vice President of Sistema. From 1987 to 1991, Mr. Goncharuk served as a senior officer at the Main Headquarters of the Navy. He is the chairman of the Board of Rosno and a member of the Board of Directors of Medexpress and Sistema Telecom. All of these companies are affiliated with Sistema. Mr. Goncharuk graduated with honors from both the Sevastopol Naval Engineering Academy in 1978 and the A. Grechko Naval Academy in 1987. His business address is 17/8/9 Prechistenka Street, Building 1, Moscow 119034, Russian Federation.

Valery I. Telichenko has been a member of our Board of Directors since June 2006. Mr. Telichenko also currently serves as President of the Moscow State University of Civil Engineering, a position he has held since December 2003. He graduated from the Moscow Civil Engineering Institute in 1970 and holds a doctorate degree in engineering sciences. He has also authored numerous publications on information technologies and ecological safety. Mr. Telichenko received the “Honorable Constructor of the Russian Federation” award in 2002. His business address is 26 Yaroslavskoye Shosse, Moscow 129337, Russian Federation.

All of our directors were elected in June 2006, and their terms expire on the date of our next annual General Meeting of Shareholders.

Remuneration of Directors

The compensation of our directors is determined by our shareholders at their annual general meetings. In particular, each director participating in a meeting of the Board of Directors is paid \$500 per meeting and the Chairman of the Board is paid \$1,000 per meeting. The aggregate amount of remuneration paid by us to our directors and executive officers as a group for services in all capacities provided to us during the year ended December 31, 2005 was approximately \$1.4 million in salary and bonuses. Our executive officers are also provided with medical insurance and company cars upon request. Employment contracts with our directors and executive officers do not provide for special benefits upon termination of employment. In addition, we do not provide pension, retirement or similar benefits to our directors and executive officers.

Share Bonus and Option Plan

We intend to establish a share bonus and/or share option plan for members of our Board of Directors, senior management and other key personnel. For this plan, we will reserve up to 5.7% of our total issued share capital after the offering, assuming the Underwriters exercise the over-allotment option in full, and the Concurrent Private Offering. To the extent shares in our share bonus and option plan are granted at a price that is lower than market value, we may recognize a material charge in our statement of operations. We intend to acquire these shares from Sistema and/or its subsidiaries from the shares placed in the Concurrent Private Offering promptly after the placement. We believe that our plan will be an effective financial means of incentivizing and retaining our top managers and ensuring that their interests are aligned with those of our shareholders.

To the extent the plan is established and grants are made prior to the expiration of six months from the date of the completion of the offering, grantees will be precluded from exercising options or disposing of shares until the expiration of such six-month period.

Loans to Directors and Executive Officers

As of the date of this prospectus, there were no outstanding loans granted by us to our directors and executive officers and no guarantees provided for their benefit.

Board Practices

Our Board of Directors has nine members elected by a majority vote of shareholders at each annual General Meeting of Shareholders through cumulative voting. Directors may be re-elected an unlimited number of times. The Board of Directors is responsible for our overall management, except matters reserved for our shareholders. See “Description of Share Capital and Certain Requirements of Russian Legislation—General Meetings of Shareholders” for more information regarding the competence of our General Meeting of Shareholders.

Management Board

Our day-to-day activities are managed by the Management Board, which is led by Mr. Felix Evtushenkov, the Chairman of the Management Board. Members of the Management Board are re-elected annually by the Board of Directors from nominees submitted by our President. The Management Board reports to, and is responsible for the implementation of decisions taken by, our shareholders and Board of Directors. Among other things, the Management Board develops and controls the implementation of our investment and financial projects, adopts certain of our internal bylaws, takes decisions relating to our mergers and acquisitions and approves transactions that do not exceed 10% of the balance sheet value of our assets.

Review Commission

The review commission verifies the accuracy of our financial reporting under Russian law and generally supervises our financial activity. The review commission consists of three members, who are elected by the General Meeting of Shareholders at each annual General Meeting of Shareholders. Members of our Board of Directors may not simultaneously serve as members of the review commission. Members of the review commission need not be our employees.

Corporate Governance

We comply with the corporate governance requirements applicable to Russian public companies listed on Russian stock exchanges. Our shares have been admitted to list “V” on the Moscow Stock Exchange since October 17, 2006 and on the MICEX since October 9, 2006, and, as a result, we are required to comply with a number of corporate governance requirements as of the listing date. Such requirements, *inter alia*, include the: (1) obligation to have at least one independent director, (2) formation of an audit committee, (3) adoption of a bylaw on insider trading and (4) implementation of internal control procedures. We are in full compliance with these requirements. In addition, we have adopted the code of corporate conduct, as recommended by the FSFM.

The Corporate Governance Committee assists the Board of Directors with its oversight responsibilities in connection with our compliance with the code of corporate conduct and the implementation of disclosure procedures, as well as investor relations. The Committee has five members appointed by the Board of Directors, and membership is not limited to members of the Board of Directors. The current members are Valery I. Telichenko, who is an independent director and serves as the Chairman of the Corporate Governance Committee, Igor N. Kascheev, Denis V. Biryukov, Denis N. Badikov and Anna V. Polevaya.

Strategy Committee

The Strategy Committee is responsible for developing recommendations to the Board of Directors with respect to our strategic development, long-term planning and investment policy. This Committee has five members appointed by our Board of Directors. The current members are Douglas N. Daft, who is an independent director, Anton V. Abugov, Yevgeny A. Kolodkin, Mikhail Y. Balashov and Mikhail Y. Obodovsky.

Committees of the Board of Directors

Audit Committee

The Audit Committee is primarily responsible for the integrity of our financial statements, our compliance with legal and regulatory requirements, assuring the qualifications and independence of our independent auditors and overseeing the audit process, resolving matters arising during the course of audits and coordinating internal audit functions. The Audit Committee has three members appointed by our Board of Directors. The current members are Valery I. Telichenko, who is an independent director and serves as the Chairman of the Audit Committee, Douglas N. Daft, who is an independent director, and Alexei N. Buyanov.

Nomination and Compensation Committee

The Nomination and Compensation Committee is primarily responsible for developing a remuneration structure and compensation levels for management executives. This Committee has three members, all of whom are required to be non-executive directors and at least one of whom is required

to be an independent director. All members of this Committee are appointed by the Board of Directors. The current members are Dmitry L. Zubov, Alexei N. Buyanov and Valery I. Telichenko, who is an independent director.

Interests of Directors and Officers

Certain of our directors and executive officers serve as directors and executive officers of our affiliates (including Sistema, our controlling shareholder, and other companies within the Sistema group), as set out above. We engage in transactions with some of these affiliates, including transactions in the ordinary course of business. See “Related Party Transactions.” As a result, potential conflicts of interest between these directors’ and officers’ duties to us and their private interests or other duties could arise. Under Russian legislation, certain transactions defined as “interested party transactions” require approval by our disinterested directors or shareholders. See “Description of Share Capital and Certain Requirements of Russian Legislation—Interested Party Transactions.”

Our directors Dmitry Zubov, Alexander Goncharuk, Sergey Drozdov and Alexei Buyanov own 1.35%, 2.0%, 0.2% and 0.2%, respectively, of Sistema’s issued shares.

Currently, none of our directors or executive officers owns any of our shares or has options with respect to our shares.

Litigation Statement about Directors and Officers

At the date of this prospectus, none of our directors or executive officers for at least the previous five years:

- has had any convictions in relation to fraudulent offenses; nor
- has held an executive function in the form of a senior manager or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; nor
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

RELATED PARTY TRANSACTIONS

We are the real estate business segment of Sistema and a substantial majority of our projects, as well as our other business and financing activities, are conducted with the Sistema group companies, as described in this prospectus. See also “Risk Factors—Risks Relating to Our Business—We have entered into and expect to continue to enter into material agreements and other arrangements with our controlling shareholder and its affiliated companies and persons.” We believe that the terms of the majority of these transactions were determined by reference to market prices and terms; however, transactions with related parties pose the risks of our entering into transactions on terms less favorable than could be obtained in arm’s-length transactions with unrelated parties. See also note 22 to our financial statements.

MGTS

In 2004 and 2005, we entered into a series of agreements with MGTS, a subsidiary of Sistema, to act as fee developer in connection with pre-design, design and construction phases of the redevelopment of certain telephone exchange buildings constituting the first stage of the MGTS program. See “Business—Properties and Development Projects—Description of Our Key Projects—MGTS Program.” In general, we receive a set fee for the pre-design work and a fee of 4.75% of the actual costs incurred.

In the year ended December 31, 2005, we derived revenues of \$13.9 million from the reconstruction of MGTS’ building at Nastasyinsky Lane. In connection with the reconstruction, MGTS guaranteed a credit facility provided to us by WestLB Vostok Bank to finance the construction costs. We paid off the loan and terminated the facility in March 2006.

MTS

In the year ended December 31, 2003, we derived revenues of \$9.1 million from the reconstruction of several MTS office buildings in St. Petersburg.

Moscow Bank of Reconstruction and Development (MBRD)

We regularly receive loans and notes payable from MBRD, a subsidiary of Sistema. As of December 31, 2003, 2004 and 2005 and June 30, 2006, the amount of these loans was \$59.9 million, \$64.6 million, \$129.6 million and \$107.9 million, respectively. We accrued total interest costs on these loans of \$6.0 million, \$7.3 million, \$12.4 million and \$6.2 million, respectively.

We hold cash accounts at MBRD. As of December 31, 2003, 2004 and 2005 and June 30, 2006, the balance of these accounts was \$5.0 million, \$4.3 million, \$6.6 million and \$9.7 million, respectively.

Manezh 13/1

In 2005, we entered into an investment agreement with Manezh 13/1, a wholly owned subsidiary of Sistema, for the redevelopment of a building on 13/1 Mokhovaya Street in Moscow, which is owned by Sistema. Under the terms of the agreement, we receive a fee of 5.0% of the actual costs incurred.

During the six months ended June 30, 2006, we entered into an agreement with LuckyStroy, a subsidiary of SUE Holding to perform construction and finishing works for the Manezh 13/1 project. Our director and First Vice-President—Civil Construction, Azariy Lapidus is a majority shareholder and Chairman of the Board of Directors of SUE Holding.

Detsky Mir

In November 2004, we entered into an agreement with Detsky Mir, a subsidiary of Sistema, to act as fee developer in connection with the pre-design and design stages of the reconstruction of Detsky Mir’s flagship store in Moscow. See “Business—Properties and Development Projects—Description of Our Key Projects—Reconstruction of Detsky Mir, Moscow—retail and entertainment center.” Under the terms of the agreement, we receive a fee of 3.6% of the actual costs incurred.

NIIDAR

In April 2005, we entered into an agreement with NIIDAR, a subsidiary of Sistema, to act as fee developer in connection with the pre-design stage of the project involving the redevelopment of the NIIDAR facilities. See “Business—Properties and Development Projects—Description of Our Key

Projects—NIIDAR Scientific and Research Complex of Distant Radio Connections, 1st Bukhvostova Street—multipurpose facility.” Under the terms of the agreement, we receive a fee of 5% of the actual costs incurred.

Facility management services

We provide facility management services to Sistema and its subsidiaries. In the years ended December 31, 2003, 2004 and 2005 and the six months ended June 30, 2006, revenues from facility management services amounted to \$0.2 million, \$0.5 million, \$0.6 million and \$3.3 million, respectively. These services are being performed primarily for Sistema and its subsidiary MTS.

Sistema and other subsidiaries

We regularly receive loans and notes payable from Sistema and its subsidiaries. As of December 31, 2003, 2004, 2005 and June 30, 2006, excluding MBRD, the amount of these loans and notes payable was \$78.1 million, \$66.1 million, \$52.9 million and \$44.5 million, respectively. Nearly all these loans and notes payable were interest free.

During the years ended December 31, 2003, 2004 and 2005 and the six months ended June 30, 2006, we provided loans to and received promissory notes from Sistema and its subsidiaries in the amounts of \$9.1 million, \$2.7 million, \$7.3 million and \$8.2 million, respectively.

In 2004, Sistema guaranteed a credit facility provided to us by Commerzbank. We paid off the loan and terminated the facility in March 2006. As of December 31, 2005 and June 30, 2006, Sistema had guaranteed our borrowings from MBRD in the amount of \$39.3 million and \$20.0 million, respectively. In 2006, Sistema guaranteed loan facilities extended by Deutsche Bank AG, London Branch, Nomura International plc and UBS AG, London Branch in the principal amount of \$140.0 million, \$100.0 million and \$100.0 million, respectively.

We also leased certain premises at Serebryany Bor to the Sistema group and certain other related persons.

Acquisitions

In connection with Sistema’s reorganization of its real estate business segment, Sistema consolidated the ownership of the segment’s entities under Sistema-Hals. Sistema-Hals paid certain amounts for these entities. See note 18 to our annual financial statements and note 26 to our interim financial statements.

In August 2006, we acquired from certain managers within the Sistema group a 100% interest in Nostro for promissory notes in the amount of \$26.6 million and committed to invest an additional \$7.2 million to settle its debts. Nostro owns a Class B building located at 75 Sadovnicheskaya Street in Moscow. We intend to use a portion of the building for our new headquarters, and the remainder will be leased to third parties.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth information regarding the ownership of our shares as of the date of this prospectus and as adjusted to reflect the offering and the Concurrent Private Offering (assuming the Underwriters exercise the over-allotment option in full):

Owner	Shares Owned Before the Offering		Shares Offered	Shares Owned After the Offering and the Concurrent Private Offering	
	Number	Percent		Number	Percent
Sistema ⁽¹⁾	7,784,673	96.26%	—	7,784,673	69.40%
Investments Pension Company ⁽²⁾	137,660	1.70%	100	137,560	1.23%
PromTorgCenter ⁽³⁾	82,596	1.02%	82,596	—	—%
Sistema-Leasing ⁽⁴⁾	82,596	1.02%	29,475	53,121	0.47%
Free float (including GDR holders)	—	—	—	2,019,077	18.00%
Subsidiary of Sistema-Hals purchasing shares placed in the Concurrent Private Offering	—	—	—	1,222,663	10.90%
Total	8,087,525	100.00%	112,171	11,217,094	100.00%

⁽¹⁾ Mr. Vladimir Evtushenkov beneficially owns 62.13% of Sistema. Mr. Vladimir Evtushenkov is the father of Mr. Felix Evtushenkov, our Director and President. The registered address of Sistema is 17/8/9 Prechistenka Street, Building 1, Moscow 119034, Russian Federation.

⁽²⁾ Sistema owns directly 99.99% of the shares of Investments Pension Company. The registered address of Investments Pension Company is 13 Mokhovaya Street, Moscow 103009, Russian Federation.

⁽³⁾ Sistema consolidates PromTorgCenter in its US GAAP financial statements pursuant to FIN 46R. The registered address of PromTorgCenter is 12/3 Petrovsky Boulevard, Moscow 103051, Russian Federation.

⁽⁴⁾ Sistema directly owns 66.0% of shares of Sistema-Leasing. The remaining interest in Sistema-Leasing is owned by companies affiliated with Sistema. The registered address of Sistema-Leasing is 13 Mokhovaya Street, Moscow 103009, Russian Federation.

None of our shareholders has voting rights different from any other holders of our shares. We are not aware of any arrangements that may result in a change of control of Sistema-Hals.

Changes in Shareholders' Equity

The following table sets forth in Russian rubles, as of the date of this prospectus, the changes in our share capital that have occurred within the past three financial years.

Year	Description	Number of shares issued	Nominal value per share	Increase in total issued share capital (in RUR)	Total issued share capital at end of period (in RUR)	Total number of issued shares at end of period
2005	Closed subscription to additional issue of shares	125	50	6,250	58,750	1,175
2006	Additional issue of shares to existing shareholders	8,086,350	50	404,317,500	404,376,250	8,087,525

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LEGISLATION

We describe below our registered shares, the material provisions of our charter in effect on the date of this prospectus and certain requirements of Russian legislation. References in this section to “we,” “us” and “our” refer to Sistema-Hals only.

GDR holders will be able to exercise their rights with respect to the shares underlying the GDRs only in accordance with the provisions of the Deposit Agreements and the relevant requirements of Russian law. See “Description of the Global Depositary Receipts” for more information.

Our Purpose

Our objects and purposes are set out in Section 2 of our charter. Our primary purpose as set out therein is to profit from the conduct of business.

Description of Share Capital

Pursuant to the Joint Stock Companies Law, we have the right to issue registered ordinary shares, preferred shares and other securities provided for by the legislation of the Russian Federation with respect to securities. Our share capital consists of 8,087,525 ordinary shares, each with a nominal value of 50 rubles, which are fully paid, issued and outstanding. In addition, we are authorized by our charter to issue an additional 5,000,000 ordinary shares. Under Russian legislation, charter capital refers to the aggregate nominal value of the issued and outstanding shares. No preferred shares are authorized or outstanding. Preferred shares may only be issued if amendments have been made to our charter pursuant to a resolution of the general meeting of shareholders.

The Joint Stock Companies Law requires us to dispose of any of our shares that we acquire within one year of their acquisition or, failing that, reduce our charter capital. We refer to such shares as treasury shares for purposes hereof. Russian legislation does not allow for the voting of such treasury shares. Currently, we do not have treasury shares. Any of our shares that are owned by our subsidiaries are not considered treasury shares under Russian law (*i.e.*, they are considered outstanding shares and unless the context requires otherwise, such shares are considered outstanding for purposes of the ownership percentages presented in this prospectus), and our subsidiaries are able to vote such shares and dispose of such shares without any further corporate actions by our shareholders or board of directors. Currently, none of our shares is owned by our subsidiaries. In our financial statement prepared under US GAAP, such shares would be considered treasury shares (*i.e.*, they are considered not outstanding). One of our subsidiaries intends to acquire up to 10.9% of our total issued share capital after the offering, assuming the Underwriters exercise the over-allotment option in full. See “The Offering—The Concurrent Private Offering.”

Currently, we have fewer than 1,000 holders of voting shares, which determines the applicability of certain provisions of the Joint Stock Companies Law, as described below. We expect that immediately following this offering we will continue to have fewer than 1,000 holders of voting shares, in particular due to the status of the Depositary as the holder of all of the shares underlying the GDRs.

Rights Attaching to Shares

Holders of our shares have the right to vote at all shareholders’ meetings. As required by the Joint Stock Companies Law and our charter, all of our shares have the same nominal value and grant to their holders identical rights. Each fully paid share, except for treasury shares, gives its holder the right to:

- freely transfer the shares without our consent and the consent of other shareholders;
- receive dividends;
- participate in shareholders’ meetings and vote on all matters within shareholders competence;
- transfer voting rights to its representative on the basis of a power of attorney;
- exercise its pre-emptive right in certain circumstances, as determined by the Joint Stock Companies Law;

- participate in the election and dismissal of members of the board of directors and the review commission;
- if holding, alone or with other holders, 2% or more of the voting stock, within 100 days after the end of our fiscal year, make proposals for the agenda of the annual shareholders' meeting and nominate candidates to the board of directors, collective and sole executive bodies, the review commission and the counting commission;
- if holding, alone or with other holders, 10% or more of the voting stock, demand from the board of directors the calling of an extraordinary shareholders' meeting or an unscheduled audit by the review commission or by an external auditor;
- demand, under the following circumstances, the repurchase by us of all or some of the shares owned by it, as long as such holder voted against or did not participate in the voting on the decision approving the following:
 - any reorganization;
 - the conclusion of a major transaction, as defined under Russian law; and
 - any amendment of our charter or approval of a restated version of our charter in a manner that restricts the holder's rights;
- upon liquidation, receive a proportionate amount of our property after our obligations are fulfilled;
- have access to certain company documents, receive copies for a reasonable fee and, if holding alone or with other holders, 25% or more of the voting stock, have free access to accounting documents and minutes of the management board meetings; and
- exercise other rights of a shareholder provided by our charter, Russian legislation and decisions of shareholders' meetings approved in accordance with its competence.

Pre-emptive Rights

The Joint Stock Companies Law provides existing shareholders with a pre-emptive right to purchase shares or securities convertible into shares during an open subscription in an amount proportionate to their existing shareholdings. In addition, the Joint Stock Companies Law provides shareholders with a pre-emptive right to purchase shares or securities convertible into shares in an amount proportionate to their existing shareholdings during a closed subscription if the shareholders voted against or did not participate in the voting on the decision approving such subscription. The pre-emptive right does not apply to a closed subscription to existing shareholders, provided that such shareholders may each acquire a whole number of shares or securities convertible into shares being placed in an amount proportionate to their existing shareholdings. We must provide shareholders with written notice of their pre-emptive right to purchase shares and the period during which shareholders can exercise their pre-emptive rights. Such period should not be less than 20 or, in certain defined circumstances, 45 days. We may not sell the shares or securities convertible into shares of an issuance in question until the end of such period.

Dividends

The Joint Stock Companies Law and our charter set forth the procedure for determining the quarterly and annual dividends that we may distribute to our shareholders. According to our charter, we may declare dividends based on our first quarter, six month, nine month or annual results. Dividends are recommended to a shareholders' meeting by a majority vote of the board of directors, and approved by the shareholders' meeting by a majority vote. A decision on quarterly, six month and nine month dividends must be taken within three months of the end of the respective quarter at a shareholders' meeting, and a decision on annual dividends must be taken at the annual general shareholders' meeting. The dividend approved at the shareholders' meeting may not be more than the amount recommended by the board of directors. Dividends are distributed to holders of our shares as of the record date for the shareholders' meeting approving the dividends. See "—General Meetings of Shareholders—Notice and Participation." Dividends are not paid on treasury shares.

The Joint Stock Companies Law allows dividends to be declared only out of net profits calculated under Russian accounting standards and as long as the following conditions have been met:

- the charter capital of the company has been paid in full;
- the value of the company's net assets on the date of adoption of decision to pay dividends is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company's charter capital, the company's reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred shares of the company;
- the company has repurchased all shares from shareholders having the right to demand repurchase; and
- the company is not, and would not become, insolvent as the result of the proposed dividend payment.

Distribution to Shareholders on Liquidation

Under Russian legislation, liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. The Joint Stock Companies Law and our charter allow us to be liquidated:

- by a three-quarters majority vote of a shareholders' meeting; or
- by a court order.

Following a decision to liquidate the company, the right to manage our affairs would pass to a liquidation commission appointed by a shareholders' meeting. In the case of an involuntary liquidation, the court may vest the duty to liquidate the company to its shareholders. Creditors may file claims within a period to be determined by the liquidation commission, but such period must not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code gives creditors the following order of priority during liquidation:

- (1) individuals owed compensation for injuries, deaths or moral damages;
- (2) employees;
- (3) federal and local governmental entities claiming taxes and similar payments to the federal and local budgets and to non-budgetary funds; and
- (4) other creditors in accordance with Russian legislation.

Claims of creditors in obligations secured by a pledge of the company's property ("secured claims") are satisfied out of the proceeds of sale of the pledged property, prior to claims of any other creditors, except for the creditors of priorities of (1) and (2) above, provided that claims of such creditors arose before the pledge agreements in respect of the company's property were made. To the extent that the proceeds of sale of the pledged property are not sufficient to satisfy secured claims, the latter are satisfied simultaneously with claims of the fourth-priority creditors as described immediately above.

The Federal Law on Insolvency (Bankruptcy), however, provides for a different order of priority for creditors' claims in the event of bankruptcy.

The remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase;
- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares determined by the company's charter, if any; and
- payments to holders of ordinary and preferred shares.

Liability of Shareholders

The Civil Code and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of a joint stock company and bear only

the risk of loss of their investment. This may not be the case, however, when company is capable of determining decisions made by another company. The company capable of determining such decisions is called an “effective parent.” The company whose decisions are capable of being so determined is called an “effective subsidiary.” The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between such persons; and
- the effective parent gives binding instructions to the effective subsidiary.

Thus, a shareholder of an effective parent is not itself liable for the debts of the effective parent’s effective subsidiary, unless that shareholder is itself an effective parent of the effective parent. Accordingly, you will not be personally liable for our debts or those of our effective subsidiaries unless you control our business, and the conditions set forth above are met.

In addition, an effective parent is secondarily liable for an effective subsidiary’s debts if an effective subsidiary becomes insolvent or bankrupt resulting from the fault of an effective parent only when the effective parent has used the right to give binding instructions, knowing that the consequence of carrying out this action would be insolvency of this effective subsidiary. This is the case no matter how the effective parent’s capability to determine decisions of the effective subsidiary arises, such as through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary’s losses from the effective parent that caused the effective subsidiary to take any action or fail to take any action knowing that such action or failure to take action would result in losses.

Charter Capital Increase

We may increase our charter capital by:

- issuing new shares, or
- increasing the nominal value of previously issued shares.

A decision on any issuance of shares or securities convertible into shares by closed subscription, or an issuance by open subscription of ordinary shares or securities convertible into ordinary shares constituting 25% or more of the number of issued ordinary shares, requires a three-quarters majority vote of a shareholders’ meeting. A decision to increase the charter capital by increasing the nominal value of issued shares requires a majority vote of a shareholders’ meeting. In addition, the issuance of shares above the number of authorized and non-issued shares provided in our charter necessitates a charter amendment, which requires a three-quarters majority vote of a shareholders’ meeting.

The Joint Stock Companies Law requires that the value of newly issued shares be determined by the board of directors based on their market value but not less than their nominal value. The price of newly-issued shares for existing shareholders exercising their pre-emptive right to purchase shares could be less than the price paid by third parties, but not less than 90% of the price paid by third parties. Fees paid to intermediaries should not exceed 10% of the shares placement price. The board of directors shall value any in-kind contributions for new shares, based on the appraisal report of an independent appraiser.

Russian securities regulations set out detailed procedures for the issuance and registration of shares of a joint stock company. These procedures require:

- prior registration of a share issuance with the FSFM;
- public disclosure of information relating to the share issuance in certain defined cases; and
- following the placement of the shares, registration and, in certain defined cases, public disclosure of the results of the placement of shares. See “Registration of Placement Report.”

Charter Capital Decrease; Share Buy-backs

The Joint Stock Companies Law does not allow a company to reduce its charter capital below the minimum charter capital required by law, which is 100,000 rubles for an open joint stock company. Our charter requires that any decision to reduce our charter capital, whether through a repurchase and cancellation of shares or a reduction of the nominal value of the shares, be made by a majority vote of

a shareholders' meeting. Additionally, within 30 days of a decision to reduce our charter capital, we must issue written notice to our creditors and publish this decision. Our creditors would then have the right to demand, within 30 days of publication or receipt of our notice, early termination or discharge of relevant obligations by us, as well as compensation for damages.

The Joint Stock Companies Law allows our shareholders or our board of directors to authorize the repurchase of up to 10% of our shares in exchange for cash. The repurchased shares must be resold at market price within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease the charter capital. The shares repurchased pursuant to a decision of our shareholders' meeting to decrease the overall number of shares are cancelled at their redemption. Russian legislation does not permit the voting of repurchased shares.

The Joint Stock Companies Law allows us to repurchase our shares only if, at the time of repurchase:

- our charter capital is paid in full;
- we are not and would not become, as a result of the repurchase, insolvent;
- the value of our net assets at the time of repurchase of our shares is not less (and would not become less, as a result of the proposed repurchase) than the sum of our charter capital, the reserve fund and the difference between the liquidation value and par value of our issued and outstanding preferred shares; and
- we have repurchased all shares from shareholders having the right to demand repurchase of their shares in accordance with the Russian law, as described immediately below.

Our subsidiaries are not restricted from purchasing our shares, and our subsidiaries can vote these shares.

The Joint Stock Companies Law and our charter provide that our shareholders may demand repurchase of all or some of their shares so long as the shareholder demanding repurchase voted against or did not participate in the voting on the decision approving any of the following actions:

- reorganization;
- conclusion of a major transaction, as defined under Russian law; or
- amendment of our charter or approval of a restated version of our charter in a manner which restricts shareholder's rights.

We may spend up to 10% of our net assets calculated under Russian accounting standards on the date of the adoption of the decision which gives rise to a share redemption demanded by the shareholders. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10% of our net assets, we will repurchase shares from each such shareholder on a pro-rata basis.

Registration and Transfer of Shares

Russian legislation requires that a joint stock company maintain a register of its shareholders. Ownership of our registered shares is evidenced solely by entries made in such register. Any of our shareholders may obtain an extract from our register certifying the number of shares that such shareholder holds. OJSC Reestr, located at 13 Myasnitskaya Street, Building 13, Moscow 101990, Russian Federation, maintains our shareholder register.

The purchase, sale or other transfer of shares is accomplished through the registration of the transfer in the shareholder register, or the registration of the transfer with a depositary if shares are held by a depositary. The registrar or depositary may not require any documents in addition to those required by Russian legislation in order to transfer shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, is not allowed, provided that the transfer documents comply with Russian law requirements, and such refusals may be challenged in court.

Reserve Fund

Russian legislation requires that each joint stock company establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and repurchase the company's shares in cases when other funds are not available. Our charter provides for a reserve fund of 5% of our charter capital, funded through mandatory annual transfers of at least 5% of our net profits until the reserve fund has reached the 5% requirement.

Disclosure of Information

Russian securities regulations require us to make the following public disclosures and filings on a periodical basis:

- filing quarterly reports with the FSFM containing information about us, our shareholders and depositary, the structure of our management bodies, the members of the board of directors, our branches and representative offices, our shares, bank accounts and auditors, important developments during the reporting quarter and other information about our financial and business activity and disclosing the same on our website on the same basis;
- filing with the FSFM and publishing in the FSFM's periodical print publication, as well as in other media, any information concerning material facts and changes in our financial and business activity, including our reorganization, certain changes in the amount of our assets, decisions on share issuances, certain changes in ownership and shareholding, as well as shareholder and board of directors' resolutions;
- disclosing information on various stages of share placement, issuance and registration through publication of certain data as required by the securities regulations;
- disclosing our charter and internal corporate governance documents on our website;
- disclosing our annual report and annual financial statements prepared in accordance with Russian accounting standards;
- filing with the FSFM on a quarterly basis a list of our affiliated persons and disclosing the same on our website, on the same basis; and
- other information as required by applicable Russian securities legislation.

General Meetings of Shareholders

Procedure

The powers of a shareholders' meeting are set forth in the Joint Stock Companies Law and in our charter. A shareholders' meeting may not decide on issues that are not included in the list of its competence by the Joint Stock Companies Law. Among the issues which the shareholders have the power to decide are:

- charter amendments;
- reorganization or liquidation;
- determination of the number, nominal value and category (type) of authorized shares and rights granted by such shares;
- changes in the company's charter capital;
- determination of the number, appointment and early removal of the members of the company's board of directors and review commission;
- payment of compensation and fees to the members of the board of directors and the review commission;
- appointment of the company's independent auditor;
- determination of the procedure for conducting the general shareholders' meetings;
- approval of the annual report and annual financial statements, including the balance sheet and the profit and loss statement;
- approval of certain interested party transactions and major transactions;
- distribution of profits and losses, including approval of dividends;
- decision on our participation in holding companies, commercial or industrial groups, or other associations of commercial entities;
- approval of certain internal documents;

- redemption by the company of issued shares in cases provided for by the Joint Stock Companies Law;
- split and consolidation of shares; and
- other issues, as provided for by the Joint Stock Companies Law and our charter.

Voting at a shareholders' meeting is generally based on the principle of one vote per ordinary share, with the exception of the election of the board of directors, which is done through cumulative voting. Decisions are generally passed by a majority vote of the voting shares present at a shareholders' meeting. However, Russian law requires a three-quarters majority vote of the voting shares present at a shareholders' meeting to approve the following:

- charter amendments;
- reorganization or liquidation;
- major transactions involving assets in excess of 50% of the balance sheet value of the company's assets;
- determination of the number, nominal value and category (type) of authorized shares and the rights granted by such shares;
- repurchase by the company of its issued shares;
- any issuance of shares or securities convertible into shares by closed subscription; or
- issuance by open subscription of ordinary shares or securities convertible into ordinary shares, in each case, constituting 25% or more of the number of issued and outstanding ordinary shares.

The quorum requirement for our shareholders' meeting is met if shareholders (or their representatives) accounting for more than 50% of the issued voting shares are present. If the 50% quorum requirement is not met, another shareholders' meeting with the same agenda may (and, in the case of an annual shareholders' meeting, must) be scheduled and the quorum requirement is satisfied if shareholders (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

The annual shareholders' meeting must be convened by the board of directors between March 1 and June 30 of each year, and the agenda must include the following items:

- election of members of the board of directors;
- approval of the annual report and annual financial statements, including the balance sheet and profit and loss statement;
- approval of distribution of profits and losses, including approval of annual dividends, if any;
- appointment of an independent auditor; and
- appointment of the members of the review commission.

Extraordinary shareholders' meetings may be called by the board of directors on its own initiative, or at the request of the review commission, the independent auditor or a shareholder or group of shareholders owning in the aggregate at least 10% of the issued voting shares as of the date of the request.

A general meeting of shareholders may be held in the form of a meeting or by absentee ballot. The form of a meeting contemplates the adoption of resolutions by the general meeting of shareholders through the attendance of the shareholders or their authorized representatives for the purpose of discussing and voting on issues of the agenda, provided that if a ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the company without personally attending the meeting. A general meeting of the shareholders by absentee ballot contemplates the determination of shareholders' opinions regarding issues on the agenda by means of a written poll.

The following issues cannot be decided by a shareholders' meeting by absentee ballot:

- election of the members of the board of directors;
- election of the review commission;

- approval of a company's independent auditor; and
- approval of the annual report, the annual financial statements, including balance sheet, profit and loss statement, and any distributions of profits and losses, including approval of annual dividends, if any.

Notice and Participation

All shareholders entitled to participate in our general shareholders' meeting must be notified of the meeting, whether the meeting is to be held in the form of a meeting or by absentee ballot, no less than 30 days prior to the date of the meeting, and such notification shall specify the agenda for the meeting. However, if it is an extraordinary shareholders' meeting to elect the board of directors or to elect the board of directors of the newly established company in connection with the company's reorganization in the form of a merger, spin-off or division, shareholders must be notified at least 70 days prior to the date of the meeting. Only those items that were set out in the agenda to shareholders may be voted upon at a general shareholders' meeting.

The list of persons entitled to participate in a general shareholders' meeting is to be compiled on the basis of data in our shareholder register on the date established by the board of directors, which date may neither be earlier than the date of adoption of the board resolution to hold a general shareholders' meeting nor more than 50 days before the date of the meeting (or, in the case of an extraordinary shareholders' meeting to elect the board of directors, not more than 65 days before the date of the meeting).

The right to participate in a general meeting of shareholders may be exercised by a shareholder as follows:

- by personally participating in the discussion of agenda items and voting thereon;
- by sending an authorized representative to participate in the discussion of agenda items and to vote thereon;
- by absentee ballot; or
- by delegating the right to fill out the absentee ballot to an authorized representative.

Board of Directors

Our charter provides that our entire board of directors is up for election at each annual general shareholders' meeting and that our board of directors is elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of voting shares held by such shareholder multiplied by the number of persons to be elected to our board of directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the directors may be removed as a group at any time without cause by a majority vote of a shareholders' meeting.

The Joint Stock Companies Law requires at least a five-member board of directors for all joint stock companies, at least a seven-member board of directors for a joint stock company with more than 1,000 holders of voting shares, and at least a nine-member board of directors for a joint stock company with more than 10,000 holders of voting shares. Only natural persons (as opposed to legal entities) are entitled to sit on the board. Members of the board of directors are not required to be shareholders of the company. The actual number of directors is determined by the company's charter, which provides that the number of board members shall be determined by a decision of a shareholders' meeting. Our board of directors currently consists of nine members.

The Joint Stock Companies Law generally prohibits the board of directors from acting on issues that fall within the exclusive competence of the general shareholders' meeting. Our board of directors has the power to perform the general management of the company, and to decide, among others, the following issues:

- determining our business priorities, as well as approving major investment projects, financial and business plans, budgets and investment programs;
- convening annual and extraordinary shareholders' meetings, except in certain circumstances specified in the Joint Stock Companies Law;

- approval of the agenda of the shareholders' meeting and determination of the record date for shareholders entitled to participate in a shareholders' meeting;
- placement of our bonds and other securities, in cases specified in the Joint Stock Companies Law;
- increasing our charter capital in certain circumstance specified in our charter;
- introducing certain changes to our charter;
- determination of the price of our property and of our securities to be placed or repurchased, as provided for by the Joint Stock Companies Law;
- repurchase of our shares, bonds and other securities in certain cases provided for by the Joint Stock Companies Law;
- appointment and early removal of our president and the members of a collective executive body;
- recommendation to our shareholders' meeting on the amount of a dividend and the payment procedure;
- recommendation to our shareholders' meeting on the amount of remuneration and compensation to be paid to the members of our review commission;
- approval of the fees payable for the services of an independent auditor;
- the use of our reserve fund and other funds;
- the creation and liquidation of branches and representative offices;
- approval of our internal documents, except for those documents whose approval fall within the competence of our shareholders or the president;
- approval of major and interested party transactions in the cases provided for by the Joint Stock Companies Law;
- approval of our share registrar and the terms of the agreement with it;
- approval of decisions on share issuances and of the prospectuses relating to such share issuances, as well as of reports on the results of such share issuances;
- appointment and termination of the powers of our corporate secretary;
- approval of a corporate governance code and primary standards of corporate behavior with respect to confidentiality and information resources management;
- creation of committees, commissions and other internal structural bodies under our board of directors; and
- other issues, as provided for by the Joint Stock Companies Law and our charter.

Our charter generally requires a majority vote of the directors present for an action to pass, with the exception of certain issues that require the vote of a three-quarters majority of our directors and actions for which Russian legislation requires a unanimous vote or a majority vote of the disinterested and independent directors, as described herein. A board meeting is considered duly assembled and legally competent to act when at least half of the number of elected directors are present.

Interested Party Transactions

Under the Joint Stock Companies Law, certain transactions defined as “interested party transactions” require approval by disinterested directors or shareholders of the company. “Interested party transactions” include transactions involving a member of the board of directors or member of any executive body of the company (including the company’s chief executive officer and/or the company’s managing organization), any person that owns, together with any affiliates, at least 20% of a company’s issued voting stock or any person who is able to direct the actions of the company, if that person, and/or that person’s spouse, parents, children, adoptive parents or children, brothers or sisters or affiliates, is/are:

- a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;

- the owner of at least 20% of the issued shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- a member of the board of directors or a member of any management body of a company that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary, or a member of the board of directors or of any management body of a management organization of such a company.

The Joint Stock Companies Law requires that an interested party transaction by a company with more than 1,000 shareholders be approved by a majority vote of the independent directors of the company who are not interested in the transaction. For purposes of this rule, an “independent director” is a person who is not, and within the year preceding the decision to approve the transaction was not, the general director, a member of any executive body or an affiliate of the company, or a member of the board of directors or of any management body of the company’s management organization. Additionally, such person’s spouse, parents, children, adoptive parents or children, brothers or sisters may not, and within the year preceding the decision to approve the transaction may not, occupy positions in the executive bodies of the company or positions on the board of directors or of any management body of the company’s management organization. For companies with 1,000 or fewer shareholders, an interested party transaction must be approved by a majority vote of the directors who are not interested in the transaction if the number of these directors is sufficient to constitute a quorum.

Approval by a majority of shareholders who are not interested in the transaction is required if:

- the value of such transaction or a number of interrelated transactions is 2% or more of the balance sheet value of the company’s assets determined under Russian accounting standards;
- the transaction or a number of interrelated transactions involves the issuance, by subscription, of voting shares or securities convertible into voting shares, or secondary market sale of such securities, in an amount exceeding 2% of the company’s issued voting stock;
- the number of directors who are not interested in the transaction is not sufficient to constitute a quorum; or
- all the members of the board of directors of the company are interested parties, or none of them is an independent director.

Approval by a majority of shareholders who are not interested in the transaction may not be required, until the next annual shareholders’ meeting, for an interested party transaction if such transaction is substantially similar to transactions concluded by the company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction.

The approval of interested party transactions is not required in the following instances:

- the company has only one shareholder that simultaneously performs the functions of the executive body of the company;
- all shareholders of the company are deemed interested in such transactions;
- the transactions arise from the shareholders executing their pre-emptive rights to purchase newly issued shares of the company;
- the transactions arise from the repurchase, whether mandatory or not, by the company of its issued shares;
- the transactions arise from merging with another company; or
- the transactions are mandatory for a company pursuant to Russian law and must be concluded on the basis of fixed prices and tariffs adopted by a competent state body.

Major Transactions

The Joint Stock Companies Law defines a “major transaction” as a transaction, or a number of interrelated transactions, involving the acquisition or disposal, or a possibility of disposal (whether directly or indirectly), of property having a value of 25% or more of the balance sheet value of the assets of a company as determined under Russian accounting standards, with the exception of transactions conducted in the ordinary course of business or transactions involving the placement of

ordinary shares or securities convertible into ordinary shares. Major transactions involving assets having a value ranging from 25% to 50% of the balance sheet value of the assets of a company require unanimous approval by all members of the board of directors or, failing to receive such approval, a simple majority votes of a shareholders' meeting. Major transactions involving assets having a value in excess of 50% of the balance sheet value of the assets of a company require a three-quarters majority vote of a shareholders' meeting.

Change in Control

Anti-takeover Protection

Russian legislation requires the following:

- A person intending to acquire more than 30% of an open joint stock company's ordinary shares and voting preferred shares (including, for such purposes, the shares already owned by such person and its affiliates), will be entitled to make a public tender offer to other holders of such shares or securities convertible into such shares.
- A person that has acquired more than 30% of an open joint-stock company's ordinary shares and voting preferred shares (including, for such purposes, the shares already owned by such person and its affiliates) will, except in certain limited circumstances, be required to make, within 35 days of acquiring such shares, a public tender offer for other shares of the same class and for securities convertible into such shares, at the price which is not less than the price determined based on the weighted average market price of the shares over the six month period before the filing of the offer with the FSFM as described below, if the shares are publicly traded, or on the price supplied by an independent appraiser if the shares have no or insufficient trading history. The public tender offer price may not be less than the highest price at which the offeror or its affiliated persons purchased or undertook to purchase the relevant securities over the six month period before the offer was sent to the company. From the moment of acquisition of more than 30% (or 50% and 75% in cases referred to in the next sentence) of the shares until the date the offer was sent to the company, the person making the offer and its affiliates will be able to register for quorum purposes and vote only 30% of the company's ordinary shares and voting preferred shares (regardless of the size of their actual holdings). These rules also apply to acquisitions resulting in a person or a group of persons owning more than 50% and 75% of a company's issued ordinary shares and voting preferred shares.
- A person that as a result of an offer described in either of the preceding paragraphs becomes (individually or with its affiliates) the owner of more than 95% of the company's ordinary shares and voting preferred shares, must buy out the remaining shares of the company as well as other securities convertible into such shares upon request of the holders of such shares or other securities, and may require such holders to sell such shares and other securities, at the price determined in the manner described in the preceding paragraph but not less than the highest price of the preceding acquisitions by the offeror.
- An offer of the kind described in either of the preceding three paragraphs must be accompanied by a bank guarantee of payment. If the company is publicly traded, prior notice of the offers must be filed with the FSFM; otherwise, such offers must be filed with the FSFM no later than the date of the offer. The FSFM may require revisions to be made to the terms of the offer (including the price) in order to bring them into compliance with the rules.
- Once such an offer has been made, competing offers for the same securities can be made by third parties and, in certain circumstances, acceptance of the initial offer may be withdrawn by the security holders who choose to accept such competing offer. From the making of a public tender offer until 20 days after its expiry (which period may in certain cases exceed 100 days) the company's shareholders meeting will have the sole power to make decisions on charter capital increase, issuance of securities, approval of major, interested party and certain other transactions, and on certain other significant matters.

The above rules may be supplemented through FSFM rulemaking, which may result in a wider, narrower or more specific interpretation of these rules.

Under Russian law, the Depositary may be considered the owner of the shares underlying the GDRs. Upon completion of the offering, assuming the Underwriters do not exercise the over-allotment option in full, and the Concurrent Private Offering, our GDR program will contain approximately

15.74% of our issued shares. The Depositary may be subject to the above rules in the future if additional shares are deposited into the GDR program. The Depositary may, pursuant to the Deposit Agreements, take such steps as are, in its opinion, necessary or desirable to remedy the consequences and to comply with applicable law, directives or regulations, including without limitation causing pro rata cancellation of GDRs and withdrawal of the shares from our GDR program to the extent necessary or desirable to so comply. The Depositary may also close its books to the issuance of GDRs against new deposits of shares under such circumstances. For additional information, see “Description of the Global Depositary Receipts—Issuance of GDRs Upon Deposit of Shares.”

Approval of the Russian Federal Anti-Monopoly Service

Pursuant to Russian anti-monopoly legislation, transactions exceeding a certain amount, involving companies with a combined value of the assets or combined annual revenues under Russian accounting standards exceeding a certain threshold or companies registered as having more than a 35% share of a certain commodity market, and which would result in a shareholder (or a group of affiliated shareholders) holding more than 25% of the voting capital stock of such company, or in a transfer between such companies of assets or rights to assets, the value of which exceeds a certain amount, must be approved in advance by FAS.

Under Russian law, the Depositary may be considered the owner of the shares underlying the GDRs. Upon completion of the offering, assuming the Underwriters do not exercise the over-allotment option in full, and the Concurrent Private Offering, our GDR program will contain approximately 15.74% of our issued shares. The Depositary may be subject to the above rules in the future if additional shares are deposited into the GDR program. However, the general interpretation of FAS to our knowledge is that a depositary need not obtain the approval referred to in the preceding paragraph in connection with depositary receipt programs such as ours. If FAS rescinds or disregards this interpretation, the Depositary may have to obtain such approval in the future or sell some of the shares.

Disclosure of Ownership

Under Russian law, a holder of our ordinary shares will be required to publicly disclose an acquisition of 5% or more of the issued ordinary shares of the company, as well any change in the amount of ordinary shares held by such holder, if as a result of such change the percentage of ordinary shares held by the holder becomes greater or lesser than 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the issued ordinary shares of the company.

Exchange Controls

The Federal Law on Currency Regulation and Currency Control which came into effect on June 18, 2004, empowers the government and the Central Bank of Russia to regulate and restrict certain foreign currency operations, including certain types of payments in foreign currency, operations involving foreign securities (including GDRs) and domestic securities (including our shares), as well as certain types of settlements in rubles between residents and non-residents of Russia.

Capital Import and Export Restrictions

Pursuant to the Federal Law on Currency Regulation and Currency Control, the government and the Central Bank of Russia have the power to restrict, in particular, the following operations:

- acquisition of Russian securities by foreign investors and foreign securities by Russian investors;
- grants or receipts of loans and credits between residents and non-residents of Russia; and
- the opening by Russian residents of bank accounts outside Russia.

Restrictions that may be introduced include:

- the requirement for Russian residents to register their accounts in foreign banks with Russian tax authorities prior to the opening of such accounts (the “prior registration requirement”); and
- the requirement to perform certain of the operations listed above through special banking accounts with authorized Russian banks (the “requirement to use a special account”).

As of the date hereof, the prior registration requirement has been introduced in respect of the Russian ruble and foreign currency accounts in banks located in countries which are not members of

the Organization for Economic Cooperation and Development (OECD) and the Financial Action Task Force on Money Laundering (FATF) established by the G-7, and in respect of ruble accounts in banks located in countries which are members of OECD or FATF.

Up to \$150,000 worth of foreign securities in one calendar year may be purchased/sold by Russian individuals from/to non-residents without any exchange control restrictions. The Central Bank of Russia retains discretion (until January 1, 2007) to introduce a special account requirement in relation to operations with foreign securities by Russian individuals in excess of \$150,000.

Additionally, Russian companies must repatriate 100% of their receivables from the export of goods and services (with a limited number of exceptions concerning, in particular, certain types of secured financing) within seven days of the date on which they were received (also with a limited number of exemptions). Furthermore, certain types of cross-border operations may be performed only in rubles, including, for example, transactions with domestic securities (such as our shares) between residents and non-residents of Russia. These requirements increase balances in our ruble-denominated accounts and, consequently, our exposure to currency devaluation risk.

Pursuant to the Federal Law on Currency Regulation and Currency Control, all of the above restrictions (as well as the powers of the government and the Central Bank of Russia to introduce such restrictions) will remain effective until January 1, 2007, except for the restriction relating to the mandatory repatriation by Russian companies of 100% of their export receivables, as described above, which restriction will remain effective permanently. During the transitional period, the regulatory regime will remain generally restrictive.

Restrictions on the Remittance of Dividends, Interest or Other Payments to Non-residents

The Federal Law on Foreign Investments in the Russian Federation of July 9, 1999, specifically guarantees foreign investors the right to repatriate their earnings from Russian investments. However, the evolving Russian exchange control regime may materially affect your ability to do so.

Currently, ruble dividends on ordinary shares may be converted into US dollars without restriction. However, the ability to convert rubles into US dollars is also subject to the availability of US dollars in Russia's currency markets. Although there is an existing market within Russia for the conversion of rubles into US dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain.

Notification of Foreign Ownership

Foreign persons registered as individual entrepreneurs in Russia who acquire shares in a Russian joint stock company and foreign companies, regardless of whether they are registered with the Russian tax authorities, that acquire shares in a Russian joint stock company need to notify the Russian tax authorities within one month following such acquisition. However, the procedure of notifying the Russian tax authorities by foreign companies that are not registered with such tax authorities at the time of their share acquisitions is still unclear.

DESCRIPTION OF CERTAIN INDEBTEDNESS

Deutsche Bank AG, London Branch Term Loan Facility

General

On August 9, 2006, we entered into a term loan facility with Deutsche Bank AG, London Branch as the arranger, original lender and facility agent. The loan facility was extended for our general operational needs. The loan facility was made available to us in an aggregate amount equivalent to \$140.0 million for the term of one year. As of the date of this prospectus, we have fully utilized the loan facility.

Interest Rate and Interest Period

Funds drawn under the loan facility bear interest at the rate of 8.65%. Accrued interest is payable on the last day of each 6-month interest period.

Repayment and Prepayments

Funds borrowed under the loan facility must be repaid in full on the last day of the 12-month period following the drawdown date, which was on August 9, 2006.

The loan facility may be prepaid by us at any time without premium or penalty following a one-day prior written notice to the facility agent provided that the loan is prepaid in full (and not in part) and adjusted per the present value of the loan and interest. Amounts cancelled may not subsequently be re-borrowed.

Guarantee

Our obligations under the loan facility are guaranteed by Sistema. The facility is unsecured but we granted, subject to certain exemptions, a negative pledge on our properties and assets for the benefit of the lenders under the loan facility.

Covenants and Other Matters

The credit facility requires us to comply with certain financial covenants, including a maximum aggregate indebtedness to our group market value of assets ratio and a minimum interest cover. The loan facility also includes certain negative covenants restricting or limiting our ability to, among other things:

- dispose of any assets unless such disposal is made for consideration at least equal to the fair market value of the assets disposed of, and at least 75% of the consideration received is in the form of cash, cash equivalents or certain capital stock;
- change substantially the general nature of our business;
- merge or otherwise reorganize, save where we are the surviving entity and such reorganizations might not reasonably be expected to have a material adverse effect;
- repay or prepay any indebtedness of Sistema which is subordinated in right of payment to our loan; and
- make investments in certain Sistema subsidiaries.

Our credit facility also contains certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control and cross-defaults to other debt.

Nomura International plc Facility Agreement

General

On September 14, 2006, we entered into a facility agreement with Nomura International plc, as the arranger and facility agent, and Nomura Funding Facility Corporation Limited, as the original lender. The loan facility was extended for the purposes of the acquisition and development of real estate assets, our general corporate and working capital needs and refinancing of our existing secured debt obligations to Sistema and its subsidiaries. The loan facility was made available to us in an aggregate

amount of \$100.0 million for the term of 364 days. As of the date of this prospectus, we have fully utilized the facility.

Interest Rate and Interest Period

Funds drawn under the loan facility bear interest at the rate of 8.45%. Accrued interest is payable on the last day of each 6-month interest period.

Repayment and Prepayments

Funds borrowed under the loan facility must be repaid in full on the last day of the 12-month period following the utilization date, which was on September 14, 2006.

The loan facility may be prepaid by us at any time without premium or penalty following a five business days' prior written notice to the facility agent provided that the loan is prepaid in full (and not in part) and adjusted per the present value of the loan and interest. Amounts prepaid and cancelled may not subsequently be re-borrowed.

Guarantee

Our obligations under the loan facility are guaranteed by Sistema. The facility is unsecured but we granted, subject to certain exemptions, a negative pledge on our properties and assets for the benefit of the lenders under the facility.

Covenants and Other Matters

The facility agreement requires us to comply with certain financial covenants, including a maximum aggregate indebtedness to our group market value of assets ratio and a minimum interest cover. The facility agreement also includes certain negative covenants restricting or limiting our ability to, among other things:

- dispose of any assets unless such disposal is made for consideration at least equal to the fair market value of the assets disposed of, and at least 75% of the consideration received is in the form of cash, cash equivalents or certain capital stock;
- change substantially the general nature of our business;
- merge or otherwise reorganize, save where we are the surviving entity and such reorganizations might not reasonably be expected to have a material adverse effect;
- repay or prepay any indebtedness of Sistema which is subordinated in right of payment to our loan; and
- make investments in certain Sistema subsidiaries.

Our credit facility also contains certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control and cross-defaults to other debt.

UBS AG, London Branch Term Loan Facility

General

On October 9, 2006, we entered into a term loan facility with UBS AG, London Branch as the arranger, original lender and facility agent. The loan facility was extended to us for the purpose of acquiring assets, debt refinancing and other general corporate purposes. The loan facility was made available to us in an aggregate amount equivalent to \$100.0 million for the term of one year. As of the date of this prospectus, we have fully utilized the loan facility.

Interest Rate and Interest Period

Funds drawn under the loan facility bear interest at the rate of 8.65%. Accrued interest is payable on the last day of the 12-month interest period following the drawdown date, which was on October 11, 2006.

Repayment and Prepayments

Funds borrowed under the loan facility must be repaid in full on the last day of the 12-month period following the drawdown date.

The loan facility may be prepaid by us at any time without premium or penalty following a three-day prior written notice to the facility agent provided that the loan is prepaid in full (and not in part) and adjusted per the present value of the loan and interest and payment of breakage costs. Amounts cancelled or repaid may not subsequently be reinstated or re-borrowed.

Guarantee

Our obligations under the loan facility are guaranteed by Sistema. The facility is unsecured but we granted, subject to certain exemptions, a negative pledge on our properties and assets for the benefit of the lenders under the loan facility.

Covenants and Other Matters

The credit facility requires us to comply with certain financial covenants, including a maximum aggregate indebtedness to our group market value of assets ratio and a minimum interest cover. The loan facility also includes certain negative covenants restricting or limiting our ability to, among other things:

- dispose of any assets unless such disposal is made for consideration at least equal to the fair market value of the assets disposed of, and at least 75% of the consideration received is in the form of cash, cash equivalents or certain capital stock;
- change substantially the general nature of our business;
- merge or otherwise reorganize, save where we are the surviving entity and such reorganizations might not reasonably be expected to have a material adverse effect;
- repay or prepay any indebtedness of Sistema which is subordinated in right of payment to our loan; and
- make investments in certain Sistema subsidiaries.

Our credit facility also contains certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control and cross-defaults to other debt.

DESCRIPTION OF THE GLOBAL DEPOSITARY RECEIPTS

The Bank of New York has agreed to act as the depositary for the GDRs. The Depositary's principal offices are located at 101 Barclay Street, New York, New York 10286, United States. The Depositary was incorporated in 1871. In this summary we use the term "GDRs" to refer to the Rule 144A GDRs and to the Regulation S GDRs. GDRs are represented by certificates that are ordinarily known as "Global Depositary Receipt Certificates" or "GDR Certificates." The GDRs we are selling in the United States are referred to and will be issued as Rule 144A GDRs and the GDRs we are selling outside the United States are referred to and will be issued as the Regulation S GDRs. GDRs represent ownership interests in securities, cash or other property on deposit with the Depositary.

The Depositary has appointed ING Bank (Eurasia) as the custodian for the safekeeping of the deposited securities, or the Custodian. The Custodian's principal office is at 36 Krasnoproletarskaya Street, Moscow 127473, Russian Federation.

There are two separate deposit agreements, one for the Rule 144A GDRs, or the Rule 144A Deposit Agreement, and one for the Regulation S GDRs, or the Regulation S Deposit Agreement and together with the Rule 144A Deposit Agreement, the Deposit Agreements, each of which is governed by New York law. Copies of the Deposit Agreements are available for inspection by any holder of the GDRs at the principal offices of the Depositary during business hours. This is a summary description of the material terms of the GDRs and of your material rights as an owner of the GDRs. Please remember that summaries by their nature lack the precision of the information summarized and that the rights and obligations of an owner of GDRs will be determined by reference to the terms of the applicable Deposit Agreement and not by this summary.

Twenty GDRs represents the right to receive one share on deposit with the Custodian. Each GDR will also represent the right to receive cash or any other property received by the Depositary or the Custodian on behalf of the owner of the GDR but that has not been distributed to the owners of GDRs because of legal restrictions or practical considerations.

If you become an owner of GDRs, you will become a party to the applicable Deposit Agreement and therefore will be bound by its terms and by the terms of the GDR Certificate that represents your GDRs. The applicable Deposit Agreement specifies our rights and obligations as well as your rights and obligations as owner of GDRs and those of the Depositary. As a GDR owner you appoint the Depositary as your attorney-in-fact, with full power to delegate, to act on your behalf and to take any and all actions contemplated in the applicable Deposit Agreement, to adopt any and all procedures necessary to comply with applicable laws and to take such action as the Depositary in its sole discretion may deem necessary or appropriate to carry out the purposes of the applicable Deposit Agreement.

Presently, you may hold your GDRs only through a brokerage or safekeeping account. As such, you must rely on the procedures of your broker or bank to assert your rights as GDR owner. Please consult with your broker or bank to determine what those procedures are. When we refer to "you," we assume the reader owns GDRs and will own GDRs at the relevant time. When we refer to a "holder" we assume the person owns GDRs and such person's agent (*i.e.*, broker, custodian, bank or trust company) is the holder of the applicable GDR.

No temporary Master GDR Certificates or other temporary documents of title have been or will be issued in connection with this offering.

Registration of Placement Report

Prior to the receipt by the Depositary of written notice from us that the placement report with respect to the newly issued shares being offered by us has been registered, the GDRs shall be deemed to be issued on a provisional basis and you will not be able to withdraw the shares underlying your GDRs and will not be able to instruct the Depositary to exercise voting rights with respect to the shares that underlie your GDRs. Also, following the Closing Date, except for the shares issued by us in connection with the over-allotment option, no additional shares will be accepted for deposit and no additional GDRs in respect of such shares will be issued until the Depositary has been notified of the registration of the placement report. See "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—GDR holders will not be able to withdraw the shares underlying the GDRs prior to the registration of a placement report for the newly issued shares, and the failure to register this placement report could result in the newly issued shares underlying the GDRs being cancelled, reliance

by GDR holders on us and the Underwriters to return the offering proceeds and a small public float based solely on the shares sold by the Selling Shareholders” and “Registration of Placement Report.”

Distinctions Between Rule 144A GDRs and Regulation S GDRs

The Rule 144A GDRs and the Regulation S GDRs are similar in many ways but are different primarily on account of the requirements of the US securities laws. The Rule 144A GDRs are “restricted securities” under the US securities laws and as such are subject to limitations on their issuance, transfer and cancellation. The Regulation S GDRs are not *per se* “restricted securities” under the US securities laws, but we have imposed certain limitations on the issuance of Regulation S GDRs in an effort to prevent the transfer of Regulation S GDRs in violation of the US securities laws.

The differences between the Regulation S GDRs and the Rule 144A GDRs and the restrictions imposed on the Rule 144A GDRs and the Regulation S GDRs cover primarily the following:

- The restrictions on the transfers, deposits and withdrawals of the shares represented by the GDRs. See “—Transfer Restrictions.”
- The eligibility for book-entry transfer. See “—Settlement and Safekeeping.”
- Special restrictions on deposits and withdrawals apply to our affiliates. See “—Ownership of GDRs by Our Affiliates” below.

These distinctions and the requirements of the US securities laws may require us and the Depositary to treat the Regulation S GDRs and the Rule 144A GDRs differently at any time in the future. There can be no guarantee that holders of Rule 144A GDRs will receive the same entitlements as holders of Regulation S GDRs and vice versa.

Settlement and Safekeeping

The Depositary will make arrangements with DTC to act as securities depository for the Rule 144A GDRs. All Rule 144A GDRs issued in the offering will be registered in the name of Cede & Co. (DTC’s nominee). One Master Rule 144A GDR Certificate will represent all Rule 144A GDRs that will be issued to and registered in the name of Cede & Co. Transfers of ownership interests in Rule 144A GDRs are to be accomplished by entries made on the books of DTC and participants in DTC acting on behalf of Rule 144A GDR owners. Owners of Rule 144A GDRs will not receive certificates representing their ownership interests in the Rule 144A GDRs, except in the event that a successor securities depository cannot be appointed.

DTC may discontinue providing its services as securities depository with respect to the Rule 144A GDRs at any time by giving reasonable notice to the Depositary. Under such circumstances and in the event a successor securities depository cannot be appointed, individual Rule 144A GDR Certificates representing the applicable number of Rule 144A GDRs held by each owner of Rule 144A GDRs will be printed and delivered to the relevant Rule 144A GDR owners.

Regulation S GDRs

The Depositary will make arrangements with Euroclear and Clearstream to act as securities depositories for the Regulation S GDRs. All Regulation S GDRs issued in the offering will be registered in the name of a nominee for The Bank of New York, London Office, the common depository for Euroclear and Clearstream. One Master Regulation S GDR Certificate will represent all Regulation S GDRs issued to and registered in the name of that nominee. Euroclear and Clearstream will hold the Regulation S GDRs on behalf of their participants (any such participant of Euroclear or Clearstream, a “Participant”), and transfers will be permitted only within Euroclear and Clearstream in accordance with the rules and operating procedures of the relevant system. Transfers of ownership interests in Regulation S GDRs are to be accomplished by entries made on the books of Euroclear and Clearstream and of participants in Euroclear and Clearstream, acting in each case on behalf of Regulation S GDR owners. Owners of Regulation S GDRs will not receive certificates representing their ownership interests in the Regulation S GDRs, except in the event that use of the Euroclear and Clearstream book-entry system for the Regulation S GDRs is discontinued.

If at any time Euroclear or Clearstream, as the case may be, ceases to make its respective book-entry settlement systems available for the Regulation S GDRs, we and the Depositary will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement

arrangements cannot be made, the Depositary will make available separate Regulation S GDR Certificates.

Transfer Restrictions

The GDRs may be reoffered, resold, pledged or otherwise transferred only in compliance with the US securities laws and are subject to the following restrictions:

Restrictions upon the Transfer of GDRs

Rule 144A GDRs	Regulation S GDRs
The Rule 144A GDRs may be reoffered, resold, pledged or otherwise transferred only:	No additional restrictions.
(1) outside the United States in accordance with Regulation S;	
or	
(2) to a QIB in a transaction meeting the requirements of Rule 144A;	
or	
(3) pursuant to Rule 144 under the Securities Act, if available;	
or	
(4) pursuant to an effective registration statement under the Securities Act.	

Please also see “—Ownership of GDRs by Our Affiliates” below.

Restrictions upon Deposit of Shares

Rule 144A GDRs	Regulation S GDRs
Shares will be accepted for deposit under the Rule 144A Deposit Agreement only if delivered by, or on behalf of, a person that is:	Shares will be accepted for deposit under the Regulation S Deposit Agreement only if delivered by, or on behalf of, a person that is:
(1) not Sistema-Hals or an affiliate of Sistema-Hals or a person acting on behalf of Sistema-Hals or an affiliate of Sistema-Hals;	(1) not Sistema-Hals or an affiliate of Sistema-Hals or a person acting on behalf of Sistema-Hals or an affiliate of Sistema-Hals;
and	and
(2) a QIB or a person outside the United States that is not a US person (as defined in Regulation S).	(2) not in the business of buying or selling securities, or if such person is in the business of buying or selling securities, such person did not acquire the shares to be deposited from Sistema-Hals or an affiliate of Sistema-Hals in the initial distribution of Regulation S GDRs, shares and Rule 144A GDRs;
	and
	(3) is a person outside the United States that is not a US person (as defined in Regulation S). Shares withdrawn from deposit under the Rule 144A Deposit Agreement will not be accepted for deposit pursuant to the Regulation S Deposit Agreement unless such shares are not and may not be deemed to be “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act.

Please also see “—Ownership of GDRs by Our Affiliates” below.

Rule 144A GDRs	Regulation S GDRs
So long as the placement report has been registered with the FSFM as described under “—Registration of Placement Report,” shares may be withdrawn from the Rule 144A Deposit Agreement only by:	So long as the placement report has been registered with the FSFM as described under “—Registration of Placement Report,” shares may be withdrawn from the Regulation S Deposit Agreement by the holders of Regulation S GDRs.
(1) a person other than a US person (as defined in Regulation S) outside the United States who will be the beneficial owner of the shares upon withdrawal;	
or	
(2) a QIB who	
(a) has sold the Rule 144A GDRs to another QIB in a transaction meeting the requirements of Rule 144A, or to a person other than a US person (as defined in Regulation S) outside the United States in accordance with Regulation S,	
or	
(b) will be the beneficial owner of the shares and agrees to observe the transfer restrictions applicable to Rule 144A GDRs in respect of the shares so withdrawn.	

Please also see “—Ownership of GDRs by Our Affiliates” below.

General Restrictions

The Deposit Agreements permit us to restrict transfers of the shares where such transfer might result in ownership of shares exceeding the limits applicable to the shares under applicable law or our charter. We may also restrict transfers of the GDRs where such transfer may result in the total number of shares represented by the GDRs owned by a single holder or beneficial owner to exceed any such limits. We may, in our sole discretion, but subject to applicable law, instruct the Depositary to take action with respect to the ownership interest of any holder or beneficial owner in excess of the limits set forth in the preceding sentence, including but not limited to, the imposition of restrictions on the transfer of GDRs, the removal or limitation of voting rights or the mandatory sale or disposition on behalf of a holder or beneficial owner of the shares represented by the GDRs held by such holder or beneficial owner in excess of such limitations, if and to the extent such disposition is permitted by applicable law and our charter. The Depositary shall have no liability for actions taken in accordance with such instructions.

The registration of any transfer of GDR Certificates in particular instances may be refused, or the registration of transfers generally may be suspended, during any period when the transfer books of the Depositary, us, the registrar or the Russian share registrar are closed, or if any such action is deemed necessary or advisable by us or the Depositary, in good faith, at any time or from time to time because of any requirement of law, any government or governmental body or commission or any securities exchange on which the GDRs or shares are listed, or under any provision of the Deposit Agreements or provisions of, or governing, the shares, or any meeting of our shareholders or for any other reason.

The Depositary may close the transfer books with respect to GDR Certificates, at any time or from time to time, when deemed necessary or advisable by it in good faith in connection with the performance of its duties hereunder, or at our reasonable request.

Dividends and Distributions

As a holder, you generally have the right to receive the distributions we make on the securities deposited with the Custodian. Your receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders will receive such distributions under the terms of the

Deposit Agreements in proportion to the number of GDRs held as of a specified GDR record date, which the Depositary will use reasonable efforts to establish as close as possible to the record date set by us for the shares.

Distributions of Cash

Whenever we make a cash distribution in respect of securities on deposit with the Custodian, we will deposit the funds with the Custodian. Upon receipt of confirmation from the Custodian of the deposit of the requisite funds, the Depositary will arrange for the funds to be converted into US dollars and for the distribution of the US dollars to the holders, if in the reasonable judgment of the Depositary it is practicable and lawful. See “—Foreign Currency Conversion” below for actions the Depositary is entitled to take if conversion, transfer and distribution cannot be so made by the Depositary.

The amounts distributed to holders will be net of the fees, charges, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. The Depositary will apply the same method for distributing the proceeds of the sale of any property (such as undistributed rights) held by the Custodian in respect of the securities on deposit.

Distributions of Shares

Whenever we make a free distribution of shares in respect of the shares on deposit with the Custodian, we will deposit the applicable number of shares with the Custodian. Upon receipt of confirmation of such deposit from the Custodian, the Depositary will either distribute to holders additional GDRs representing the shares deposited or modify, to the extent permissible by law, the GDR-to-shares ratio, in which case each GDR you hold will represent rights and interests in the additional shares so deposited. Only whole new GDRs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new GDRs or the modification of the GDR-to-shares ratio upon a distribution of shares will be made net of the fees, charges, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. In order to pay such taxes or governmental charges, the Depositary may sell all or a portion of the new shares so distributed.

No such distribution of new GDRs will be made if it would violate applicable laws (e.g., the US securities laws). If the Depositary does not distribute new GDRs as described above, it may sell the shares received and will distribute the proceeds of the sale as in the case of a distribution of cash. The Depositary will hold and/or distribute any unsold balance of such property in accordance with the provisions of the applicable Deposit Agreement.

Distribution of Rights

Whenever we intend to distribute rights to purchase additional shares, we will give timely prior notice to the Depositary and state whether or not we wish such rights to be made available to you. If we wish such rights to be made available to you, we will assist the Depositary in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional GDRs to holders.

The Depositary will establish procedures to distribute rights to purchase additional GDRs to holders and to enable such holders to exercise such rights only if (1) the Depositary has received our request to make such distribution in a timely manner, (2) we have provided all of the documentation contemplated in the Deposit Agreements (such as legal opinions addressing the lawfulness of the transaction), (3) the Depositary has determined that it is lawful and reasonably practicable to make the rights available to holders of GDRs, and (4) we and the Depositary have entered into a separate agreement setting forth the conditions and procedures applicable to the rights offering. You will have to pay fees, charges, expenses, and any taxes and other governmental charges to subscribe for the new GDRs upon the exercise of your rights. The Depositary is not obligated to establish procedures to facilitate the distribution and exercise by holders of rights to purchase new shares other than in the form of GDRs.

If (1) we do not request that the rights be distributed to you in a timely manner or we request that the rights not be distributed to you, (2) we fail to deliver satisfactory documentation to the Depositary, or (3) any rights made available are not exercised and appear to be about to lapse, the Depositary will determine whether it is lawful and reasonably practicable to sell the rights, in a riskless principal

capacity, at such place and upon terms (including public and private sale) as it may deem practicable. The proceeds of such sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell the rights, it will allow the rights to lapse.

The Depositary shall not be responsible for (1) any failure to determine whether it may be lawful or practicable to make such rights available to holders in general or to you in particular, (2) any foreign exchange exposure or loss incurred in connection with any sale or exercise or (3) the content of any materials forwarded to the holders on behalf of the Company in connection with the rights distribution. There can be no assurance that holders in general or you in particular will be given the opportunity to exercise rights on the same terms and conditions as the holders of shares or to exercise such rights.

Elective Distributions

Whenever we intend to distribute a dividend payable at the election of shareholders either in cash or in additional shares, we will give timely prior notice thereof to the Depositary and will indicate whether we wish the elective distribution to be made available to you. In such case, we will assist the Depositary in determining whether such distribution is lawful and reasonably practicable.

The Depositary will make the election available to you only if it has received timely prior notice from us, if it is reasonably practicable and if we have provided all of the documentation contemplated in the applicable Deposit Agreement (such as legal opinions addressing the lawfulness of the transaction). In such case, the Depositary will establish procedures to enable you to elect to receive either cash or additional GDRs, in each case as described in the Deposit Agreements.

If the election is not made available to you, you will, to the extent permitted by law, receive either cash or additional GDRs, depending on what a shareholder in Russia would receive upon failing to make an election, as more fully described in the corresponding Deposit Agreement.

The Depositary is not obligated to make available to holders a method to receive the elective dividend in the shares rather than in the form of GDRs. There can be no assurance that holders of GDRs or beneficial interests therein generally, or you in particular, will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of the shares.

Other Distributions

Whenever we intend to distribute property other than cash, shares or rights to purchase additional shares, we will timely notify the Depositary in advance and will indicate whether we wish such distribution to be made to you. If so, we will assist the Depositary in determining whether such distribution to holders is lawful and reasonably practicable.

If the Depositary has received timely prior notice from us, it is reasonably practicable to distribute such property to you and if we have provided all of the documentation contemplated in the Deposit Agreements (such as legal opinions addressing the lawfulness of the transaction), the Depositary will distribute the property to the holders in a manner it deems practicable.

The distribution will be made net of fees, charges, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. In order to pay such taxes and governmental charges, the Depositary may sell all or a portion of the property received.

If (1) we do not request that the property be distributed to you or we ask that the property not be distributed to you, (2) we fail to deliver satisfactory documentation to the Depositary, or (3) the Depositary determines that all or a portion of the distribution to you is not lawful or reasonably practicable, the Depositary will sell such property in a public or private sale, at such place and upon terms as it may deem practicable.

The proceeds of any such sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell such property, the Depositary may dispose of such property in any way it deems reasonably practicable under the circumstances.

Redemption

Whenever we decide to redeem any of the securities on deposit with the Custodian, we will give timely prior notice to the Depositary. If the Depositary has received timely prior notice from us,

determined that such redemption is practicable and received from us all of the documentation contemplated in the Deposit Agreements (such as legal opinions addressing the lawfulness of the transaction), the Depositary will mail notice of the redemption to the holders.

The Depositary will instruct the Custodian to surrender the shares being redeemed against payment of the applicable redemption price. The Depositary will convert the redemption funds received into US dollars upon the terms of the Deposit Agreements and will establish procedures to enable holders to receive the net proceeds from the redemption upon surrender of their GDRs to the Depositary. See “—Foreign Currency Conversion” below for actions the Depositary is entitled to take if conversion, transfer and distribution of funds by the Depositary is not practicable or lawful. You will have to pay fees and charges of, and the expenses incurred by, the Depositary, and any taxes and other governmental charges upon the redemption of your GDRs. If less than all GDRs are being redeemed, the GDRs to be redeemed will be selected by lot or on a *pro rata* basis, as the Depositary may determine.

Changes Affecting Shares

The shares held on deposit for your GDRs are subject to change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of such shares or a recapitalization, reorganization, merger, consolidation or sale of assets affecting us.

If any such change were to occur, any securities which shall be received by the Depositary or the Custodian in exchange for, or in conversion, replacement or otherwise in respect of, such shares shall, to the extent permitted by law, be treated as new shares under the Deposit Agreements, and the GDR Certificates shall, subject to the terms of the Deposit Agreements and applicable law, evidence the GDRs representing the right to receive such replacement securities. The Depositary in such circumstances may with our approval, and shall if we so request and provide to the Depositary at our expense a reasonably satisfactory opinion of counsel that such action is not in violation of applicable laws or regulations, execute and deliver additional GDR Certificates to you or make appropriate adjustments in its records, or call for the exchange of your existing GDRs for new GDRs. If the Depositary may not lawfully distribute such securities to you, the Depositary may with our approval sell such securities and distribute the net proceeds to you as in the case of a cash distribution, and shall do so if we so request and provide to the Depositary at our expense a reasonably satisfactory opinion of counsel that such action is not in violation of applicable laws or regulations. You will have to pay fees and charges of, and the expenses incurred by, the Depositary, and any taxes and other governmental charges upon the sale of such securities.

The Depositary shall not be responsible for (1) any failure to determine that it is lawful or practicable to make such securities available to holders of GDRs in general or to you in particular, (2) any foreign exchange exposure or loss incurred in connection with such sale or (3) any liability to the purchaser of such securities.

Issuance of GDRs Upon Deposit of Shares

Subject to limitations set forth in the Deposit Agreements and the GDRs, the Depositary may create GDRs on your behalf if you or your broker deposit shares with the Custodian. The Depositary will deliver these GDRs to the person you indicate only after you pay any applicable issuance fees and any charges and taxes payable for the transfer of the shares to the Custodian and you provide the applicable deposit certification. Your ability to deposit shares and receive GDRs may be limited by US and Russian legal considerations applicable at the time of deposit. You may also not be able to deposit shares and receive GDRs where to do so would require us to produce a further prospectus or a supplemental prospectus. See “Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—The GDR program is limited to 25% of our shares.”

The Depositary may also close its books to the deposit of shares if at any time the aggregate number of GDRs in issue would, if additional GDRs were to be issued against the deposit of additional shares, exceed the number of GDRs for which a listing and admission to trading has been obtained, and may keep its books closed to the deposit of shares unless and until we shall have produced a prospectus in accordance with the Prospectus Rules under the UK Financial Services & Markets Act 2000, as amended, and obtained a block listing on the Official List of the FSA and admission to trading on the Regulated Market of the London Stock Exchange of such number of additional GDRs as the Depositary may, in its reasonable discretion, request after consultation with us.

The Depositary will also refuse to accept certain shares for deposit under the Rule 144A Deposit Agreement if notified in writing that the shares are listed on a US securities exchange or quoted on a US automated inter-dealer quotation system, unless (1) the person making such deposit shall certify that neither the shares nor the other deposited securities were, when issued, of the same class (within the meaning of Rule 144A), as the securities so listed or quoted and (2) such shares are accompanied by evidence satisfactory to the Depositary that such shares are eligible for resale pursuant to Rule 144A.

The Depositary shall also, upon instruction from us, limit at any time the number of shares accepted for deposit under the terms of the Deposit Agreements so as to enable us to comply with any ownership restrictions referred to in the Deposit Agreements or under applicable laws or our charter.

The issuance of GDRs may be delayed until the Depositary or the Custodian receives confirmation that all required approvals have been given and that the shares have been duly transferred to the Custodian. The Depositary will only deliver GDRs in whole numbers.

When you make a deposit of shares, you will be responsible for transferring good and valid title to the Depositary, as evidenced by documents satisfactory to the Depositary or the Custodian. As such, you will be deemed to represent and warrant that:

- the shares are duly authorized, validly issued, fully paid, non-assessable and legally obtained;
- all pre-emptive (and similar) rights, if any, with respect to such shares have been validly waived or exercised;
- you are duly authorized to deposit the shares;
- the shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim;
- in the case of a deposit of shares under the Regulation S Deposit Agreement, the shares are not, and the Regulation S GDRs issuable upon such deposit will not be, “Restricted Securities” (as defined in the Regulation S Deposit Agreement), except in the case of deposits of a kind described in “—Ownership of GDRs by Our Affiliates” below;
- the shares presented for deposit have not been stripped of any rights or entitlements;
- the shares are not subject to any unfulfilled requirements of Russian law;
- except as provided in the Deposit Agreements and summarized under “—Ownership of GDRs by Our Affiliates” below, you are not, and you shall not become while holding GDRs, one of our affiliates; and
- the deposit of the shares complies with the restrictions in transfer set forth in the legend on the GDRs.

If any of the representations or warranties are incorrect in any way, we and the Depositary may, at your cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

When you deposit shares to receive Rule 144A GDRs, you will be required to provide the Depositary with a deposit certification stating, *inter alia*, that:

- you acknowledge that the shares and the Rule 144A GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States;
- you are not an affiliate of Sistema-Hals and you are not acting on behalf of Sistema-Hals or one of its affiliates;
- you are (1) a QIB or (2) a person (other than a US person, as defined in Regulation S) outside the United States and acquired or have agreed to acquire and will acquire the shares to be deposited outside the United States; and

- you agree, as the owner of the Rule 144A GDRs, to offer, sell, pledge and otherwise transfer the Rule 144A GDRs or the shares represented by the Rule 144A GDRs in accordance with the applicable US state securities laws and only:
 - to a QIB in a transaction meeting the requirements of Rule 144A; or
 - outside the United States to a person (other than a US person, as defined in Regulation S) outside the United States in accordance with Regulation S; or
 - in accordance with Rule 144 under the Securities Act, if available; or
 - pursuant to an effective registration statement under the Securities Act.

A copy of the form of deposit certification for Rule 144A GDRs is attached to the Rule 144A Deposit Agreement and may be obtained from the Depositary upon request.

When you deposit shares to receive Regulation S GDRs, you will be required to provide the Depositary with a deposit certification stating, *inter alia*, that:

- you acknowledge that the shares and the Regulation S GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States;
- you are not an affiliate of Sistema-Hals and you are not acting on behalf of Sistema-Hals or one of its affiliates;
- you are, or at the time the shares are deposited you will be, the beneficial owner of the shares and GDRs to be issued upon deposit of such shares;
- you are a person (other than a US person, as defined in Regulation S) outside the United States and acquired or have agreed to acquire and will acquire the shares to be deposited outside the United States; and
- you are not in the business of buying and selling securities or, if you are in such business, you did not acquire the shares presented for deposit from us or any of our affiliates.

A copy of the form of deposit certification for Regulation S GDRs is attached to the Regulation S Deposit Agreement and may be obtained from the Depositary upon request.

For information concerning deposit certifications to be made by our affiliates, see “—Ownership of GDRs by Our Affiliates” below.

Withdrawal of Shares Upon Cancellation of GDRs

The GDRs representing shares offered and sold pursuant to the terms of this prospectus have been issued on a provisional basis until we notify the Depositary in writing that the FSFM has registered the placement report in respect of the newly issued shares we are offering in the form of GDRs. Until such time, the GDRs representing such shares will not be eligible for cancellation and withdrawal of underlying shares will not be permitted and the Depositary will refuse to honor any GDR cancellation requests. See “—Registration of Placement Report.”

Subject always to the withdrawal of deposited property being permitted under applicable laws and the terms of the applicable Deposit Agreement, as a holder you will be entitled to present your GDRs to the Depositary for cancellation and then receive the corresponding number of underlying shares at the Custodian’s offices. Your ability to withdraw the shares may be limited by US and Russian law considerations applicable at the time of withdrawal.

Only a number of GDRs representing an integral number of shares may be surrendered for the purpose of withdrawal. If a GDR Certificate is surrendered for the purpose of withdrawal that evidences a number of GDRs that does not represent an integral number of shares, the Depositary shall accept the surrender of the largest such number of GDRs that represents an integral number of shares and shall execute and deliver to the holder a new GDR Certificate evidencing GDRs representing the remaining fraction of a share.

In order to withdraw the shares represented by your GDRs, you will be required to pay to the Depositary the fees for cancellation of GDRs and any charges and taxes payable upon the transfer of the shares being withdrawn and you will be required to provide to the Depositary the applicable

withdrawal certification. You assume the risk for delivery of all funds and securities upon withdrawal. Once cancelled, the GDRs will not have any rights under the corresponding Deposit Agreement.

If you hold a GDR registered in your name, the Depositary may ask you to provide proof of identity and genuineness of any signature and such other documents as the Depositary may deem appropriate before it will cancel your GDRs. The withdrawal of the shares represented by your GDRs may be delayed until the Depositary receives satisfactory evidence of compliance with all applicable laws and regulations. Please keep in mind that if GDRs representing fractional securities are presented for cancellation, the Depositary shall be entitled to sell such fractional securities and remit the proceeds of such sale to you net of fees, expenses, charges and taxes.

When you request the withdrawal of the shares represented by your Rule 144A GDRs, you will be required to represent and warrant that the withdrawal of the shares complies with the restrictions on transfer set forth in the legend on the GDRs and provide the Depositary with a withdrawal certification stating, *inter alia*, that:

- (A) you acknowledge that the shares represented by your Rule 144A GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and
- (B) you certify that:
 - (1) you are a QIB, acting for your own account or for the account of one or more other QIBs, who is the beneficial owner of the Rule 144A GDRs presented for cancellation; and either:
 - you have sold or agreed to sell the shares to a person (other than a US person, as defined in Regulation S) outside the United States in accordance with Regulation S;
 - you have sold or agreed to sell the shares to a QIB in a transaction meeting the requirements of Rule 144A; or
 - you will be the beneficial owner of the shares upon withdrawal and:
 - you (or the person on whose behalf you are acting) will sell the shares only to another QIB in a transaction meeting the requirements of Rule 144A; to a person (other than a US person, as defined in Regulation S) outside the United States in accordance with Regulation S; in accordance with Rule 144, if available; or pursuant to an effective registration statement under the US Securities Act; and
 - you will not deposit the shares in any depositary receipts facility that is not a “restricted” depositary receipts facility; or
 - (2) you are a person (other than a US person, as defined in Regulation S) located outside the United States and acquired or agreed to acquire the shares outside the United States and will be the beneficial owner of the shares upon withdrawal.

Holders of Regulation S GDRs are not required to provide the Depositary with a withdrawal certification under the Regulation S Deposit Agreement, except in the case of sale of Regulation S GDRs by one of our affiliates. See “—Ownership of GDRs by Our Affiliates” below.

Proofs, Certificates and Other Information

You may be required (1) to provide to the Depositary and the Custodian proof of citizenship or residence, taxpayer status, payment of all applicable taxes or other governmental charges, exchange control approvals, legal or beneficial ownership of GDRs, compliance with all applicable laws and the terms of the Deposit Agreements and (2) to execute certifications and to make representations and warranties and to provide such other information and documentation as the Depositary or the Custodian may deem necessary or proper or as we may reasonably require by written request to the Depositary consistent with its obligations under the Deposit Agreements. The Depositary and the Registrar (as defined in the Deposit Agreements) may withhold the execution or delivery or registration of transfer or cancellation of any GDR Certificate, or the distribution or sale of any dividend or distribution of rights, until such proof or other information is filed or such certifications are executed, or such representations are made, or such other documentation or information is provided, in each case, to the Depositary’s, the Registrar’s and our reasonable satisfaction.

Ownership of GDRs by Our Affiliates

We permit our affiliates to deposit shares against the issuance of Rule 144A GDRs, so long as they satisfy the requirements, including delivery of the requisite certifications to the Depositary, as required by the Rule 144A Deposit Agreement. We also permit our affiliates to exchange their Rule 144A GDRs for Regulation S GDRs solely to allow them to sell their GDRs in transactions meeting the requirements of Regulation S, so long as each exchanging affiliate delivers the requisite certifications to the Depositary and otherwise satisfies the requirements of the Deposit Agreements. We do not otherwise permit our affiliates to deposit shares against the issuance of Regulation S GDRs unless they certify to the Depositary that they have sold or irrevocably agreed to sell the Regulation S GDRs to be issued in respect of the shares so deposited in a transaction meeting the requirements of Regulation S, and deliver the other requisite certifications to the Depositary.

The requirements for such deposits and exchanges of GDRs by our affiliates are more fully described in the Deposit Agreements.

Voting Rights

As a holder, you generally have the right under the Deposit Agreements to instruct the Depositary to exercise the voting rights for the shares represented by your GDRs other than when such GDRs shall be deemed to be issued on a provisional basis. See “—Registration of Placement Report.” The voting rights of holders of shares are described in “Description of Share Capital and Certain Requirements of Russian Legislation.”

Upon our timely written request, and provided no US, English or Russian legal prohibitions (including, without limitation, the listing rules and the prospectus rules of the FSA, the admission and disclosure standards of the London Stock Exchange and the rules of Russian stock exchanges on which the shares are listed) exist, the Depositary will distribute to you any notice of shareholders’ meetings or solicitation of consents or proxies from holders of shares received from us together with information explaining how to instruct the Depositary to exercise the voting rights of the shares represented by the GDRs.

If the Depositary timely receives voting instructions from a holder of GDRs in the manner specified by the Depositary, it will endeavor, insofar as practicable and permitted under applicable law, the provisions of the applicable Deposit Agreement, our charter and the terms of our shares, to vote or cause the Custodian to vote the shares represented by the holder’s GDRs in accordance with such voting instructions. Russian securities regulations expressly permit a Depositary to split the vote of shares registered in its name in accordance with the instructions from GDR holders. However, because the Depositary does not have express statutory authority to split the vote with respect to the shares in accordance with instructions from GDR holders, and given the untested nature of such securities regulations, the Depositary may refrain from voting at all unless all GDR holders have instructed it to vote the shares in the same manner. Consequently, you may have significant difficulty in exercising voting rights with respect to the underlying shares. See “Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—Voting rights with respect to the shares represented by the GDRs are limited by the terms of the Deposit Agreements for the GDRs and relevant requirements of Russian law.”

Neither the Depositary nor the Custodian will, under any circumstances, exercise any discretion as to voting, vote any number of shares other than an integral number thereof or vote shares in a manner that would be inconsistent with any applicable law, and neither the Depositary nor the Custodian will vote, or attempt to exercise the right to vote, the shares except pursuant to and in accordance with instructions from holders of the GDRs. If the Depositary timely receives voting instructions from a holder of GDRs which fail to specify the manner in which the Depositary is to vote the shares represented by such holder’s GDRs, the Depositary will deem the holder to have instructed the Depositary not to vote the shares with respect to the items for which no instruction was given. The shares represented by GDRs for which no specific voting instructions are received by the Depositary from the GDR holder will not be voted.

The Deposit Agreements do not allow for the voting of fractional entitlements. Thus, you will need 20 GDRs to be entitled to one vote. If you hold shares, you are generally entitled to one vote per share at a shareholders’ meeting. See “Description of Share Capital and Certain Requirements of Russian Legislation—General Meetings of Shareholders.”

Notwithstanding anything else contained in the Deposit Agreements, the Depositary shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of the shares if the taking of such action would violate US, English or Russian legal prohibitions (including, without limitation, the listing rules and the prospectus rules of the FSA, the admission and disclosure standards of the London Stock Exchange and the rules of Russian stock exchanges on which the shares are listed). We have agreed in the Deposit Agreements that we shall not establish internal procedures that would prevent the Depositary from complying with, or that are inconsistent with, the terms and conditions of the sections of the Deposit Agreements which deal with voting.

The ability of the Depositary to carry out voting instructions may be limited by practical, legal and regulatory limitations and the terms of the securities on deposit. We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the Depositary in a timely manner. Securities for which no voting instructions have been received from GDR holders will not be voted. See “Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—Voting rights with respect to the shares represented by the GDRs are limited by the terms of the Deposit Agreements for the GDRs and relevant requirements of Russian law.”

Depositary’s Right to Reduce Holdings of Deposited Securities

If (1) the Depositary receives notice that the existence or operation of the GDR facility or the Depositary’s holdings of the deposited shares violates any Russian law or regulation or that the Depositary or the Custodian is required to make any filing or obtain any consent, approval or license to operate that facility or to own or exercise any rights with respect to the deposited shares or (2) the Depositary receives advice that it reasonably could be subject to criminal or civil liabilities as a result of the existence or operation of the GDR facility or the holding by it or the exercise by it of any rights with respect to the deposited shares, then the Depositary may sell some or all of the deposited shares and convert a portion of GDR holdings pro-rata into a right only to receive the net proceeds of that sale. Holders of GDRs so converted would be entitled to receive those net proceeds upon surrender by them of the converted GDRs.

Fees and Charges

The following charges shall be incurred by any party depositing or withdrawing shares or by any party surrendering GDRs or to whom GDRs are issued or by holders, as applicable:

- (1) taxes and other governmental charges,
- (2) such registration fees as may from time to time be in effect for the registration of transfers of shares generally on the share register maintained by the local registrar and applicable to transfers of shares to the name of the Depositary or its nominee or the Custodian or its nominee on the making of deposits or withdrawals under the Deposit Agreements,
- (3) such cable, telex and facsimile transmission expenses as are expressly provided in the Deposit Agreements,
- (4) such expenses as are incurred by the Depositary in the conversion of foreign currency pursuant to the Deposit Agreements,
- (5) a fee of \$5.00 or less per 100 GDRs (or portion thereof) for the execution and delivery of GDRs pursuant to the Deposit Agreements and the surrender of GDRs pursuant to the Deposit Agreements,
- (6) a fee of \$0.02 or less per GDR (or portion thereof) for any cash distribution made pursuant to the Deposit Agreements,
- (7) a fee for the distribution of securities pursuant to the Deposit Agreements, such fee being in an amount equal to the fee for the execution and delivery of GDRs referred to above which would have been charged as a result of the deposit of such securities (for purposes of this clause (7) treating all such securities as if they were shares) but which securities are instead distributed by the Depositary to holders,
- (8) to the extent that any fees charged under clause (6) have not exceeded \$0.02 per GDR in a calendar year, a fee of \$0.02 or less per GDR (or portion thereof) for depositary services, which

will accrue on the last day of each calendar year and will be payable as provided in clause (10) below,

- (9) a fee of \$0.01 or less per GDR (or portion thereof) per year to cover such expenses as are incurred for inspections by the Depositary, the Custodian or their respective agents of the share register maintained by the local registrar, which will be payable as provided in clause (10) below, and
- (10) any other charges payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents in connection with the servicing of shares or other deposited securities (which charge shall be assessed against holders as of the date or dates set by the Depositary in accordance with the Deposit Agreements and shall be collected at the sole discretion of the Depositary by billing such holders for such charge or by deducting such charge from one or more cash dividends or other cash distributions).

We have agreed to pay certain other charges and expenses of the Depositary. Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the Depositary. You will receive prior notice of such changes.

Amendments and Termination

We may agree with the Depositary to modify the Deposit Agreements at any time without your prior consent. We undertake to give holders 30 days' prior notice of any modifications that would materially prejudice any of their substantial rights under the Deposit Agreements or that shall impose or increase fees or charges (other than charges in connection with foreign exchange control regulations and taxes and other governmental charges, delivery expenses and other such expenses). We will not consider being materially prejudicial to your substantial rights, among other things, any amendments or supplements that are reasonably necessary for the GDRs to be settled solely in book-entry form, in each case without imposing or increasing the fees and charges you are required to pay. In addition, we may not be able to provide you with prior notice of any amendments or supplements that are required to accommodate compliance with applicable provisions of law.

You will be bound by the modifications to the Deposit Agreements if you continue to hold your GDRs after the modifications to the applicable Deposit Agreements become effective.

The Deposit Agreements cannot be amended to prevent you from withdrawing the shares represented by your GDRs. Notwithstanding any such restriction on amendments or supplements to the Deposit Agreements, we and the Depositary may at any time amend or supplement the Deposit Agreements or the GDR Certificates in order to comply with mandatory provisions of applicable laws, rules or regulations, and such amendments or supplements may become effective before notice thereof is given to holders or within any other period required to comply with such laws, rules or regulations.

We have the right to direct the Depositary to terminate the Deposit Agreements. Similarly, the Depositary may in certain circumstances on its own initiative terminate the Deposit Agreements. In addition, the Depositary may resign, with such resignation to take effect upon the earlier of 90 days notice or the acceptance of appointment by a successor depositary, or we may remove the Depositary, with such removal to take effect upon the later of 90 days notice or the acceptance of appointment by a successor depositary, and if in either such case no successor depositary shall have accepted appointment by us, then the Depositary may terminate the Deposit Agreements. In either case, the Depositary must give notice to the holders of the GDRs at least 30 days before termination.

Upon termination, the following will occur under the Deposit Agreements:

- for a period of six months after termination, you will be able to request the cancellation of your GDRs and the withdrawal of the shares represented by your GDRs and the delivery of all other property held by the Depositary in respect of those shares on the same terms as prior to the termination, including the payment of any applicable taxes or governmental charges. During such six months' period the Depositary will continue to collect all distributions received on the shares on deposit (*i.e.*, dividends) but will not distribute any such property to you until you request the cancellation of your GDRs.
- after the expiration of such six-month period, the Depositary may sell the securities held on deposit. The Depositary will hold uninvested, the net proceeds from such sale and any other funds then held for the pro rata benefit of the holders of GDRs in an unsegregated, non-interest

bearing account, without liability for interest. At that point, the Depositary will have no further obligations to holders other than to account for the funds then held for the pro rata benefit of the holders of GDRs still outstanding, net of fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements.

Books of Depositary

The Depositary will maintain GDR holder records at its principal office in New York. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the GDRs and the Deposit Agreements.

The Depositary will maintain facilities in New York to record and process the issuance, cancellation, combination, split-up and transfer of GDRs. These facilities may be closed from time to time, to the extent not prohibited by law.

Transmission of Notices to Shareholders

We will promptly transmit to the Depositary those communications that we make generally available to our shareholders. If those communications were not originally in English, we will translate them. Upon our request and at our expense, the Depositary will arrange for the mailing of copies of such communications to all GDR holders and will make a copy of such communications available for inspection at its principal offices in New York.

Limitations on Obligations and Liabilities

The Deposit Agreements limit our obligations and the Depositary's obligations to you. Please note the following:

- We and the Depositary are obligated only to take the actions specifically stated in the Deposit Agreements without negligence or bad faith.
- Neither we nor the Depositary, nor any of our or their respective controlling persons or agents, shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any shares or in respect of the GDR Certificates, which in our or their respective opinion may involve us or them (as the case may be) in expense or liability, unless an indemnity satisfactory to us or them (as the case may be) against all expense (including fees and disbursements of counsel) and liability be furnished as often as may be required (and no Custodian shall be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depositary).
- The Depositary and its agents disclaim any liability for any failure to carry out any voting instructions to vote any deposited securities, for any manner in which a vote is cast or for the effect of any vote, provided it acts without negligence and in good faith and in accordance with the terms of the Deposit Agreements.
- The Depositary disclaims any liability for any failure to determine the lawfulness or practicality of any action, for the content of any information submitted by us to it for distribution to you or for the accuracy of any translation thereof for any investment risks associated with acquiring an interest in the deposited securities, for the validity or worth of the deposited securities, for any tax consequences that result from the ownership of the deposited securities or the GDRs, for the credit-worthiness of any third party, for allowing any rights to lapse under the terms of the Deposit Agreements or for the failure or timeliness of any of our notices.
- The Depositary and the Custodian disclaim any liability with respect to Russia's system of share registration and custody, including any liability in respect of the unavailability of the deposited securities (or any distribution in respect thereof).
- The Depositary disclaims any liability for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with any matter arising wholly after the removal or resignation of the Depositary, provided that in connection with the issue out of which such potential liability arises the Depositary performed its obligations while it acted as Depositary without negligence or bad faith.

- We, the Depositary and our or the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing will not be obligated to do or perform any act that is inconsistent with the provisions of the Deposit Agreements.
- We, the Depositary and our and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing disclaim any liability if we or the Depositary are prevented or forbidden from or delayed in doing or performing any act or thing required by the terms of the Deposit Agreements by reason of any provision of any present or future law or regulation of any applicable jurisdiction, or of any other governmental authority or regulatory authority or stock exchange, or on account of the possible criminal or civil penalties or restraint, or any present or future provision of our charter, any provision of or governing any deposited securities or by reason of any act of God or war or other circumstances beyond our control (including, without limitation, nationalization, expropriation, currency restrictions, work stoppage, strikes, civil unrest, acts of terrorism, revolutions, rebellions, explosions and computer failure).
- We, the Depositary and our and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreements or in our charter or in any provisions of or governing the deposited securities.
- We, the Depositary and our and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing further disclaim any liability for any action or inaction in reliance in good faith on the advice or information received from legal counsel, accountants, any person presenting shares for deposit, any holder of GDRs, any beneficial owner or authorized representative thereof or any other person believed in good faith to be competent to give such advice or information.
- We, the Depositary and our and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing also disclaim liability for the inability by a holder or any beneficial owner to benefit from any distribution, offering, right or other benefit which is made available to holders of shares but is not, under the terms of the Deposit Agreements, made available to holders of the GDRs.
- We, the Depositary and our respective controlling persons and agents and the Custodian may rely and shall be protected in acting upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.
- We, the Depositary and our and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing also disclaim any liability for indirect, special, consequential or punitive damages for any breach of the terms of the applicable Deposit Agreement.
- The Depositary disclaims liability for any actions taken in accordance with our instructions to take action with respect to the ownership interest of any holder or beneficial owner in excess of the limits applicable to the shares under applicable law or our charter.

Indemnification

In the Deposit Agreements, we agree to indemnify the Depositary for acting as Depositary, except for any loss caused by the negligence or bad faith of the Depositary, and the Depositary Agrees to indemnify us for losses caused by its negligence or bad faith.

Pre-Release Transactions

The Depositary may, in certain circumstances, deliver GDRs before receiving a deposit of shares. These transactions are ordinarily referred to as "pre-release transactions." The Deposit Agreements limit the aggregate size of pre-release transactions and imposes a number of conditions on such transactions (*i.e.*, the need to receive collateral, the type of collateral required, the representations required from brokers, etc.). The Depositary may retain the compensation received from the pre-release transactions.

Taxes

You will be responsible for the taxes and other governmental charges payable on the GDRs and the securities represented by the GDRs. We, the Depositary and the Custodian may withhold or deduct from any distribution the taxes and governmental charges payable by holders and may sell any and all shares on deposit to pay the taxes and governmental charges payable by holders. You will be liable for any deficiency if the sale proceeds do not cover the taxes that are due. The Depositary may refuse to issue GDRs, to deliver, transfer, split and combine GDRs or to release securities on deposit until all taxes and charges are paid by the applicable holder.

Neither we nor the Depositary or the Custodian are obligated to take any actions to obtain tax refunds or reduced tax withholding for any distributions on your behalf. However, you may be required to provide to the Depositary and to the Custodian proof of taxpayer status and residence and such other information as the Depositary and the Custodian may require to fulfill legal obligations.

The Depositary is under no obligation to provide you with any information about our tax status. The Depositary shall not incur any liability for any tax consequences that may be incurred by you on account of your ownership of the GDRs, including without limitation by virtue of our tax status.

By purchasing GDRs, you agree to indemnify the Depositary, us, the Custodian and any of their or our agents, officers, employees and affiliates for, and to hold each of them and us harmless from, any claims with respect to taxes (including applicable interest and penalties thereon) arising from any tax benefit obtained for you as a GDR holder.

Disclosure of Interests

By purchasing GDRs, you agree to comply with requests from us or the Depositary pursuant to Russian law, the rules and requirements of any stock exchange on which the shares are, or may be, registered, traded or listed, or our charter, which are made to provide information, *inter alia*, as to the capacity in which you hold or own a beneficial interest in the GDRs (and the shares, as the case may be) and regarding the identity of any other person interested in such GDRs, the nature of such interest and various related matters, whether or not you are a holder or owner of a beneficial interest in the GDRs at the time of such request.

Foreign Currency Conversion

The Depositary will arrange for the conversion into US dollars of all foreign currency received if such conversion is in the reasonable judgment of the Depositary practicable, and it will distribute the US dollars in accordance with the terms of the Deposit Agreements. You will have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

The Depositary may, but is not obliged to, make any filing with any governmental authority required to obtain an approval or license necessary for any conversion of any foreign currency into or distribution of US dollar funds. If the conversion of foreign currency is not practicable or lawful, or if any required approvals are denied or, in the reasonable judgment of the Depositary, not obtainable at a reasonable cost or within a reasonable period, the Depositary may take the following actions in its discretion:

- Convert the foreign currency to the extent practicable and lawful and distribute the US dollars to the holders for whom the conversion and distribution is lawful and practicable.
- Distribute the foreign currency to holders for whom the distribution is lawful and practicable.
- Hold the foreign currency (without liability for interest) for the applicable holders.

The Depositary will not invest the currency it cannot convert and it will not be liable for any interest thereon. If exchange rates fluctuate during a time when the Depositary cannot convert the rubles, you may lose some or all of the value of the distribution.

Governing Law and Arbitration of Disputes

Although New York law has been chosen to govern the construction and interpretation of the Deposit Agreements and the GDRs, the rights of holders of the shares and other deposited securities

and our obligations and duties in respect of such holders shall be governed by the laws of Russia (or such other jurisdiction's laws as may govern the deposited securities).

Under the terms of the Deposit Agreements owners of GDRs agree that any controversy, claim or cause of action or other dispute against us and/or the Depositary arising out of or relating to the GDRs, the Deposit Agreements, the shares or other deposited securities will be referred to and fully settled by arbitration in accordance with the rules of the London Court of International Arbitration in proceedings in London, England, as more fully described in the Deposit Agreements.

EACH PARTY TO THE DEPOSIT AGREEMENTS (INCLUDING, FOR AVOIDANCE OF DOUBT, EACH HOLDER AND BENEFICIAL OWNER) IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THE DEPOSIT AGREEMENTS OR THE TRANSACTIONS CONTEMPLATED THEREIN (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY).

Russian Share Register

We have appointed OJSC Reestr as the registrar of our shares in Russia and we have agreed to continue such appointment so long as the GDRs remain outstanding or any of the Deposit Agreements remain in force.

We have agreed in the Deposit Agreements to:

- take any and all actions necessary to assure the accuracy and completeness of all of the information contained in the register of shareholders maintained by the share registrar;
- provide or cause the share registrar to provide unrestricted access by the Depositary and the Custodian to the register of shareholders so as to permit verification of the registration of shares represented by the GDRs in the name of the Depositary or the Custodian or their respective nominees;
- cause the share registrar to promptly notify the Depositary (1) of any material and uncured breaches by the share registrar of the terms of the Deposit Agreements and (2) any time the share registrar will no longer be able materially to comply with, or has engaged in conduct that indicates it will not materially comply with, the provisions of the Deposit Agreements relating to it;
- cause the share registrar to promptly (and, in any event, within three banking days in Moscow, Russia of receipt by the share registrar of such documentation as may be required by applicable law and regulation and the reasonable and customary internal regulations of the share registrar, or as soon as practicable thereafter) re-register the shares being deposited into or withdrawn from the GDR facilities; and
- cause the share registrar to promptly notify the Depositary (1) of any alleged unlawful elimination of shareholders from the shareholder register (or any alleged unlawful alteration of shareholder records), (2) of any alleged unlawful refusal to register shares and (3) any time the share registrar holds the shares for its own account.

In the Deposit Agreements we have agreed to assume liability for unavailability of shares on deposit and for the failure of the Depositary to make any distributions contemplated by the Deposit Agreements as a result of (1) our negligence or willful misconduct or that of our agents, including the share registrar, (2) any provisions of our present or future charter (or other instrument governing the deposited securities), and (3) any provisions of any securities we issue or distribute and any related distribution or offering.

The Depositary has agreed, for the benefit of the owners of GDRs, to confirm not less frequently than monthly, the number of shares identified on the share register as being on deposit pursuant to the terms of the Deposit Agreements. We have agreed with the Depositary that the Custodian shall maintain custody of all duplicate share extracts (or other evidence of verification) provided to the Depositary, the Custodian or their respective agents, and that any known material discrepancies between the records of the Depositary and the Custodian, on the one hand, and the records of the share registrar, on the other hand, will be brought to our attention promptly. We will use our best

efforts to cause the share registrar to reconcile any discrepancies and to effectuate the requisite corrections to the share register. In the event we are unable to obtain such reconciliation of records, we will give notice thereof to the owners of GDRs (through the Depositary) and the Depositary shall cease issuance of new GDRs until the records have been appropriately reconciled.

US Securities Act and Other Legends

Legends for Rule 144A GDRs

NEITHER THIS RULE 144A GDR CERTIFICATE, NOR THE RULE 144A GDRs EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR CERTIFICATE AND THE RULE 144A GDRs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR CERTIFICATE, THE RULE 144A GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GDR MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE “RESTRICTED SECURITIES” WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR THE RULE 144A GDRs.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDRs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

THE COMPANY AND THE DEPOSITARY HAVE AGREED IN THE RULE 144A DEPOSIT AGREEMENT THAT NEITHER THE DEPOSITARY NOR THE CUSTODIAN ASSUMES ANY OBLIGATION OR RESPONSIBILITY TO MAKE ANY PAYMENTS FOR, NOR SHALL EITHER OF THEM BE SUBJECT TO ANY LIABILITY UNDER THE RULE 144A DEPOSIT AGREEMENT OR OTHERWISE FOR NONPAYMENT FOR, THE SHARES ISSUED BY THE COMPANY AND PLACED IN THE INITIAL OFFERING OF SUCH SHARES BY THE COMPANY AND THE SELLING SHAREHOLDERS (INCLUDING ANY EXERCISE BY THE UNDERWRITERS OF AN OVER-ALLOTMENT OPTION IN CONNECTION THEREWITH).

PRIOR TO RECEIPT BY THE DEPOSITARY OF WRITTEN NOTICE FROM THE COMPANY THAT A REPORT ON THE RESULTS OF THE ISSUE OF THE SHARES ISSUED BY THE COMPANY AND PLACED IN THE INITIAL OFFERING BY THE COMPANY HAS BEEN REGISTERED WITH THE RUSSIAN FEDERAL SERVICE FOR THE FINANCIAL MARKETS, THE RULE 144A GDRs REPRESENTED HEREBY ARE ISSUED ON A PROVISIONAL BASIS. PRIOR TO RECEIPT OF SUCH NOTICE, NOTWITHSTANDING ANYTHING IN THIS RULE 144A GDR CERTIFICATE OR THE RULE 144A DEPOSIT AGREEMENT TO THE CONTRARY, THE DEPOSITARY SHALL NOT, EXCEPT AS SPECIFICALLY DESCRIBED BELOW, DELIVER ANY SHARES PURSUANT TO PARAGRAPH 2 OF THIS RECEIPT AND SECTION 2.7 OF THE RULE 144A DEPOSIT AGREEMENT AND THE DEPOSITARY SHALL NOT VOTE, OR CAUSE TO BE VOTED, SECURITIES DEPOSITED THEREUNDER, AND HOLDERS SHALL NOT BE ENTITLED TO GIVE VOTING INSTRUCTIONS, AS CONTEMPLATED BY PARAGRAPH 19 OF THIS RECEIPT AND SECTION 4.10 OF THE RULE 144A DEPOSIT AGREEMENT.

IF A REPORT ON THE RESULTS OF ISSUANCE OF THE SHARES ISSUED BY THE COMPANY AND PLACED IN THE INITIAL OFFERING HAS NOT BEEN REGISTERED WITH THE RUSSIAN FEDERAL SERVICE FOR THE FINANCIAL MARKETS ON OR BEFORE THE DATE WHICH IS 60 DAYS AFTER THE CLOSING DATE FOR SUCH OFFERING (OR SUCH LATER DATE AS THE COMPANY, THE SELLING SHAREHOLDERS AND THE UNDERWRITERS PARTICIPATING IN THE OFFERING MAY AGREE), UPON WRITTEN NOTICE BY THE COMPANY, THE PROCEEDS OF THE PLACEMENT OF THE SHARES SHALL BE RETURNED TO THE DEPOSITARY AND FROM THE TIME OF RECEIPT OF SUCH FUNDS THIS RULE 144A GDR CERTIFICATE WILL REPRESENT THE RIGHT TO RECEIVE A PROPORTIONAL INTEREST IN THE FUNDS SO RECEIVED. THE FUNDS SO RECEIVED BY THE DEPOSITARY IN ANY CURRENCY OTHER THAN US DOLLARS WILL BE CONVERTED INTO US DOLLARS (AT MARKET RATES THEN AVAILABLE) AND DISTRIBUTED TO HOLDERS OF RULE 144A GDRs, IN EACH CASE UPON THE TERMS OF THE RULE 144A DEPOSIT AGREEMENT. THE RULE 144A GDRs WILL BE CANCELLED BY THE DEPOSITARY UPON DISTRIBUTION OF THE PROPORTIONAL INTERESTS IN THE FUNDS SO RECEIVED, CONVERTED (IF NECESSARY) AND DISTRIBUTED TO THE HOLDER OF THIS RULE 144A GDR CERTIFICATE. THE FUNDS SO RECEIVED, CONVERTED (IF NECESSARY) AND DISTRIBUTED TO HOLDERS OF RULE 144A GDRs MAY BE LESS THAN THE PRICE AT WHICH THE RULE 144A GDRs HAVE BEEN SOLD BY THE COMPANY OR THE SELLING SHAREHOLDERS OR PURCHASED BY THE HOLDER THEREOF, AND MAY BE SUBJECT TO WITHHOLDING TAXES OR DELAYS.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF THE COMPANY IN THE NAME OF THE DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE. HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA'S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNIZE OR ENFORCE JUDGMENTS OBTAINED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK.

Legends for Regulation S GDRs

NEITHER THIS REGULATION S GDR CERTIFICATE, NOR THE REGULATION S GDRs EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS

REGULATION S GDR CERTIFICATE AND THE REGULATION S GDRs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR CERTIFICATE, THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS REGULATION S GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE REGULATION S GDRs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

THE COMPANY AND THE DEPOSITARY HAVE AGREED IN THE REGULATION S DEPOSIT AGREEMENT THAT NEITHER THE DEPOSITARY NOR THE CUSTODIAN ASSUMES ANY OBLIGATION OR RESPONSIBILITY TO MAKE ANY PAYMENTS FOR, NOR SHALL EITHER OF THEM BE SUBJECT TO ANY LIABILITY UNDER THE REGULATION S DEPOSIT AGREEMENT OR OTHERWISE FOR NONPAYMENT FOR, THE SHARES ISSUED BY THE COMPANY AND PLACED IN THE INITIAL OFFERING OF SUCH SHARES BY THE COMPANY AND THE SELLING SHAREHOLDERS (INCLUDING ANY EXERCISE BY THE UNDERWRITERS OF AN OVER-ALLOTMENT OPTION IN CONNECTION THEREWITH).

PRIOR TO RECEIPT BY THE DEPOSITARY OF WRITTEN NOTICE FROM THE COMPANY THAT A REPORT ON THE RESULTS OF THE ISSUE OF THE SHARES ISSUED BY THE COMPANY AND PLACED IN THE INITIAL OFFERING BY THE COMPANY HAS BEEN REGISTERED WITH THE RUSSIAN FEDERAL SERVICE FOR THE FINANCIAL MARKETS, THE REGULATION S GDRs REPRESENTED HEREBY ARE ISSUED ON A PROVISIONAL BASIS. PRIOR TO RECEIPT OF SUCH NOTICE, NOTWITHSTANDING ANYTHING IN THIS REGULATION S GDR CERTIFICATE OR THE REGULATION S DEPOSIT AGREEMENT TO THE CONTRARY, THE DEPOSITARY SHALL NOT, EXCEPT AS SPECIFICALLY DESCRIBED BELOW, DELIVER ANY SHARES PURSUANT TO PARAGRAPH 2 OF THIS RECEIPT AND SECTION 2.7 OF THE REGULATION S DEPOSIT AGREEMENT AND THE DEPOSITARY SHALL NOT VOTE, OR CAUSE TO BE VOTED, SECURITIES DEPOSITED THEREUNDER, AND HOLDERS SHALL NOT BE ENTITLED TO GIVE VOTING INSTRUCTIONS, AS CONTEMPLATED BY PARAGRAPH 19 OF THIS RECEIPT AND SECTION 4.10 OF THE REGULATION S DEPOSIT AGREEMENT.

IF A REPORT ON THE RESULTS OF ISSUANCE OF THE SHARES ISSUED BY THE COMPANY AND PLACED IN THE INITIAL OFFERING HAS NOT BEEN REGISTERED WITH THE RUSSIAN FEDERAL SERVICE FOR THE FINANCIAL MARKETS ON OR BEFORE THE DATE WHICH IS 60 DAYS AFTER THE CLOSING DATE FOR SUCH OFFERING (OR SUCH LATER DATE AS THE COMPANY, THE SELLING SHAREHOLDERS AND THE UNDERWRITERS PARTICIPATING IN THE OFFERING MAY AGREE), UPON WRITTEN NOTICE BY THE COMPANY, THE PROCEEDS OF THE PLACEMENT OF THE SHARES SHALL BE RETURNED TO THE DEPOSITARY AND FROM THE TIME OF RECEIPT OF SUCH FUNDS THIS REGULATION S GDR CERTIFICATE WILL REPRESENT THE RIGHT TO RECEIVE A PROPORTIONAL INTEREST IN THE FUNDS SO RECEIVED. THE FUNDS SO RECEIVED BY THE DEPOSITARY IN ANY CURRENCY OTHER THAN US DOLLARS WILL BE CONVERTED INTO US DOLLARS (AT MARKET RATES THEN AVAILABLE) AND DISTRIBUTED TO HOLDERS OF REGULATION S GDRs, IN EACH CASE UPON THE TERMS OF THE REGULATION S DEPOSIT AGREEMENT. THE REGULATION S GDRs WILL BE CANCELLED BY THE DEPOSITARY UPON DISTRIBUTION OF THE PROPORTIONAL INTERESTS IN THE FUNDS SO RECEIVED, CONVERTED (IF NECESSARY) AND DISTRIBUTED TO THE HOLDER OF THIS REGULATION S GDR CERTIFICATE. THE FUNDS SO RECEIVED, CONVERTED (IF NECESSARY) AND DISTRIBUTED TO HOLDERS OF REGULATION S GDRs MAY BE LESS THAN THE PRICE AT WHICH THE REGULATION S GDRs HAVE BEEN SOLD BY THE COMPANY OR THE SELLING

SHAREHOLDERS OR PURCHASED BY THE HOLDERS THEREOF, AND MAY BE SUBJECT TO WITHHOLDING TAXES OR DELAYS.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF THE COMPANY IN THE NAME OF THE DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE. HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA'S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNIZE OR ENFORCE JUDGMENTS OBTAINED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK.

TAXATION

The following summary of material US federal income, United Kingdom and Russian tax consequences of ownership of the shares or GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the shares or GDRs. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of the shares or GDRs. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of the shares or GDRs, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this prospectus, and of any actual changes in applicable tax laws after such date.

Certain Material United States Federal Income Tax Considerations

TO COMPLY WITH INTERNAL REVENUE SERVICE CIRCULAR 230, YOU ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF US FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THIS PROSPECTUS AND RELATED MATERIALS IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY YOU, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON YOU UNDER THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED; (B) ANY SUCH DISCUSSION IS BEING USED IN CONNECTION WITH THE PROMOTION OR MARKETING BY US OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) YOU SHOULD SEEK ADVICE BASED ON YOUR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following is a general description of certain material US federal income tax consequences to US holders (defined below) under current law of an investment in the shares or GDRs. This discussion is based on the tax laws of the United States as in effect on the date of this prospectus and on US Treasury regulations in effect or, in some cases, proposed, as of the date of this prospectus, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below. If a partnership (including any entity treated as a partnership for US federal income tax purposes) is a beneficial owner of GDRs or shares, the US federal income tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Since your US federal income and withholding tax treatment may vary depending upon your particular situation, you may be subject to special rules not discussed below. Special rules will apply, for example, if you are:

- a bank;
- a person holding GDRs or shares through a partnership or other pass-through entity;
- an insurance company;
- a tax-exempt organization;
- a financial institution;
- a person subject to the alternative minimum tax;
- a person who is a broker-dealer in securities;
- an S corporation;
- a trader that elects to mark-to-market;
- a US expatriate;
- an owner holding, directly, indirectly or by attribution, 10% or more of the total voting power of our voting stock; or
- an owner holding GDRs or shares as part of a hedge, straddle, synthetic security, conversion or integrated transaction.

In addition, this summary is generally limited to persons holding shares or GDRs as “capital assets” within the meaning of Section 1221 of the US Internal Revenue Code and whose functional

currency is the US dollar. The discussion below does not address the effect of any US state or local tax law or foreign tax law.

The discussion below of the US federal income tax consequences to “US holders” will apply if you are a beneficial owner of GDRs or shares and you are, for US federal income tax purposes,

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation) organized under the laws of the United States, any State thereof or the District of Columbia;
- an estate whose income is subject to US federal income taxation regardless of its source; or
- a trust that (1) is subject to the primary supervision of a court within the United States and the control of one or more US persons for all substantial decisions or (2) has a valid election in effect under applicable US Treasury regulations to be treated as a US person.

The discussion below assumes that the representations contained in the Deposit Agreements are true and that the obligations in the Deposit Agreements and any related agreement will be complied with in accordance with their terms. Although not free from doubt, for purposes of US federal income tax law, a US holder of a GDR should be treated as the owner of the underlying shares represented by that GDR.

The US Treasury has expressed concerns that parties to whom GDRs are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by US persons for US federal income tax purposes. Such actions would also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non-corporate US persons, as described below. Accordingly, the analysis of the creditability of Russian taxes described below, and the availability of the reduced tax rate for dividends received by certain non-corporate US persons, could be affected by future actions that may be taken by the US Treasury or parties to whom the GDRs are pre-released.

PROSPECTIVE PURCHASERS ARE URGED TO CONSULT THEIR TAX ADVISORS REGARDING THE APPLICATION OF THE UNITED STATES FEDERAL TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE AND LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF GDRs OR SHARES.

Taxation of Dividends on Shares or GDRs

Subject to the PFIC rules discussed below, for US federal income tax purposes, the US dollar value of the gross amount of a distribution (including any Russian withholding taxes) with respect to shares or GDRs generally will be included in your gross income on the date of actual or constructive receipt and will be treated as a taxable dividend to the extent of our current and accumulated earnings and profits, computed in accordance with US federal income tax principles. You should be aware that we do not intend to calculate our earnings and profits for US federal income tax purposes and, unless we make such calculations, you should assume that any distributions with respect to shares or GDRs will constitute ordinary dividend income. For taxable years beginning before January 1, 2011, if you are a non-corporate taxpayer (including an individual), dividends may be taxed at the reduced rate normally applicable to capital gains, provided (1) certain holding period requirements are satisfied, (2) we are eligible for the benefits of the Convention between the United States of America and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital (the “United States-Russia Tax Treaty”) and (3) we are not a PFIC for either our taxable year in which the dividend is paid or the preceding taxable year. Non-corporate US holders are strongly urged to consult their tax advisors as to the applicability of the lower capital gains rate to dividends received with respect to shares or GDRs. If you are a corporation, you will not be allowed a deduction for dividends received in respect of distributions on shares or GDRs, which is generally available for dividends paid by US corporations.

Russian tax withheld from distributions at the rate applicable to you under the United States-Russia Tax Treaty should be treated as a foreign income tax that, subject to generally applicable limitations and conditions, is eligible for credit against your US federal income tax liability or, at your election, may be deducted in computing taxable income, provided, in each case, that the amounts withheld and paid to the Russian tax authorities are treated as satisfying your tax liability. If Russian tax is withheld at a rate in excess of the rate applicable to you under the United States-Russia Tax

Treaty, you may not be entitled to credits for the excess amount because such amounts might be treated as recoverable by you for US federal income tax purposes, even though the procedures for claiming refunds and the practical likelihood that refunds will be made available in a timely fashion are uncertain. You may be required to recognize as ordinary income or loss foreign currency gain or loss on the receipt of a refund of Russian withholding tax to the extent the US dollar value of the refund differs from the US dollar equivalent of that amount on the date of receipt of the underlying dividend.

A dividend distribution will be treated as foreign source income and will generally be classified as “passive income” or, in some cases, “financial services income” for US foreign tax credit purposes. For taxable years beginning after December 31, 2006, the number of classes of foreign source income will be reduced to two and dividends generally would constitute “passive category income” but could, in the case of certain US holders, constitute “general category income.”

The rules relating to the determination of the foreign tax credit, or deduction in lieu of the foreign tax credit, are complex and you should consult your tax adviser to determine whether and to what extent a credit, or a deduction in lieu of a credit, would be available in your particular circumstances.

Taxation on Sale or Exchange of Shares or GDRs

Subject to the PFIC rules discussed below, the sale or other taxable disposition of shares or GDRs will generally result in the recognition of capital gain or loss in an amount equal to the difference between the US dollar value of the amount realized on the sale or other disposition and your US dollar adjusted basis in such shares or GDRs. Any such gain or loss will be long-term capital gain or loss if the shares or GDRs have been held for more than one year. If you are an individual, such realized long-term capital gain is generally subject to a reduced rate of US federal income tax. Limitations may apply to your ability to offset capital losses against ordinary income.

Gain realized on the sale of shares or GDRs will generally be treated as US source income and therefore the use of foreign tax credits relating to any Russian taxes imposed upon such sale may be limited. You are strongly urged to consult your own tax advisors as to the availability of tax credits for any Russian taxes withheld on the sale of shares or GDRs under the United States-Russia Tax Treaty.

Deposits and withdrawals of shares by you in exchange for GDRs should not result in the recognition of gain or loss for US federal income tax purposes. Your tax basis in the withdrawn shares will be the same as your tax basis in the GDRs surrendered, and the holding period of the shares will include the holding period of the GDRs.

Passive Foreign Investment Company

A non-US corporation is considered to be a PFIC for any taxable year if, applying certain look-through rules, either:

- at least 75% of its gross income is passive income, or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income.

We do not expect to be a PFIC for United States federal income tax purposes for our current taxable year ending December 31, 2006. However, our PFIC status is a factual determination made after the close of each taxable year and thus there can be no assurance that we will not be treated as a PFIC in our current taxable year or future taxable years.

If we are a PFIC for any taxable year during which you hold GDRs or shares, you will be subject to special tax rules with respect to any “excess distribution” that you receive and any gain you realize from a sale or other disposition (including a pledge) of the GDRs or shares, unless you make a “mark-to-market” election as discussed below. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the GDRs or shares,
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we became a PFIC, will be treated as ordinary income, and

- the amount allocated to each other year will be subject to the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

If we are a PFIC for any year during which you hold GDRs or shares, we generally will continue to be treated as a PFIC with respect to you for all succeeding years during which you hold GDRs or shares. We do not intend to prepare or provide the information that would enable you to make a qualified electing fund election.

If a US holder makes a mark-to-market election, such holder generally will include as ordinary income the excess, if any, of the fair market value of the GDRs or shares at the end of each taxable year over their adjusted basis, and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted basis of the GDRs or shares over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). Any gain recognized on the sale or other disposition of GDRs or shares will be treated as ordinary income. The mark-to-market election is available only for “marketable stock,” which is stock that is traded in other than *de minimis* quantities on at least 15 days during each calendar quarter on a qualified exchange or other market, as defined in the applicable US Treasury regulations.

Information Reporting and Backup Withholding

Dividend payments with respect to GDRs or shares and proceeds from the sale, exchange or redemption of GDRs or shares made within the United States or through certain US-related financial intermediaries may be subject to information reporting to the Internal Revenue Service and possible US backup withholding at a current rate of 28%. Backup withholding will not apply, however, if you furnish a correct taxpayer identification number and make any other required certification or if you are otherwise exempt from backup withholding (for example, if you are a corporation) and establish your exempt status.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your US federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules.

UK Tax Considerations

The comments below are of a general nature and are based on current UK law and published H.M. Revenue & Customs practice as of the date of this prospectus, as well as the provisions of the 1994 Income and Capital Gains Tax Convention between the UK and Russia (the “UK Treaty”), each of which is subject to change, possibly with retroactive effect. The summary only covers the principal UK tax consequences for the absolute beneficial owners of the shares and GDRs (and any dividends paid in respect of them) who:

- are resident (and, in the case of individuals only, ordinarily resident and domiciled) in the UK for tax purposes;
- are not resident in Russia for tax purposes; and
- do not have a permanent establishment or fixed base in Russia with which the holding of the shares or GDRs, and the payment of dividends in respect of the shares or GDRs is connected.

Such absolute beneficial owners of the shares or GDRs are referred to in this discussion as “UK holders.”

In addition, the summary only addresses the principal UK tax consequences for UK holders who hold the shares or GDRs as capital assets. It does not address the UK tax consequences that may be relevant to certain other categories of holders, for example, brokers, dealers or traders in shares, securities or currencies. It also does not address the UK tax consequences for holders that are banks, financial institutions, insurance companies, collective investment schemes, tax-exempt organizations or persons connected with us.

Further, the summary assumes that:

- a holder of the GDRs is, for UK tax purposes, beneficially entitled to the underlying shares and to the dividends on those shares;

- the UK holder did not acquire and will not be deemed to have acquired his/her shares by virtue of an office or employment;
- the UK holder does not control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, 10% or more of the shares and/or voting power of the Company; and
- the shares will not be registered in a register kept in the UK, by or on behalf of the Company.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular holder. Potential investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under UK law and H.M. Revenue & Customs practice, of acquisition, ownership and disposition of the shares or GDRs in their own particular circumstances, by consulting their own tax advisors.

Taxation of Dividends

Income Tax and Corporation Tax

UK holders will, in general, be subject to UK income tax or corporation tax on the total of the dividends received on their shares or GDRs.

Withholding Tax and Tax Credits

Any Russian withholding tax may be allowed as a credit against the UK income/corporation tax liability of a UK holder depending on the circumstances. See also “—Russian Federation Tax Considerations.”

The Company need not make any deduction from payments of dividends for or on account of UK tax.

Tax Liability for Individual Holders

For an individual UK holder who is liable to UK income tax on dividends UK income tax will be chargeable on the gross dividend with potential credit (as described above) for Russian tax deducted at source. For an individual UK holder who is liable to UK tax on the dividend at the dividend ordinary rate (currently 10%), any credit for Russian tax deducted at source may equal or exceed his UK income tax liability in respect of the dividend, in which case he will have no further UK income tax to pay.

Tax Liability for Corporate Shareholders

A UK holder within the charge to UK corporation tax will be liable for UK corporation tax on the receipt of the gross dividend with potential credit for Russian tax deducted at source as described above. In appropriate cases, a holder may be entitled to relief at source or a refund of Russian tax.

Taxation of Capital Gains

The disposal or deemed disposal of all or part shares or GDRs held by UK holders may give rise to a chargeable gain or an allowable loss for the purposes of UK capital gains tax (where the UK holder is an individual) and UK corporation tax on chargeable gains (where the UK holder is within the charge to UK corporation tax), depending on their circumstances and subject to any available exemption or relief.

As regards individual UK holders, the principal factors that will determine the extent to which such gain will be subject to capital gains tax are the extent to which they realize any other capital gains in that year, the extent to which they have incurred capital losses in that or any earlier year, the level of the annual allowance of tax-free gains in the tax year in which the disposal takes place (the “annual exemption”) and the level of available taper relief.

The annual exemption for individuals is £8,800 for the 2006-2007 tax year.

A UK holder that is a company may be entitled to an indexation allowance that applies to reduce any chargeable gain. Indexation allowance may reduce a chargeable gain but not create any allowable loss.

Stamp Duty and Stamp Duty Reserve Tax

No ad valorem stamp duty will be payable in the UK in connection with a transfer of the shares provided that any instrument of transfer is executed and retained outside the UK.

No stamp duty reserve tax (“SDRT”) will be payable in the UK in respect of any agreement to transfer the shares for so long as they continue to be registered on a share register kept and maintained outside the UK.

No ad valorem stamp duty or SDRT will arise in the UK in respect of:

- the issue of the GDRs;
- the delivery of GDRs into a clearance service, such as Euroclear or Clearstream; or
- any dealings in the GDRs once they are issued into the clearance service, where such dealings are effected in book entry form in accordance with the procedures of the clearance service and not by written instrument of transfer.

Russian Federation Tax Considerations

The following is a summary of certain Russian tax considerations relevant to payments to Russian resident and non-resident holders of the shares or GDRs and to the purchase, ownership and disposition of such shares or GDRs by their Russian resident and non-resident holders. The summary is based on the laws of Russia in effect on the date of this prospectus. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there might be practical difficulties involved in claiming relief under an applicable double tax treaty. Prospective investors should consult their own advisors regarding the tax consequences of investing in the shares or the GDRs. No representations with respect to the Russian tax consequences to any particular holder are made hereby.

The Russian tax rules applicable to the shares and the GDRs are characterized by uncertainties and by an absence of interpretative guidance. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in a jurisdiction with more developed capital markets and more developed taxation systems. In particular, the interpretation and application of such provisions will, in practice, rest substantially with local tax inspectors.

For the purposes of this summary, a “non-resident holder” means:

- A physical person, actually present in the Russian Federation for less than 183 days in a given calendar year (excluding days of arrival into Russia, but including days of departure from Russia) that holds securities or, prospectively, as of January 1, 2007, a physical person who holds securities and is present in Russia for less than 183 days (excluding days of arrival into Russia but including days of departure from Russia) in any 12-month rolling period. As of January 1, 2007, presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) with the purpose of medical treatment or education; or
- A legal person or organization, in each case not organized under Russian law, that holds and disposes of securities otherwise than through a permanent establishment in Russia.

For the purposes of this summary, a “Russian resident holder” means:

- A physical person, actually present in the Russian Federation for 183 days or more in a given calendar year (excluding days of arrival into Russia, but including days of departure from Russia) that holds securities or, prospectively, as of January 1, 2007, a physical person who holds securities and is present in Russia for 183 days or more (excluding days of arrival into Russia but including days of departure from Russia) in any 12-month rolling period. As of January 1, 2007, presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) with the purpose of medical treatment or education;
- A legal person or organization, in each case organized under Russian law, that holds securities; or
- A legal person or organization, in each case organized under a foreign law, that holds and disposes of securities through its permanent establishment in Russia.

Taxation of Dividends

A Russian company that pays dividends generally must act as a tax agent to withhold tax on the dividends and remit the amount of tax due to the Russian state budget. However, the applicable withholding tax rate will depend on the status of the dividend's recipient.

Russian Resident Holders

Dividends paid to Russian resident holders of shares are generally subject to Russian withholding tax at a rate of 9%. The effective rate of this tax may be lower than 9% owing to the fact that we should calculate this tax by multiplying the tax rate (9%) by the difference between (1) the dividends to be distributed by us to our shareholders (other than to non-resident companies and non-resident individuals) and (2) dividends collected by us in the current and preceding tax periods from other Russian entities.

There are uncertainties in relation to withholding tax on dividends payable to Russian resident GDR holders. In particular, it is unclear whether this income may be treated as dividends for Russian tax purposes and what tax rate applies to this income. Also, there are no specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners. It is unclear therefore how the Russian tax authorities and courts will ultimately treat GDR holders in this regard. In 2005 and 2006, the Ministry of Finance expressed an opinion that GDR holders (rather than the relevant depositary) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that tax residence of the GDR holders is duly confirmed.

In view of the foregoing, Russian residents are urged to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of the shares or the GDRs.

Non-Resident Holders

Dividends paid to non-resident holders of shares generally will be subject to Russian withholding tax, which will be withheld by us acting as a tax agent. The applicable domestic rates of withholding tax on such dividends currently are:

- 15% in the case of dividends paid to non-resident holders that are legal entities or organizations; and
- 30% in the case of dividends paid to non-resident individual holders.

These rates may be reduced under the terms of income tax treaties to which Russia is a party. However, because the beneficial ownership concept is not developed in Russian law, it is not clear whether the Depositary (the legal holder of the shares) or a GDR holder should be treated for the purposes of such treaties as the beneficial owner of the shares underlying the GDRs.

Unless we receive adequate clarification from the Russian tax authorities that, subject to certain certification requirements, it is appropriate under Russian law to withhold Russian withholding tax in respect of dividends that it pays to the Depositary at reduced rates under the relevant treaties instead of at the domestic rates applicable to such payments (currently 15%), we intend to withhold Russian withholding tax at the domestic rates applicable to such dividends, regardless of whether the Depositary (the legal owner of the shares) or a GDR holder would be entitled to reduced rates of Russian withholding tax under the relevant income tax treaty if it were the beneficial owner of the dividends for purposes of that treaty.

Although non-resident GDR holders may apply for a refund under the relevant income tax treaty of a portion of the amount withheld by us, we cannot make any assurances that the Russian tax authorities will grant any refunds. Therefore, it is possible that individuals who are non-resident GDR holders may be subject to up to a 45% effective tax rate on dividends accrued on shares held in deposit.

Taxation of Capital Gains

Russian Resident Holders

Legal Entities and Organizations

Capital gains arising from the sale of shares or GDRs by any Russian resident holder that is a legal entity or organization will be taxable at a regular Russian tax rate of 24%. Russian tax law requires that profits arising from operations with securities quoted on a stock exchange must be calculated and accounted for separately from profits and losses from operations with securities that are not quoted on a stock exchange and from operating profits and losses. Therefore, to the extent the shares and GDRs are quoted on a stock exchange Russian resident holders that are not individuals may be able to apply losses arising in respect of sales of the shares or GDRs only to offset capital gains, or as a carry forward to offset future capital gains, from the sale, exchange or other disposition of securities quoted on a stock exchange. Special tax rules apply to Russian legal entities that hold a broker and/or dealer license and to private pension funds. Transactions with the shares and the GDRs will also be subject to transfer pricing rules established by the Tax Code.

Individuals

Under Russian law, capital gains arising from a sale, exchange or other disposition of the shares or GDRs by Russian resident holders will be subject to tax at a rate of 13% on an amount equal to the sales price less the acquisition value of the securities less other documented expenses related to the purchase, holding and sale of such securities. If the sale is made by a resident holder through a professional dealer or broker that is a Russian legal entity or a foreign company with a registered permanent establishment in Russia, such professional dealer or broker should also act as a tax agent and withhold the applicable tax. The amount of tax withheld will be calculated after taking into account deductions for the acquisition value and related expenses. The tax agent would be required to report to the Russian tax authorities the income realized by the resident individual and tax withheld upon the sale of securities by April 1 of the year following the reporting year. When a sale is made to other legal entities or individuals, generally no withholding of tax needs to be made and the resident holder would have an obligation to file a tax return, report his income realized and apply for a deduction of acquisition expenses, based on the provision of supporting documentation.

Where the expenses related to acquisition, holding and sale of securities cannot be confirmed by documentation, the individual is technically entitled to a property tax deduction, reducing his sales proceeds by 125,000 rubles if the securities were held for a period of less than three years, or by the entire amount of the sales proceeds if the securities were held for three years or more. In practice, the tax authorities rarely grant the deduction in the sum of the entire amount of sales proceeds as it is difficult to prove to their satisfaction the inability of the taxpayer to document the expenses. It would be within the tax authorities' rights to request confirmation of the taxpayer's efforts to gather such documentation (for example, from the Depository), and to refuse to grant the property tax deduction in the absence of such documentation. The provisions allowing a property tax deduction on a sale of securities are scheduled to be removed from the law as of January 1, 2007.

Because Russian law related to taxation of income derived by Russian resident holders (including legal entities, organizations and individuals) on a sale, exchange or other disposition of the shares or the GDRs is not entirely clear, we urge Russian residents to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of the shares or GDRs.

Non-Resident Holders

Legal Entities and Organizations

Under current Russian law, capital gains arising from the sale, exchange or other disposition of the shares or GDRs by non-resident holders (legal entities or organizations) should not be subject to tax in Russia if immovable property located in Russia constitutes 50% or less of the our assets.

The determination of whether more than 50% of our assets consist of immovable property located in Russia is inherently factual and is made on an ongoing basis, and because the relevant laws and regulations are not entirely clear, there can be no assurance that immovable property located in Russia does not currently, or will not, constitute more than 50% of such assets.

If more than 50% of our assets were to consist of immovable property located in Russia, then non-resident holders of the shares or GDRs would be subject to a 20% withholding tax on the gross proceeds from a sale, exchange or other disposition of the shares or GDRs, or 24% withholding tax on the capital gain realized from such sale, exchange or other disposal, capital gain being the difference between the sales price and acquisition value of the shares or GDRs. However, gains arising from the sale of the shares or GDRs on a foreign stock exchange by a non-resident holder that is a legal entity or organization should not be subject to taxation in Russia.

Individuals

Under Russian personal income tax law, should gains from a sale, exchange or other disposal of the shares or GDRs by non-resident holders who are individuals be considered Russian source income, they will be subject to tax at the rate of 30%.

According to Russian tax legislation, taxation of income for non-resident individual holders will depend on whether this income is received from Russian or non-Russian sources. Russian tax law gives no clear indication as to how the sale of securities should be sourced, other than that income from the sale of securities “in Russia” is Russian-source. As there is no further definition of what should be considered to be a sale “in Russia,” the Russian tax authorities have a certain amount of freedom to conclude what transactions take place in or outside Russia, including looking at the place of the transaction, the place of the issuer of the shares, or other similar criteria.

Should the sale of securities in Russia by non-resident individual holders be considered Russian source income, it will be subject to tax at the rate of 30% on an amount equal to the sales price minus the acquisition value of the securities and other documented expenses related to the purchase, holding and sale of such securities. If the sale is made by a non-resident holder through a professional dealer or broker that is a Russian legal entity or a foreign company with a registered permanent establishment in Russia, such professional dealer or broker should also act as a tax agent and withhold the applicable tax. The amount of tax withheld will be calculated after taking into account documented deductions for the acquisition value and related expenses. The tax agent would be required to report to the Russian tax authorities the income realized by the non-resident individual and tax withheld upon the sale of the securities by April 1 of the year following the reporting year.

When a sale is made to any party other than a professional dealer or broker, generally no withholding of tax needs to be made and the non-resident holder would have an obligation to file a tax return, report his income realized and apply for a deduction of acquisition expenses, based on the provision of supporting documentation. However, the tax authorities have stated that where the income is received by non-resident individual holders, who do not have a place of permanent residence in Russia, nor are registered in Russia for tax purposes, the entity making payments to such individuals is required to withhold Russian personal income tax at the rate of 30% at source (subject to deductions of documented expenses).

A non-resident holder may be exempt from Russian withholding tax on the sale, exchange or other disposition of shares or GDRs in Russia under the terms of a double tax treaty between Russia and the country of residence of the non-resident holder. For example, under the United States-Russia Tax Treaty, US holders are exempt from the withholding tax on capital gains unless 50% or more of our assets are represented by immovable property located in Russia. The UK-Russia Tax Treaty provides for an exemption from withholding tax on capital gains received by UK holders unless the gains relate to shares that derive all or substantially all of their value directly or indirectly from immovable property in Russia and are not quoted on an approved stock exchange. See “—Tax Treaty Procedures.”

Tax Treaty Procedures

The relief at source and refund procedures discussed below may be more complicated with respect to dividend payment to GDR holders due to separation of legal ownership and beneficial ownership of the shares underlying the GDRs. Russian tax law does not provide for clear guidance regarding availability of double tax treaty relief for GDR holders. Therefore, we cannot assure prospective GDR holders that relief at source or refunds will be available under the applicable tax treaty in respect of Russian taxes payable or withheld in respect of dividends on shares represented by GDRs.

A non-resident holder seeking to obtain a reduced rate of Russian withholding tax at source under an income tax treaty must provide a confirmation of its tax treaty residence that is certified by the

competent authorities in the relevant treaty jurisdiction in advance of our payment of dividends. The residence confirmation needs to be reviewed on an annual basis and certified by the relevant authority. The residence confirmation may need to bear an apostille.

If the Russian tax authorities were to approve a certification process for the purposes of allowing us to withhold Russian withholding tax at reduced treaty rates in respect of dividends that it pays to the Depositary, it is anticipated that a US GDR holder would be required to provide us with the US GDR holder's certification of its last filed US federal income tax return in the form of an IRS Form 6166 (an "IRS Form 6166") in order to allow us to comply with that certification process.

For this purpose, it also may be necessary for a non-resident GDR holder to demonstrate its legal title to the relevant GDR interest.

The Deposit Agreements provide that the Depositary will make all reasonable efforts to provide us with certifications and other documents that are required in order to comply with any certification process that has been approved by the Russian tax authorities for this purpose.

An IRS Form 6166 can generally be obtained by filing a request (generally an IRS Form 8802) with the Internal Revenue Service Center in Philadelphia, Pennsylvania, US Residency Certification Request, P.O. Box 16347, Philadelphia PA 19114-0447, USA. US GDR holders should consult their tax advisors and the instructions to IRS Form 8802 for further details on how to obtain this certification.

Under current Russian tax law and practice, advance relief from withholding taxes will generally be impossible for individual non-resident holders because it is very unlikely that the supporting documentation for the treaty relief can be provided to the tax authorities and approval from the latter obtained before the year end as currently required.

In order to apply for treaty relief, personal tax returns and supporting documentation should be submitted to the tax authorities. In practice, application of double tax treaty provisions may be time consuming and bureaucratic if the Russian tax authorities require additional documents not set out in the double tax treaties. In addition, treaty relief may be further complicated in situations where it is difficult to show the tax authorities a direct link between income received by the individual GDR holder and the tax withheld by us on dividend distributions as there are no specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners.

If a non-resident does not obtain double tax treaty relief at the time that income or gains are realized and tax is withheld by a Russian payer, the non-resident holder may apply for a refund within three years from the end of the tax period in which the tax was withheld, if the recipient is a legal entity or organization, or within the one-year period from the end of the tax period in which the tax was withheld, if the recipient is an individual. To process a claim of a refund, the Russian tax authorities may require, among others, the following documents:

- An apostilled confirmation of the tax treaty residence of the non-resident at the time the income was paid;
- An application for refund of the tax withheld in a format provided by the Russian tax authorities (Form 1012DT for dividends and interest and 1011DT for other income); and
- Copies of the relevant contracts and payment documents confirming the payment of the tax withheld to the Russian Federation state budget.

The Russian tax authorities may require a Russian translation of some documents. The refund of the tax withheld should be granted within one month of the filing of the application for the refund and the relevant documents with the Russian tax authorities. However, procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds. See "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—Non-resident investors may be subject to Russian tax withheld at source on trades of the shares or GDRs through or to certain Russian payors."

SUBSCRIPTION AND SALE

Description of the Distribution

We, the Selling Shareholders and the Underwriters named below have entered into the Underwriting Agreement dated November 3, 2006 with respect to the shares and the shares represented by the GDRs being offered. Subject to the satisfaction of certain conditions set out in the Underwriting Agreement, each Underwriter has agreed, severally but not jointly, to subscribe for or purchase the shares and the shares represented by the GDRs, and pay for such number of shares and/or GDRs as are set forth opposite its name in the following table.

Underwriters	Number of Shares		
	Sistema-Hals (in the form of GDRs)	Selling Shareholders	Total
Deutsche Bank AG ⁽¹⁾	547,674	35,333	583,007
Nomura International plc ⁽²⁾	547,674	35,333	583,007
UBS Limited ⁽³⁾	547,674	35,333	583,007
Aton International Limited ⁽⁴⁾	52,159	3,365	55,524
Dresdner Bank AG, London Branch ⁽⁵⁾	43,469	2,807	46,276
Total	1,738,650	112,171	1,850,821

⁽¹⁾ Deutsche Bank AG is an international investment bank. Its offices in London are located at Winchester House, Great Winchester Street, London EC2N 2DB, United Kingdom.

⁽²⁾ Nomura International plc is an international investment bank. Its offices in London are located at Nomura House, 1 St. Martin's-le-Grand, London EC1A 4NP, United Kingdom.

⁽³⁾ UBS Limited is an international investment bank. Its offices in London are located at 1 Finsbury Avenue, London EC2M 2PP, United Kingdom.

⁽⁴⁾ Aton International Limited is an investment firm. Its offices in London are located at 60 Lombard Street, London EC3V 9EA, United Kingdom.

⁽⁵⁾ Dresdner Bank AG, London Branch is an international investment bank. Its offices in London are located at 2 Gresham Street, London EC2P 2XY, United Kingdom.

The GDRs will be evidenced by a Master Rule 144A GDR Certificate and a Master Regulation S GDR Certificate, and will be subject to certain restrictions as further discussed in "Description of the Global Depositary Receipts."

The offer price is \$214.00 per share and \$10.70 per GDR. The total commissions payable to the Underwriters will be approximately \$12.7 million.

We estimate that the total expenses of the offering, other than commissions, will be approximately \$4.0 million.

We have provided the Underwriters with customary representations and warranties under the Underwriting Agreement, including in relation to our business, the shares and GDRs and the contents of this prospectus. The Selling Shareholders have provided the Underwriters with customary representations and warranties under the Underwriting Agreement, including in relation to their title to the shares they are selling in the offering.

The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent. In addition, the Joint Global Coordinators, on behalf of the Underwriters, may terminate the Underwriting Agreement in certain circumstances prior to the Closing Date. We and the Selling Shareholders have agreed in the Underwriting Agreement, subject to its terms, to indemnify the Underwriters against certain liabilities in connection with the sale of the shares and the GDRs. In addition, we have agreed to reimburse the Underwriters for certain of their expenses.

Over-allotment Option

We have granted to the Underwriters an option exercisable within 30 days after the announcement of the offer price, to purchase up to an additional 168,256 ordinary shares in the form of GDRs at the offer price, solely to cover over-allotments in the offering.

Stabilization

In connection with the offering, UBS Limited, as the Stabilizing Manager or its agents may, in consultation and after agreement with the other Joint Global Coordinators, on behalf of the Underwriters and for a limited period after the announcement of the offer price, over-allot or effect transactions in the GDRs with a view to supporting the market price of the GDRs at a level higher than that which might have otherwise prevailed in the open market. However, the Stabilizing Manager or such agents have no obligation to do so. Such stabilization, if commenced, may begin on the date of adequate public disclosure of the offer price, may be effected in the over-the-counter market or otherwise and may be discontinued at any time, but in no event later than 30 days after the date of such adequate public disclosure of the offer price. The Underwriters do not intend to disclose the extent of any such stabilization transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Limitations Prior to Registration of Placement Report and Consequences of Non-registration

In the event that the placement report is not registered by the FSFM within 60 days after the Closing Date (or such later date to which we agree with the Underwriters), we will issue a press release and notify the Depositary and the London Stock Exchange. Under Russian law, in the case of non-registration of the placement report we are required to return the full amount of ruble proceeds that were initially deposited into our ruble-denominated account on the Closing Date and the over-allotment closing date (if any). Such ruble amount will be converted into US dollars for remittance to the holders of the GDRs. We have agreed in the Underwriting Agreement that we will pay such additional amounts (if any) as may be necessary to ensure that the US dollar funds received by the Depositary for remittance to the holders of GDRs will be equal to the gross US dollar proceeds received from the sale of GDRs, except for the underwriting commissions related to the GDRs, which the Underwriters have agreed to return. The Depositary will promptly distribute through DTC, Euroclear and Clearstream, as applicable, the funds it has received to the holders of the GDRs. The amount returned to the holders of the GDRs is expected to be equal to the gross proceeds (without interest) of the offering of GDRs, regardless of the then-prevailing market prices for the GDRs, subject to applicable withholding taxes. However, the return of funds may be delayed due to Russian currency control, banking and securities regulations or practices and may be prevented if there is a change in such regulations or practices. In addition, the holders of the GDRs will be taking credit risk on us and the Underwriters for the return of funds in the event that the placement report is not registered. We have agreed with the Underwriters that we will not use the proceeds of the offering until the placement report is registered.

Until the registration of the placement report, all GDRs will be issued on a provisional basis and holders of GDRs will not be entitled to instruct the Depositary to exercise any voting rights on their behalf, and neither the Depositary nor the Custodian will exercise any voting rights as a shareholder. Holders of GDRs may not withdraw the shares or other property on deposit with the Depositary in respect of the GDRs sold in the offering prior to the registration of the placement report. Such limitation on withdrawal and voting of the shares will not prohibit trading in the GDRs. Also, following the Closing Date, no additional shares will be accepted for deposit and no additional GDRs in respect of such shares will be issued until the placement report is registered. The shares being offered by the Selling Shareholders will not be cancelled, and the proceeds of the offering of the shares by the Selling Shareholders will not be returned, in case the placement report is not registered.

See “Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—GDR holders will not be able to withdraw the shares underlying the GDRs prior to the registration of a placement report for the newly issued shares, and the failure to register this placement report could result in the newly issued shares underlying the GDRs being cancelled, reliance by GDR holders on us and the Underwriters to return the offering proceeds and a small public float based solely on the shares sold by the Selling Shareholders.”

Lock up Arrangements

We, Sistema, Investments Pension Company, PromTorgCenter and Sistema-Leasing have agreed, subject to certain exceptions, not to issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of, directly or indirectly, any shares in us or securities convertible or exchangeable into or exercisable for any shares in us or warrants or other rights to purchase such shares or any

security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or GDRs representing the right to receive any such securities or publicly announce any intention to do any of the foregoing, from the date hereof until 180 days from the Closing Date, without the prior written consent of the Joint Global Coordinators. However, such consent shall not be required for the sale of the shares to the Underwriters pursuant to the Underwriting Agreement.

Selling Restrictions

United States

The shares and the GDRs have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act.

In addition, until 40 days after the commencement of the offering of the shares and GDRs, an offer or sale of shares or GDRs within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

The Underwriters propose to offer the shares (1) in the form of shares and GDRs to investors outside the United States in accordance with Regulation S and (2) in the form of shares and GDRs through the US selling agents of certain of the Underwriters, only to QIBs in the United States in accordance with Rule 144A. Each of the Underwriters has agreed that, except as permitted in the Underwriting Agreement, it will not offer, sell or deliver shares or GDRs within the United States.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date), an offer of shares or GDRs to the public which are the subject of the offering contemplated by this prospectus may not be made to the public in that Relevant Member State prior to the publication of a prospectus in relation to the shares or the GDRs which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of shares or GDRs to the public in that Relevant Member State at any time:

- (a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year, (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Global Coordinators for any such offer; or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of shares or GDRs to the public” in relation to any shares or GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares or the GDRs to be offered so as to enable an investor to decide to purchase or subscribe the shares or the GDRs, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each of the Underwriters has represented and agreed that: (1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any shares or GDRs in circumstances in which section 21(1) of the FSMA does not apply to us and (2) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares or the GDRs in, from or otherwise involving the United Kingdom.

Japan

The securities offered hereby have not been and will not be registered under the Securities and Exchange Law of Japan (the “Securities and Exchange Law”). Accordingly, the Underwriters have represented, warranted and agreed that the shares and the GDRs which it subscribes will be subscribed by it as principal and that, in connection with the offering made hereby, it will not, directly or indirectly, offer or sell any shares or GDRs in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan.

Russia

Each of the Underwriters has acknowledged that no Russian prospectus has been registered or is intended to be registered with respect to the GDRs and the GDRs have not been and are not intended to be registered in the Russian Federation and, consequently, it has represented and agreed that it has not offered or sold or otherwise transferred and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter any GDRs to, or for the benefit of, any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law. It is understood and agreed that the Underwriters or their affiliates may distribute the prospectus to persons in the Russian Federation in a manner that does not constitute an “advertisement” (as defined under Russian law) of GDRs and may resell GDRs to Russian persons in a manner that does not constitute “placement” or “public circulation” of the GDRs in the Russian Federation (as defined under Russian law).

Canada

This document is not, and under no circumstances is it to be construed as, a prospectus, an advertisement or a public offering of the securities described herein in Canada. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein, and any representation to the contrary is an offence.

Representations and Agreements by Purchasers

The offer is being made in Canada only in the Canadian provinces of British Columbia, Ontario and Québec (the “Canadian Jurisdictions”) by way of a private placement of shares and GDRs. The offer in the Canadian Jurisdictions is being made pursuant to this document through the Underwriters named in this document or through their selling agents who are permitted under applicable law to distribute such securities in Canada. Each Canadian investor who purchases the shares or GDRs will be deemed to have represented to Sistema-Hals, the Selling Shareholders and the Underwriters that: (1) the offer and sale was made exclusively through this document and was not made through an advertisement of the shares or GDRs in any printed media of general and regular paid circulation, radio, television or telecommunications, including electronic display, or any other form of advertising in Canada; (2) such investor has reviewed the terms referred to below under “Canadian Resale Restrictions”; (3) where required by law, such investor is, or is deemed to be, acquiring the shares or GDRs as principal for its own account in accordance with the laws of the Canadian Jurisdiction in which the investor is resident and not as agent or trustee; and (4) such investor or any ultimate investor for which such investor is acting as agent is entitled under applicable Canadian securities laws to

acquire the shares or GDRs without the benefit of a prospectus qualified under such securities laws, and without limiting the generality of the foregoing: (i) in the case of an investor resident in a province or territory other than Ontario, without the Underwriter having to be registered; (ii) in the case of an investor resident in British Columbia or Québec such investor is an “accredited investor” as defined in section 1.1 of National Instrument 45-106—*Prospectus and Registration Exemptions* (“NI 45-106”); (iii) in the case of an investor resident in Ontario, such investor, or any ultimate investor for which such investor is acting as agent (a) is an “accredited investor”, other than an individual, as defined in NI 45-106 and is a person to which a dealer registered as an international dealer within the meaning of section 98 of the Regulation to the *Securities Act* (Ontario) (the “OSA”) may sell the shares or GDRs or (b) is an “accredited investor”, including an individual, as defined in NI 45-106 who is purchasing the shares or GDRs from a fully registered dealer within the meaning of section 204 of the Regulation to the OSA; and (5) such investor, if not an individual or an investment fund, has a pre-existing purpose and was not established solely or primarily for the purpose of acquiring the shares or GDRs in reliance on an exemption from applicable prospectus requirements in the Canadian Jurisdictions.

Each resident of Ontario who purchases the shares or GDRs will be deemed to have represented to Sistema-Hals and the relevant Underwriter that such investor: (a) has been notified by Sistema-Hals (1) that Sistema-Hals is required to provide information (“personal information”) pertaining to the investor as required to be disclosed in Schedule I of Form 45-106F1 under NI 45-106 (including its name, address, telephone number and the number and value of any shares or GDRs purchased), which Form 45-106F1 is required to be filed by Sistema-Hals under NI 45-106; (2) that such personal information will be delivered to the Ontario Securities Commission (the “OSC”) in accordance with NI 45-106; (3) that such personal information is being collected indirectly by the OSC under the authority granted to it under the securities legislation of Ontario; (4) that such personal information is being collected for the purposes of the administration and enforcement of the securities legislation of Ontario; and (5) that the public official in Ontario who can answer questions about the OSC’s indirect collection of such personal information is the Administration Assistant to the Director of Corporate Finance at the OSC, Suite 1903, Box 5520 Queen Street West, Toronto, Ontario M5H 3S8, Telephone: (416) 593-8086; and (b) has authorized the indirect collection of the personal information by the OSC. Further, the investor acknowledges that its name, address, telephone number and other specified information, including the number of shares or GDRs it has purchased and the aggregate purchase price to the purchaser, may be disclosed to other Canadian securities regulatory authorities and may become available to the public in accordance with the requirements of applicable laws. Each resident of a Canadian Jurisdiction other than Ontario who purchases the shares or GDRs hereby acknowledges to Sistema-Hals and the relevant Underwriter that its name and other specific information, including the number of shares or GDRs it has purchased and the aggregate purchase price to the investor, may be disclosed to Canadian securities regulatory authorities and become available to the public in accordance with the requirements of applicable Canadian securities laws. By purchasing the shares or GDRs, each Canadian investor consents to the disclosure of such information.

Selling Restrictions

Each Underwriter has agreed that (a) no prospectus has been issued or will be issued in respect of the shares or GDRs for distribution to the public under applicable Canadian securities laws, and (b) the shares or GDRs may not be offered or sold, directly or indirectly, in Canada except with the consent of the Underwriters and in compliance with applicable Canadian securities laws and accordingly, any sales of shares or GDRs will be made (1) through an appropriately registered securities dealer or in accordance with an available exemption from the registered securities dealer requirements of applicable Canadian securities laws; and (2) pursuant to an exemption from the prospectus requirements of such laws.

Language of Document

Each purchaser of the shares or GDRs in Canada that receives a purchase confirmation hereby agrees that it is such purchaser’s express wish that all documents evidencing or relating in any way to the sale of such shares or GDRs be drafted in the English language only. Chaque acheteur au Canada des valeurs mobilières recevant un avis de confirmation à l’égard de son acquisition reconnaît que c’est sa volonté expresse que tous les documents faisant foi ou se rapportant de quelque manière à la vente des valeurs mobilières soient rédigés uniquement en anglais.

Canadian Resale Restrictions

The distribution of the shares or GDRs in the Canadian Jurisdictions is being made on a private placement basis. Accordingly, any resale of the shares or GDRs must be made (1) through an appropriately registered dealer or in accordance with an available exemption from the dealer registration requirements of applicable provincial securities laws and (2) in accordance with, or pursuant to an exemption from, the prospectus requirements of such laws. Such resale restrictions may not apply to resales made outside of Canada, depending on the circumstances. Purchasers of shares or GDRs are advised to seek legal advice prior to any resale of shares or GDRs.

Sistema-Hals is not, and may never be, a “reporting issuer,” as such term is defined under applicable Canadian securities legislation, in any province or territory of Canada in which the shares or GDRs will be offered and there currently is no public market for any of the securities of Sistema-Hals in Canada, including the shares and GDRs, and one may never develop. Under no circumstances will Sistema-Hals be required to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the shares or GDRs to the public in any province or territory of Canada. Canadian investors are advised that Sistema-Hals currently has no intention to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the shares or GDRs to the public in any province or territory in Canada.

Rights of Action for Damages or Rescission (Ontario)

Securities legislation in Ontario provides investors in shares or GDRs pursuant to this prospectus with a remedy for damages or rescission, or both, in addition to any other rights they may have at law, where this prospectus or any amendment to it, contains a “Misrepresentation”. Where used herein, “Misrepresentation” means an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading in light of the circumstances in which it was made. These remedies, or notice with respect to these remedies, must be exercised or delivered, as the case may be, by the purchaser within the time limits prescribed by the applicable securities legislation.

Section 130.1 of the OSA provides that every purchaser of securities pursuant to an offering memorandum (such as this prospectus) shall have a statutory right of action for damages or rescission against the issuer in the event that the offering memorandum contains a Misrepresentation. A purchaser who purchases securities offered by the offering memorandum during the period of distribution has, without regard to whether the purchaser relied upon the Misrepresentation, a right of action for damages or, alternatively, while still the owner of the securities, for rescission against the issuer provided that:

- (a) if the purchaser exercises its right of rescission, it shall cease to have a right of action for damages as against the issuer;
- (b) the issuer will not be liable if it proves that the purchaser purchased the securities with knowledge of the Misrepresentation;
- (c) the issuer will not be liable for all or any portion of damages that it proves do not represent the depreciation in value of the securities as a result of the Misrepresentation relied upon; and
- (d) in no case shall the amount recoverable exceed the price at which the securities were offered.

Subject to the paragraph below, all or any one or more of the issuer and any selling securityholder are jointly and severally liable, and every person or company who becomes liable to make any payment for a Misrepresentation may recover a contribution from any person or company who, if sued separately, would have been liable to make the same payment, unless the court rules that, in all the circumstances of the case, to permit recovery of the contribution would not be just and equitable.

Despite the paragraph above, the issuer shall not be liable where it is not receiving any proceeds from the distribution of the securities being distributed and the Misrepresentation was not based on information provided by the issuer, unless the Misrepresentation (a) was based on information that was previously publicly disclosed by the issuer, (b) was a Misrepresentation at the time of its previous public disclosure and (c) was not subsequently publicly corrected or superseded by the issuer prior to the completion of the distribution of the securities.

Section 138 of the OSA provides that no action shall be commenced to enforce these rights more than:

- (a) in the case of an action for rescission, 180 days from the day of the transaction that gave rise to the cause of action; or
- (b) in the case of an action for damages, the earlier of:
 - (1) 180 days from the day that the purchaser first had knowledge of the facts giving rise to the cause of action; or
 - (2) three years from the day of the transaction that gave rise to the cause of action.

The rights referred to in section 130.1 of the OSA do not apply in respect of an offering memorandum (such as this prospectus) delivered to a prospective purchaser in connection with a distribution made in reliance on the exemption from the prospectus requirement in section 2.3 of NI 45-106 (the “accredited investor exemption”) if the prospective purchaser is:

- (a) a Canadian financial institution (as defined in NI 45-106) or a Schedule III bank,
- (b) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada), or
- (c) a subsidiary of any person referred to in paragraphs (a) or (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.

The foregoing summary is subject to the express provisions of the OSA and the rules, regulations and other instruments thereunder, and reference is made to the complete text of such provisions contained therein. Such provisions may contain limitations and statutory defenses on which Sistema-Hals and the Selling Shareholders may rely. ***Prospective purchasers should refer to the applicable provisions of the relevant securities legislation and are advised to consult their own legal advisers as to which, or whether any, of such rights may be available to them.*** The enforceability of these rights may be limited as described herein under “—Enforcement of Legal Rights.”

The rights of action discussed above will be granted to the purchasers to whom such rights are conferred upon acceptance by the relevant Underwriter of the purchase price for the shares or GDRs. The rights discussed above are in addition to and without derogation from any other right or remedy which purchasers may have at law. Similar rights may be available to investors resident in other Canadian Jurisdictions under local provincial securities laws.

Enforcement of Legal Rights

All of the directors and officers (or their equivalents) of Sistema-Hals and the Selling Shareholders, as well as any experts named herein, may be located outside of Canada and, as a result, it may not be possible for purchasers to effect service of process within Canada upon Sistema-Hals, the Selling Shareholders or such experts. All or a substantial portion of the assets of Sistema-Hals, the Selling Shareholders and such experts may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against Sistema-Hals, the Selling Shareholders or such experts in Canada or to enforce a judgment obtained in Canadian courts against Sistema-Hals, the Selling Shareholders or such experts outside of Canada.

Canadian Tax Considerations and Eligibility for Investment

This document does not address the Canadian tax consequences of ownership of the shares or GDRs. Prospective purchasers of shares or GDRs should consult their own tax advisers with respect to the Canadian and other tax considerations applicable to their individual circumstances and with respect to the eligibility of the shares or GDRs for investment by purchasers under relevant Canadian legislation.

General

Neither we nor the Underwriters, nor any person acting on our or the Underwriters' behalf, have taken or will take any action in any jurisdiction that would permit a public offering of the shares or the

GDRs, or the possession, circulation or distribution of this prospectus or any other material relating to us or the shares and the GDRs, in any jurisdiction where action for such purpose is required.

Accordingly, the shares and the GDRs may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisement in connection with such securities be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

No dealer, salesperson or other person has been authorized to give any information or to make any representation not contained in this prospectus, and, if given or made, such information or representation must not be relied upon as having been authorized by us or any Underwriter. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date hereof or that the information contained in this prospectus is correct as of a date after its date.

Other

The Underwriters and their respective affiliates have engaged in transactions with and performed various investment banking, financial advisory and other services for us and for our affiliates, for which they received customary fees, and the Underwriters and their respective affiliates may provide such services for us or for them in the future. In particular, the Joint Global Coordinators and/or their affiliates provided \$340.0 million under three separate loan facilities from August to October 2006. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments” and “—Liquidity and Capital Resources—Capital Resources.”

SETTLEMENT AND DELIVERY

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

DTC

DTC has advised us as follows: DTC is a limited-purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerized book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant US tax laws and regulations. See "Taxation—Certain Material United States Federal Income Tax Considerations."

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream will be represented by the Master Regulation S GDR Certificate registered in the name of a nominee of The Bank of New York, as common depositary for Euroclear and Clearstream. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR Certificate registered in the name of Cede & Co., as nominee for DTC, which will be held by the Depositary as custodian for DTC. As necessary, the Registrar will adjust the amounts of GDRs on the relevant register for the accounts of

the common nominee and nominee, respectively, to reflect the amounts of GDRs held through Euroclear, Clearstream and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common nominee for Euroclear and Clearstream and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from us for holders holding through Euroclear and Clearstream are credited to Euroclear or Clearstream, as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from us for holders holding through DTC are received by DTC. The address for DTC is P.O. Box 5020, New York, New York 10274, United States. The address for Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address for Clearstream is 42 Avenue J.F. Kennedy, L-1855 Luxembourg, Luxembourg.

We will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreements.

Settlement and Delivery of Shares

Each purchaser of the shares in the offering is required to pay for any such shares in US dollars or rubles, as the case may be, within one business day after share delivery. The settlement price of such shares in rubles will be the US dollar price converted into rubles using the official exchange rate established by the Central Bank of Russia for exchange of US dollars into Russian rubles for the date of this prospectus. In order to take delivery of the shares, an investor should either have a direct account with our share registrar, OJSC Reestr, or a deposit account with CJSC Depositary Clearing Company, or DCC, or any other depositary that has an account with DCC or a direct account with our share registrar. Investors may at their own expense choose to hold the shares through a direct account with our share registrar. However, directly-held shares are ineligible for trading on the Moscow Stock Exchange or MICEX. Only if the shares are deposited with Not-for-Profit Partnership The National Depositary Center or NDC, (or through another depositary having an account at NDC) can they be traded on MICEX and only if the shares are deposited with the Depositary and Settlement System, or DSS, (or through another depositary (DCC or NDC) having an account in DSS) can they be traded on the Moscow Stock Exchange.

Global Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the two Global Master GDR Certificates. Purchasers electing to hold book-entry interests in the GDRs through Euroclear and Clearstream accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

Secondary Market Trading

Transfer Restrictions

For a description of the transfer restrictions relating to the GDRs, see “Description of the Global Depositary Receipts—Transfer Restrictions” and “Subscription and Sale—Selling Restrictions.”

Trading between Euroclear and Clearstream Participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC Participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in US dollars, or free of payment, if payment is not effected in US dollars. Where payment is not effected in US dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC Seller and Euroclear/Clearstream Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, as the case may be, to credit the relevant account of the Euroclear or Clearstream participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (1) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate and (2) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Master Regulation S GDR Certificate.

Trading between Clearstream/Euroclear Seller and DTC Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream participant to the account of a DTC participant, the Euroclear or Clearstream participant must send to Euroclear or Clearstream a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant, as the case may be. On the settlement date, Euroclear or Clearstream, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, as the case may be, shall on the settlement date instruct the Depositary to (1) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR Certificate and (2) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream and DTC, none of Euroclear, Clearstream or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of us, the Underwriters, the Depositary, the Custodian or our or their respective agents will have any responsibility for the performance by Euroclear, Clearstream or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is a state-registered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and New York State Banking Department. The Depositary was constituted in 1784 in the State of New York. It is a wholly owned subsidiary of The Bank of Company, Inc., a New York corporation. The principal executive office of the Depositary is located at One Wall Street, New York, New York 10286. Its principal administrative offices for the GDRs are located at 101 Barclay Street, New York, New York 10286.

A copy of the Depositary's Articles of Association, as amended, together with copies of The Bank of New York Company, Inc.'s most recent financial statements and annual report, are available for inspection at the principal executive office of the Depositary located at One Wall Street, New York, New York 10286, U.S.A. and at The Bank of New York, One Canada Square, London E14 5AL, United Kingdom.

LEGAL MATTERS

Certain legal matters with respect to the offering will be passed upon for us by Latham & Watkins, London, England and Latham & Watkins LLP, Moscow, Russian Federation and by Liniya Prava, Moscow, Russian Federation. Certain legal matters with respect to the offering will be passed upon for the Underwriters by Linklaters, London, England and Linklaters CIS, Moscow, Russian Federation.

INDEPENDENT AUDITORS

The financial statements of the group as of and for the years ended December 31, 2003, 2004 and 2005 have been audited by ZAO Deloitte & Touche CIS, independent auditors, Business Center "Mokhovaya," 4/7 Vozdvizhenka Street, Bldg. 2, Moscow 125009, Russian Federation.

For the purpose of compliance with the Prospectus Rules, ZAO Deloitte & Touche CIS has given and not withdrawn its written consent to the inclusion on page F-2 of this prospectus of its auditors' report to the Audited Financial Statements, and has authorized the contents of its said auditors' report for the purposes of Annex X item 23.1 in Appendix 3 to the Prospectus Rules. ZAO Deloitte & Touche CIS has also accepted responsibility for its said auditors' report as part of the prospectus and declared that it has taken all reasonable care to ensure that the information contained in that report is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with Annex X item 1.2 of the Prospectus Rules. As the offered shares and GDRs have not been and will not be registered under the Securities Act, ZAO Deloitte & Touche CIS has not filed a consent under the Securities Act.

GENERAL INFORMATION

1. It is expected that the GDRs will be admitted, subject only to the issue of the Master Regulation S GDR and the Master Rule 144A GDR, to the Official List on or about November 8, 2006. Application has been made for the GDRs to be traded on the London Stock Exchange. Prior to admission to the Official List, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.
2. The issue of the shares underlying the GDRs being offered was authorized by the extraordinary shareholders meeting of Sistema-Hals held on August 28, 2006, and the issuance of the shares was registered with the FSFM on October 12, 2006. As further described in “Registration of Placement Report,” we must register a placement report with the FSFM with respect to these shares after the offering.
3. We have obtained all consents, approvals and authorizations in Russia in connection with the issue of the GDRs (except for the registration of the placement report with the FSFM which, in accordance with Russian law, will be applied for upon the completion of the placement).
4. Copies of the following documents will be available for inspection free of charge, during normal business hours on any weekday, at the offices of Latham & Watkins, 99 Bishopsgate, London EC2M 3XF, United Kingdom from the date of publication of this prospectus to the admission:
 - the prospectus;
 - our charter (English translation);
 - the Deposit Agreements;
 - our financial statements as of and for the years ended December 31, 2003, 2004 and 2005, together with the auditors’ report relating thereto; and
 - our unaudited financial statements as of June 30, 2006 and for the six months then ended.
5. If definitive certificates are issued in exchange for the Master GDRs, Sistema-Hals will appoint an agent in the United Kingdom.
6. The CUSIP for the Regulation S GDRs is 82977M207, the ISIN for the Regulation S GDRs is US82977M2070, the Common Code for the Regulation S GDRs is 027074529 and the SEDOL Code is B1FRP85. The CUSIP for the Rule 144A GDRs is 82977M108, the ISIN for the Rule 144A GDRs is US82977M1080, the Common Code for the Rule 144A GDRs is 027074359 and the SEDOL Code is B1FRPC9. The ISIN for the shares is RU000A0JNP96.
7. There has been no significant change in the financial or trading position of the group since June 30, 2006, the end of the last financial period for which interim financial information has been published, except as set forth in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments” on page 48.
8. Industry data in “Industry Overview” attributed to C&W therein has been sourced from Cushman & Wakefield Stiles & Riabokobylko’s “Russian Real Estate MarketBeat Quarterly,” July 2006; attributed to CB Richard Ellis therein has been sourced from CB Richard Ellis’ “Investment Market Overview,” February 2006; attributed to Jones Lang LaSalle therein has been sourced from Jones Lang LaSalle Hotels’ “Hotel Market Overview: Moscow and St. Petersburg,” September 2005 and Jones Lang LaSalle’s “Moscow City Profile,” March 2006; attributed to Property Market Analysis LLP therein has been sourced from Property Market Analysis LLP’s “Quarterly Market Data Quarter 1, 2006,” 2006 and “European Retail Forecasts,” Spring 2006. Industry data in “Industry Overview” and “Business” attributed to www.developery.ru therein has been sourced from <http://www.developery.ru> as visited on October 19, 2006. We confirm that this information has been accurately reproduced and that as far as we are aware and able to ascertain from information published by these third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

9. The following table sets forth the registered offices of our significant subsidiaries:

Name	Ownership/ Voting Power	Jurisdiction of Incorporation	Registered Office
Kuntsevo-Invest	100%/100%	Russian Federation	2/3 Moldavskaya Street, Moscow 121467, Russian Federation
Mosdachtrestart	56.5%/60%	Russian Federation	19/1 Kuznetsky Most, Moscow 107031, Russian Federation
Organizator	51%/51%	Russian Federation	15 Gogolevsky Boulevard, Moscow 121019, Russian Federation
PSO Sistema-Hals	51%/51%	Russian Federation	35 Bolshaya Tatarskaya Street, Bld. 23-24, Moscow 113184, Russian Federation

10. The GDRs are not denominated in any currency and have no nominal or par value. The offer price was determined based on the results of the bookbuilding exercise conducted by the Joint Global Coordinators. The results of the offering will be made public by us through a press release and notice to the Regulatory Information Service promptly upon the closing of the offering.
11. Holders of GDRs may contact the Depositary at 101 Barclay Street, 22nd Floor, New York, New York 10286, United States (telephone: +1-212-815-4493) or through The Bank of New York, London Branch, One Canada Square, London, E14 5AL, United Kingdom (telephone +44-207-964-6080).
12. The Valuation Report has been prepared by Cushman & Wakefield Stiles & Riabokobylko, an independent real estate consultant and appraiser, of 21/2 Bolshaya Ordynka Street, Moscow 115035, Russian Federation. Cushman & Wakefield Stiles & Riabokobylko has given and not withdrawn its written consent to the inclusion of the Valuation Report in this prospectus, in the form and context in which it is included, and has authorized the contents of those parts of the prospectus for the purposes of Rule 5.5.4R(2)(f) of The Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001. C&W accepts responsibility for the information contained in the property valuation report, and to the best of C&W's knowledge and belief that, having taken all reasonable care to ensure that such is the case, the information contained in the property valuation report is in accordance with the facts and does not omit anything likely to affect the import of such information.
13. Set forth below are summaries of each material contract, other than contracts entered into in the ordinary course of business, to which we are a party, for the two years immediately preceding publication of this prospectus, or any other contracts, other than contracts entered into in the ordinary course of business, entered into by us, which contains any provisions under which we have any obligation or entitlement material to us at the date of this prospectus.

Material Pledge, Loan and Credit Agreements:

The Term Loan Facility Agreement between Sistema-Hals and Deutsche Bank AG, London Branch as the arranger, original lender and facility agent, pursuant to which Sistema-Hals may borrow up to an aggregate amount equivalent to \$140.0 million at an interest rate of 8.65%, payable in August 2007. Sistema-Hals' obligations under the loan facility are guaranteed by Sistema.

The Facility Agreement between Sistema-Hals and Nomura International plc, as the arranger and facility agent, and Nomura Funding Facility Corporation Limited, as the original lender, pursuant to which Sistema-Hals may borrow up to an aggregate amount of \$100.0 million at an interest rate of 8.45%, payable in September 2007. Sistema-Hals' obligations under the loan facility are guaranteed by Sistema.

The Facility Agreement between Sistema-Hals and UBS AG, London Branch, as the mandated lead arranger and agent, pursuant to which Sistema-Hals may borrow up to an aggregate amount of \$100 million at an interest rate of 8.65%, payable in October 2007. Sistema-Hals' obligations under the loan facility are guaranteed by Sistema.

The Bank Guarantee dated June 9, 2006, issued by MBRD to the benefit of FGUP Dorogi Rossii securing PSO Sistema-Hals' obligations to provide services in relation to a highway construction project. The Bank Guarantee is secured by funds of PSO Sistema-Hals deposited in MBRD in the amount of 50 million rubles.

The Pledge Agreement dated May 31, 2006, between Sistema-Hals and MBRD, pursuant to which Sistema-Hals pledged ordinary shares of Mosdachtrest to MBRD as a collateral for a revolving credit facility of up to \$6.0 million at an interest rate of 12.5% per annum, payable in November 2006.

The Credit Line Agreement dated September 29, 2005, between Hotel Korona-Intourist and MBRD, pursuant to which Hotel Korona-Intourist may borrow up to \$9.7 million at an interest rate of LIBOR+2% per annum, payable in ten equal semi-annual installments by March 2010. The loan is collateralized by the pledge of ordinary shares of Landshaft pursuant to a pledge agreement dated September 29, 2005.

The Pledge Agreement dated January 21, 2004, between Sistema-Hals and MBRD, pursuant to which Sistema-Hals pledged ordinary shares of Landshaft to MBRD as a collateral for a revolving credit facility of up to \$6.0 million at an interest rate of 14% per annum, payable in January 2007.

The Credit Line Agreement dated August 28, 2003, as modified by the supplemental agreements dated February 16, 2004, February 1, 2006 and June, 6 2006, between Mosdachtrest and MBRD, pursuant to which Mosdachtrest may borrow up to \$11.7 million at an interest rate of 13% per annum (14% per annum until February 1, 2006), payable in February 2007. The loan is secured by the pledge of ordinary shares of Landshaft pursuant to a pledge agreement dated February 16, 2004.

Material Agency Agreement:

The Agency Agreement dated April 24, 2006, between Sistema-Hals and Ordynka, pursuant to which Ordynka borrows on its behalf, but at the expense of Sistema-Hals, up to \$8.5 million at an interest rate of up to 12% per annum, payable in one year, to fund Sistema-Hals' share in the capital of Pokrovka 40 LLC.

Material Investment Agreements:

The Investment Contract dated August 4, 2006, between Sistema-Hals and the City of Moscow, pursuant to which Sistema-Hals becomes a co-investor in the 4-A Nakhimovsky Prospect and 25-A Dnepropetrovskaya Street projects and undertakes to contribute 860.6 million rubles towards the project in return for property rights in it.

The Investment Agreement dated June 2, 2006, between Hotel Korona-Intourist and Pokrovka 40 LLC, pursuant to which Pokrovka 40 becomes a co-investor in the 40/3 Pokrovka Street project and undertakes to contribute 822 million rubles towards the project in return for property rights in it.

The Investment Contract dated August 4, 2006, between the Moscow City Government, Department of Education of Moscow Southern Administrative District and Sistema-Hals pursuant to which Sistema-Hals undertakes to construct two residential buildings at 4-A Nakhimovsky Prospect and 25-A Dnepropetrovskaya Street.

The Investment Agreement dated June 24, 2005, between Hotel Korona-Intourist and MMR Russia S.A., pursuant to which MMR Russia S.A. becomes a co-investor in the 40/3 Pokrovka Street project and undertakes to contribute at least \$20.0 million towards the project in return for property rights in it.

The Investment Agreement dated December 24, 2004, between Sistema-Hals and ZAO Ferro-Stroy, pursuant to which Ferro-Stroy becomes a co-investor in the 4-A Nakhimovsky Prospect project and undertakes to contribute \$16.8 million towards the project in return for property rights in it.

The Investment Agreement dated December 24, 2004, between Sistema-Hals and ZAO Ferro-Stroy, pursuant to which Ferro-Stroy becomes a co-investor in the 25-A Dnepropetrovskaya Street

project and undertakes to contribute \$10.5 million towards the project in return for property rights in it.

The Investment Contract dated December 10, 2003, as amended by Supplementary Agreement No. 1, dated May 11, 2006, between Hals-Stroy, Moscow City Government and Federal Security Service, pursuant to which Hals-Stroy undertakes to erect a residential building at 39-A Michurinsky Prospect.

The Investment Contract dated November 4, 2003, as amended by Supplementary Agreement No. 1, dated August 2, 2006, between Hals-Stroy, Moscow City Government and Federal Security Service, pursuant to which Hals-Stroy undertakes to erect a residential building at 9 Aviatorov Street.

The Investment Contract dated September 23, 2003, as modified by the supplemental agreement dated August 19, 2005 between Sistema-Hals and FGU MORF CASC, pursuant to which Sistema-Hals becomes a co-investor in the Leningradsky Towers project and undertakes to contribute \$93.3 million towards the project and to build a sports complex, military barracks and underground parking facility for the benefit of the Russian Ministry of Defense in return for property rights in the Leningradsky Towers project.

The Investment Contract dated May 26, 1999, as amended by Supplementary Agreement No. 1, dated September 18, 2006, between Kuntsevo-Invest and Moscow Western administrative district office, pursuant to which Kuntsevo-Invest undertakes to develop certain commercial and municipal buildings within the framework of the Kuntsevo program.

The Investment Contract dated June 20, 1996, as amended by Supplementary Agreement No. 3, dated August 2, 2006, between Kuntsevo-Invest and Moscow Western administrative district office, pursuant to which Kuntsevo-Invest undertakes to develop certain commercial and municipal buildings within the framework of the Kuntsevo program.

Material Services Agreements:

The Services Agreement dated July 18, 2006, between PSO Sistema-Hals and the City of Dubna, pursuant to which PSO Sistema-Hals provides the City of Dubna with project development services.

The Services Agreement dated June 13, 2006, between PSO Sistema-Hals and FGUP Dorogi Rossii, pursuant to which PSO Sistema-Hals provides FGUP Dorogi Rossii with services in relation to a highway construction project.

The Services Agreement dated June 9, 2006, between Mosdachtrest and OOO SpecServiS, pursuant to which SpecServiS provides Mosdachtrest with construction services for the Serebryany Bor project.

The Services Agreement dated May 31, 2006, between PSO Sistema-Hals and the City of Moscow, pursuant to which PSO Sistema-Hals provides the City of Moscow with project development services with respect to a pedestrian route from Neskuchny Sad to the international business center "Moscow-City."

The Services Agreement dated November 2, 2005, between PSO Sistema-Hals and the City of St. Petersburg, pursuant to which PSO Sistema-Hals provides the City of St. Petersburg with project development services.

The services agreement dated October 25, 2005, between Sistema-Hals and Top-Floor, pursuant to which Top-Floor becomes a general contractor with respect to Leningradsky Towers project.

The Services Agreement dated April 25, 2005, between Sistema-Hals and OAO NPK NIIDAR, pursuant to which Sistema-Hals provides NPK NIIDAR with project development services. According to the Assignment Agreement dated October 17, 2005, the rights and obligations of Sistema-Hals under such Agreement were transferred to IRT.

The Services Agreement dated July 14, 2005, between PSO Sistema-Hals and IR Development, pursuant to which PSO Sistema-Hals provides IR Development with project development services.

The Services Agreement dated June 23, 2005, between Sistema-Hals and LuckyStroy, pursuant to which LuckyStroy provides Sistema-Hals with construction services with respect to the Mokhovaya 13 project.

The Services Agreement dated April 27, 2005, between Sistema-Hals and LuckyStroy, pursuant to which LuckyStroy provides Sistema-Hals with general contractor's services for the 31/1 Mokhovaya Street project.

The Services Agreement dated November 11, 2004, between Sistema-Hals and Detsky Mir, pursuant to which Sistema-Hals provides Detsky Mir with project development services.

The Services Agreement dated October 18, 2004, between Sistema-Hals and Keco Invest Engineering GmbH, pursuant to which Keco Invest Engineering provides Sistema-Hals with general contractor's services for the 40/3 Pokrovka Street project.

The Services Agreement dated September 30, 2004, between Sistema-Hals and MGTS, pursuant to which Sistema-Hals provides MGTS with general contractor services.

The Services Agreement dated August 16, 2001, between Sistema-Hals and Manezh 13/1 LLC, pursuant to which Sistema-Hals provides Manezh 13/1 with project development services.

Material Sale and Purchase Agreement:

The Sale and Purchase Agreement dated June 2, 2006, among Sistema-Hals, Kuntsevo-Invest, Sistema-Hals Nord-West, OOO City-Service, ZAO Invest-Prof, Hals-Stroy, Landshaft II Sistema, ZAO Finexport-M, ZAO IPK, OAO ALK Sistema-Leasing, ZAO Finkonsaltproekt and TMK Global AG, pursuant to which TMK Global acquires shares in Pokrovka 40 LLC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of JSFC Sistema:

We have audited the accompanying statements of assets and liabilities of Sistema-Hals Real Estate Development Group (the "Group"), comprising the real estate business of JSFC Sistema conducted in the Commonwealth of Independent States ("CIS"), as of December 31, 2005, 2004 and 2003, and the related statements of operations, cash flows and changes in net assets/(liabilities) 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 the audit is planned and performed 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 companies' 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.

The accompanying financial statements were prepared to present the assets and liabilities and related results of operations and cash flows of the Group, as described in Note 1 to the financial statements, and may not necessarily be indicative of the conditions that would have existed or the results of operations and cash flows if the Group had been operated as a stand-alone company during the periods presented.

In our opinion, such financial statements present fairly, in all material respects, the assets and liabilities of the Sistema-Hals Real Estate Development Group as of December 31, 2005, 2004 and 2003, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ ZAO Deloitte & Touche CIS

October 2, 2006
Moscow, Russia

SISTEMA-HALS REAL ESTATE DEVELOPMENT GROUP
STATEMENTS OF ASSETS AND LIABILITIES
AS OF DECEMBER 31, 2005, 2004 AND 2003
(Amounts in thousands of U.S. Dollars)

	<u>Notes</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
ASSETS				
Cash and cash equivalents	3	10,362	6,540	6,148
Accounts receivable, net	4	20,929	3,977	1,681
Taxes receivable	5	25,058	15,953	15,399
Prepaid expenses and other assets, net	6	3,917	3,815	14,177
Loans and notes receivable	7	7,708	11,035	9,095
Costs and estimated earnings in excess of billings on uncompleted contracts	8	38,348	18,141	36,769
REAL ESTATE INVESTMENTS, NET:				
Real estate developed for sale	9	124,312	109,585	39,730
Income producing properties, net	9	47,580	40,734	34,005
Total		171,892	150,319	73,735
Plant and equipment, net	10	3,356	2,507	1,929
Development rights and other intangible assets, net	11	43,178	43,231	43,277
Investments in shares	12	287	259	6,135
TOTAL ASSETS		<u>325,035</u>	<u>255,777</u>	<u>208,345</u>
LIABILITIES				
Payables to suppliers and subcontractors	13	12,148	18,526	12,830
Billings in excess of costs and estimated earnings on uncompleted contracts	14	13,996	15,211	18,792
Accrued expenses and other liabilities	15	5,198	3,896	10,365
Taxes payable		856	1,945	522
Construction obligations	16	21,898	27,186	27,315
Loans and notes payable	17	216,500	157,374	138,386
Deferred tax liabilities	21	10,883	10,344	10,357
TOTAL LIABILITIES		<u>281,479</u>	<u>234,482</u>	<u>218,567</u>
COMMITMENTS AND CONTINGENCIES	24	—	—	—
MINORITY INTERESTS		14,125	5,497	3,392
NET ASSETS/(LIABILITIES)	18	<u>29,431</u>	<u>15,798</u>	<u>(13,614)</u>

See notes to financial statements.

SISTEMA-HALS REAL ESTATE DEVELOPMENT GROUP
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
(Amounts in thousands of U.S. Dollars)

	<u>Notes</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
REVENUES	25	93,124	108,977	32,535
OPERATING EXPENSES	19	<u>(81,425)</u>	<u>(87,167)</u>	<u>(31,515)</u>
OPERATING INCOME		11,699	21,810	1,020
OTHER INCOME/(EXPENSES):				
Other (expenses)/income, net		(1,201)	(1,275)	2,251
Interest income		682	552	121
Interest expense, net of amounts capitalized		(3,988)	(2,214)	(3,829)
Loss on foreign currency transactions		(193)	(1,872)	(977)
Gain on sale of a controlling interest in a subsidiary	20	<u>2,781</u>	<u>—</u>	<u>—</u>
INCOME/(LOSS) BEFORE INCOME TAX AND MINORITY INTERESTS		9,780	17,001	(1,414)
Income tax expense	21	<u>(4,517)</u>	<u>(2,018)</u>	<u>(154)</u>
INCOME/(LOSS) BEFORE MINORITY INTERESTS		5,263	14,983	(1,568)
Minority interests		<u>(4,556)</u>	<u>(2,105)</u>	<u>(205)</u>
NET INCOME/(LOSS)		<u><u>707</u></u>	<u><u>12,878</u></u>	<u><u>(1,773)</u></u>

See notes to financial statements.

SISTEMA-HALS REAL ESTATE DEVELOPMENT GROUP
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
(Amounts in thousands of U.S. Dollars)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES:			
Net income/(loss)	707	12,878	(1,773)
Adjustments to reconcile net income/(loss) to net cash (used in)/ provided by operations:			
Depreciation and amortization	2,783	1,556	685
Gain on disposal of plant and equipment	(293)	(291)	(161)
Minority interests	4,556	2,105	205
Gain on sale of a controlling interest in a subsidiary	(2,781)	—	—
Gain on sale of real estate investment	(2,195)	—	—
Loss on disposal of a long-term investment	—	87	—
Deferred tax expense/(benefit)	539	(13)	(1)
Change in estimate of construction obligations	(5,288)	—	—
Bad debt expense	2,041	876	109
Changes in operating assets and liabilities:			
(Costs in excess of billings)/billings in excess of costs on uncompleted contracts	(19,804)	13,805	8,695
Accounts receivable	(16,952)	(2,296)	7,686
Prepaid expenses and other assets	(102)	1,701	(2,305)
Taxes receivable	(9,105)	(554)	(8,351)
Payables to suppliers and subcontractors	(8,589)	2,084	(1,944)
Accrued expenses and other current liabilities	1,302	544	(139)
Taxes payable	(1,089)	1,423	214
Net cash (used in)/provided by operating activities	(54,270)	33,905	2,920
INVESTING ACTIVITIES:			
Payments for real estate investments	(22,095)	(80,943)	(26,967)
Proceeds from sale of real estate investments	—	8,661	—
Purchases of plant and equipment and intangible assets	(1,701)	(2,054)	(525)
Proceeds from sale of plant and equipment	340	1,086	315
Increase/(decrease) in short-term loans and notes receivable, net	3,142	(7,132)	10,542
Purchases of long-term investments	(247)	—	—
Repayment/(issuance) of long-term loans and notes receivable	185	5,192	(4,226)
Proceeds from sale of shares	—	5,789	—
Proceeds from sale of a controlling interest in a subsidiary	3,000	—	—
Net cash used in investing activities	(17,376)	(69,401)	(20,861)

SISTEMA-HALS REAL ESTATE DEVELOPMENT GROUP
STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
(Amounts in thousands of U.S. Dollars)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
FINANCING ACTIVITIES:			
Principal payments on long-term borrowings	(60,744)	(39,887)	(55,452)
Proceeds from long-term borrowings	33,424	103,138	50,708
Proceeds from/(principal payments on) short-term borrowings, net	86,440	(44,263)	20,785
Net transfers from Sistema	12,610	16,534	—
Proceeds from capital transaction of a subsidiary	4,052	—	—
Net cash provided by financing activities	<u>75,782</u>	<u>35,522</u>	<u>16,041</u>
Effects of foreign currency translation on cash and cash equivalents	(314)	366	502
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	3,822	392	(1,398)
CASH AND CASH EQUIVALENTS, beginning of the year	<u>6,540</u>	<u>6,148</u>	<u>7,546</u>
CASH AND CASH EQUIVALENTS, end of the year	<u><u>10,362</u></u>	<u><u>6,540</u></u>	<u><u>6,148</u></u>
CASH PAID DURING THE YEAR FOR:			
Income taxes	4,807	606	69
Interest, net of amounts capitalized	3,750	2,023	3,025

NON CASH INVESTING AND FINANCING ACTIVITIES:

Non-cash investing and financing activities for the year ended December 31, 2004 included acquisitions by Sistema of Terra, Yalta Fish Processing Plant and Kaskad, and sale of Bolshaya Ordynka, as described in Note 18.

See notes to financial statements.

SISTEMA-HALS REAL ESTATE DEVELOPMENT GROUP
STATEMENTS OF CHANGES IN NET ASSETS/(LIABILITIES)
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
(Amounts in thousands of U.S. Dollars)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Beginning balance	15,798	(13,614)	(11,841)
Net income/(loss)	707	12,878	(1,773)
Net transfers from Sistema (Note 18)	12,610	16,534	—
Capital transaction of a subsidiary (Note 18)	316	—	—
Ending balance	29,431	15,798	(13,614)

See notes to financial statements.

SISTEMA-HALS REAL ESTATE DEVELOPMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 and 2003
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

1. BASIS OF PRESENTATION

The financial statements of Sistema-Hals Real Estate Development Group (the “Group”) are presented on a carve-out basis to include the historical operations of the Real Estate business segment of JSFC Sistema (“Sistema”). In August 2006, Sistema has completed the corporate reorganization of its Real Estate business segment by consolidating ownership of the segment’s entities under Sistema-Hals JSC, except that Pokrovka 40 LLC, an entity established in April 2006, remains majority owned by Sistema. Pokrovka 40 will be transferred to the buyer of the office complex that the Group has developed at 40/3 Pokrovka St., Moscow, upon closing of the sale.

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

Business operations of the Group are conducted in the Russian Federation (hereinafter referred to as the “RF”) and the CIS, primarily in Moscow, the Moscow Region and Saint-Petersburg. All significant operating entities of the Group are incorporated in the CIS.

During the years ended December 31, 2005, 2004 and 2003, Sistema did not charge the Group for any management services, including corporate oversight, financial, legal, corporate communications or human resources. Costs incurred by Sistema to provide such services to the Group have not been significant during these periods. However, these financial statements may not necessarily be indicative of the conditions that would have existed or the results of operations and cash flows if the Group had been operated as a stand-alone company during the periods presented.

During the three years in the period ended December 31, 2005, majority of the Group’s borrowings was provided by Sistema. Significant portion of this financing was of a short-term nature. In August and September 2006, the Group obtained loans from international financial institutions for the term of one year (Note 26), that it expects to use, in part, to refinance borrowings from Sistema. Management believes, on the basis of cash flow forecasts, that the total facilities available to the Group will be sufficient to cover all of the Group’s current obligations.

All significant transactions within the Real Estate business segment of Sistema, balances and unrealized gains (losses) on such transactions have been eliminated in these financial statements.

SISTEMA-HALS REAL ESTATE DEVELOPMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 and 2003
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

The beneficial ownership and proportion of voting power of Sistema in significant operating entities of the Group as of December 31, 2005, 2004 and 2003 were as follows:

Operating entities	Ownership interest			Voting power		
	2005	2004	2003	2005	2004	2003
Mosdachtrest	56%	44%	44%	60%	51%	51%
Sistema-Temp	100%	100%	100%	100%	100%	100%
Kuntsevo-Invest	81%	81%	81%	81%	81%	81%
Landshaft	100%	100%	100%	100%	100%	100%
Landshaft-2	100%	100%	—	100%	100%	—
City-Hals	100%	100%	100%	100%	100%	100%
Hals-Stroy	100%	100%	100%	100%	100%	100%
Beijing-Invest	90%	90%	90%	90%	90%	90%
Sistema-Hals Nord-West	76%	76%	76%	76%	76%	76%
Organizator	51%	51%	51%	51%	51%	51%
PSO Sistema-Hals	51%	51%	51%	51%	51%	51%
Bolshaya Ordynka	—	—	70%	—	—	70%
Hotel Korona-Intourist	100%	100%	100%	100%	100%	100%
Terra	99%	99%	—	99%	99%	—
Yalta Fish Processing Plant	98%	98%	—	98%	98%	—
Kaskad	100%	100%	—	100%	100%	—

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

SISTEMA-HALS REAL ESTATE DEVELOPMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 and 2003
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

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

Management believes that the USD is the functional currency of the Group, as the majority of its revenues, costs and capital expenditures are either priced, incurred, payable or otherwise measured in USD. In addition, the Group maintains significant portion of its debt instruments in USD. To the extent settlements are required to be in RUB, the Group sets prices and values in USD and performs the settlements in RUB using the then prevailing exchange rate of the Central Bank of Russia. As such, during the years ended December 31, 2005, 2004 and 2003, the Group remeasured its assets, liabilities, income and expense items in USD. Monetary assets and liabilities were translated into USD at the rate in effect as of the balance sheet date; non-monetary assets and liabilities and income and expense items were translated at the rate prevailing on the date of the transaction. Exchange gains and losses arising from the remeasurement of monetary assets and liabilities not denominated in USD were included in gains/(losses) on foreign currency transactions in the statements of operations. The official exchange rates quoted by the Central Bank of Russia as of December 31, 2005, 2004 and 2003 were 28.78, 27.75 and 29.45 rubles per 1 USD, respectively.

During the years ended December 31, 2005, 2004 and 2003, the Russian ruble was not a fully convertible currency outside of the territory of the RF. The translation of ruble denominated assets and liabilities into USD for the purpose of these financial statements does not indicate that the Group could realize or settle in USD the reported values of the assets and liabilities.

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

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

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

Investments in real estate developed for sale where the sale is not consummated are accounted for under the deposit method in accordance with SFAS 66, except for those investments in development of office buildings, apartments, condominiums, shopping centers and similar structures, where criteria for revenue recognition have been met as of the balance sheet date. Such investments are accounted for by the percentage-of-completion method.

In those instances, when the Group acts as a contractor under construction contracts with third parties, it applies the percentage of completion method to the respective contracts where and as soon as it is able to reliably estimate the stage of progress to completion of the project, costs to complete the project and contractual revenues. Progress towards completion is measured by the percentage of costs incurred to date to the estimated total costs at

SISTEMA-HALS REAL ESTATE DEVELOPMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 and 2003
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completion for each contract (the “cost-to-cost” method). On most of its contracts, the Group is not able to reliably estimate costs to complete the project and contractual revenues until the project is at least 30% complete. Until the 30% completion point, the Group carries the projects at cost. The Group does not recognize revenue on contracts until reasonably dependable estimates of costs to complete the project and contractual revenues can be made.

- (ii) The Group provides project and construction management services to municipal governments on certain socially important infrastructure projects. The Group’s remuneration for such services was determined as a percentage of project costs incurred by third parties and approved by the municipal government. Based upon the guidance in Emerging Issues Task Force Consensus 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent (“EITF 99-19”), management has concluded that the Group’s services under such contracts do not transfer to the Group full risks and rewards associated with the projects. Therefore, the Group recognizes as revenues only its fees from project management services. Fees are recognized as the project costs are incurred and approved by the municipal government.
- (iii) Revenues from real estate asset management include rental revenues, revenues from sale or assignment of rights to land plots and residential units. Rental revenues are recognized over the lease term on a straight-line basis. Revenues from sale or assignment of rights over real estate are recognized when substantially all the risks and rewards of ownership have been passed to the buyer.
- (iv) Revenues from service contracts for facility management are recognized on the accrual basis over the periods when services are provided.

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

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

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

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

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

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Financial instruments—The Group’s financial instruments primarily comprise cash and cash equivalents, short-term and long-term investments, receivables, payables and debt. The estimated fair value of short-term financial instruments as of December 31, 2005 approximated their carrying value as reflected in the balance sheet. The fair value of long-term loans and notes payable which have variable interest rates based on market rates approximate the carrying amount of those financial instruments. The fair value of the Group’s long-term loans and notes payable to Sistema and its subsidiaries is not practicable to estimate based on the related party nature of the underlying transactions. The fair value of long-term investments was not determined due to quoted market prices not being readily available and valuations not being obtained due to the excessive costs involved.

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

Loans and notes receivable—Loans and notes receivable with original maturities in excess of three months are being accounted for at amortized cost. Management annually assesses the realizability of the carrying values of loans and notes receivable and, if necessary, records impairment losses to write the investments down to fair value.

Investments in shares—The Group’s share in net assets and net income of Amiral B.V., Regiony, TRK Kazan and Kamenny Ostrov, in which the Group holds 50% of voting shares and has the ability to exercise significant influence over their operating and financial policies (“affiliates”) is accounted for using the equity method of accounting. During the years ended December 31, 2005, 2004 and 2003, the Group’s share in the net income (loss) of these entities was insignificant.

Investments in corporate shares where the Group owns less than 20% voting interest are accounted for at cost of acquisition.

During the year ended December 31, 2005, the Group acquired 25% of voting shares of CJSC Sixteenth Trust for USD 142 thousand and 26% of voting shares of CJSC Institute Promos for USD 1 thousand.

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

Prepaid expenses—Prepaid expenses are primarily comprised of advance payments for services to vendors.

Value-added taxes—Value-added taxes (“VAT”) related to sales are payable to the tax authorities either on an accrual or a cash basis (members of the Group are applying different methodologies, as allowed by Russian tax law) based upon invoices issued to the customer. VAT incurred for purchases may be reclaimed, subject to certain restrictions, against VAT related to sales. VAT related to purchase transactions that are reclaimable after the balance sheet dates is recorded in taxes receivable. Non-reclaimable VAT is included into the cost of construction as it is a cost necessarily incurred in the completion of the relevant object.

Plant and equipment—Plant and equipment with a useful life of more than one year is 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.

Items of 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.

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Development rights and other intangible assets—Development rights acquired by the Group are stated at acquisition cost. The costs of development rights will be amortized on a straight-line basis from the date when the project starts generating revenues until the development period expires. Development rights as of December 31, 2005, 2004 and 2003 comprise rights to develop residential property in the Western Kuntsevo district of Moscow. The development period for this project expires in 2012. Amortization of other finite-life intangible assets is computed on a straight-line basis.

Impairment of long-lived assets—The Group periodically evaluates the recoverability of the carrying amount of its long-lived assets in accordance with SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group compares undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, the Group records impairment losses to write the asset down to fair value, measured by the estimated discounted net future cash flows expected to be generated from the use of the assets. Management does not believe there should be any impairment charge recorded relating to the Group’s investments in long-lived assets during the years ended December 31, 2005, 2004 and 2003.

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

Income taxes—Income taxes have been computed in accordance with the laws of the RF. The standard income tax rate in the RF for the years ended December 31, 2005, 2004 and 2003 was 24%.

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

Retirement benefit and social security costs—The Group contributes to the RF state pension fund, social insurance fund, medical insurance fund on behalf of all of its current employees. In accordance with the current RF legislation, all social contributions are calculated by the application of a regressive rate from 26% to 2% (from 35.6% to 2% before January 1, 2005) to the annual gross remuneration of each employee. The contributions are expensed in the period in which they are incurred.

Borrowing costs—The Group capitalizes interest on borrowings during the active construction period of its capital projects. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. For the years ended December 31, 2005, 2004 and 2003, capitalized borrowing costs were USD 10,960 thousand, USD 6,274 thousand and USD 2,167 thousand, respectively. Other borrowing costs were recognized as an expense in the period in which they were incurred.

Advertising costs—The Group expenses the cost of advertising in the period in which they are incurred.

Minority interests—Minority interests represents share in book value of net assets of the Group’s entities proportional to equity interests in those entities owned, directly or indirectly, by shareholders other than Sistema and its subsidiaries.

Dividends and distributions—Dividends and distributions to shareholders are recognized at the date they are declared. Distributable retained earnings of the Group are based on amounts extracted from statutory accounts of individual entities and may differ from amounts calculated on the basis of U.S. GAAP.

Comprehensive income—Comprehensive income consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) refers to revenues, expenses, gains

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and losses that are not included in net income, but rather are recorded directly in net assets (liabilities). For the years ended December 31, 2005, 2004 and 2003, the Group had no items of other comprehensive income (loss), and, accordingly, comprehensive income is the same as net income.

New accounting pronouncements—In December 2004, the Financial Accounting Standards Board (“FASB”) issued FAS No. 123R, “Share-Based Payment” (“FAS No. 123R”), a revision of FAS No. 123, “Accounting for Stock-Based Compensation”. FAS No. 123R supersedes Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees” and requires all entities to recognize compensation cost in an amount equal to the fair value of share-based payments grant-date to employees. That cost is recognized over the period during which an employee is required to provide service in exchange for an award of equity instruments. FAS No. 123R must be adopted by most public entities no later than the beginning of the first fiscal year commencing after June 15, 2005. The adoption of FAS No. 123R did not have a material impact on the Group’s financial position or results of operations.

In December 2004, the FASB issued FAS No. 153, “Exchanges of Nonmonetary Assets”, an amendment of APB Opinion No. 29, “Accounting for Nonmonetary Transactions”. FAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets set in the APB Opinion No. 29 and replaces it with a general exception for exchanges that do not have commercial substance. FAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. FAS No. 153 is effective prospectively for nonmonetary exchanges occurring after June 15, 2005. The adoption of FAS No. 153 did not have a material impact on the Group’s financial position or results of operations.

In March 2005, the FASB issued Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143.” This Interpretation clarifies that the term “conditional asset retirement obligation” as used in FASB Statement No. 143, “Accounting for Asset Retirement Obligations”, refers to a legal obligation to perform an asset retirement activity, in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists to make a reasonable estimate of the fair value of the obligation. Interpretation No. 47 is effective for the Group beginning January 1, 2006. The adoption of Interpretation No. 47 did not have a material impact on the Group’s financial position or results of operations.

In March 2005, the SEC released Staff Accounting Bulletin 107, “Share-Based Payments”, or SAB 107. The interpretations in SAB 107 express views of the SEC staff regarding the interaction between FAS No. 123R and certain SEC rules and regulations, and provide the SEC staff’s views regarding the valuation of share-based payment arrangements for public companies. In particular, SAB 107 provides guidance related to share-based payment transactions with nonemployees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of FAS No. 123R in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of FAS No. 123R, the modification of employee share options prior to adoption of FAS No. 123R.

In May 2005, the FASB issued FAS No. 154, “Accounting Changes and Error Corrections”, which replaces APB Opinion No. 20, “Accounting Changes” and FAS No. 3, “Reporting Accounting Changes in Interim Financial Statements”. FAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle and is applicable to all voluntary changes and to changes required by an accounting pronouncement if such pronouncement does not specify transition

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provisions. FAS No. 154 requires retrospective application to the prior periods' financial statements of changes in accounting principle. In cases when it is impracticable to determine the period-specific or cumulative effects of an accounting change, the statement provides that the new accounting principle should be applied as of the earliest period for which retrospective application is practicable or, if impracticable to determine the effect of a change to all prior periods, prospectively from the earliest date practicable. This Statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In June 2005, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 05-6, "Determining the Amortization Period for Leasehold Improvements." As part of a business combination, the acquiring entity will often assume existing lease agreements of the acquired entity and acquire the related leasehold improvements. The issues are whether the "lease term" should be reevaluated at consummation of a purchase business combination and whether the amortization period for acquired leasehold improvements should be reevaluated by the acquiring entity in a business combination. The consensus reached by EITF No. 05-6 is effective for leasehold improvements that are purchased or acquired in reporting periods beginning June 29, 2005. The adoption of EITF No. 05-6 did not have a material impact on the Group's financial position and results of operations.

In February 2006, the FASB issued FAS No. 155, "Accounting for Certain Hybrid Financial Instruments, an amendment to FAS No. 133 "Accounting for Derivative Instruments and Hedging activities" and FAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". FAS No. 155 addresses application of FAS No. 133 to beneficial interests in securitized financial assets and permits to remeasure fair value for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, requires to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, amends FAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument, and clarifies certain other derivatives classification issues. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that starts after September 15, 2006, and is not expected to have a material impact on the Group's financial position and results of operations.

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes", of SFAS No. 109, "Accounting for Income Taxes". The Interpretation applies to all tax positions that are within the scope of SFAS No. 109 and requires the two-step approach for recognizing and measuring tax benefits. The Interpretation establishes a "more-likely-than-not" recognition threshold that must be met before a tax benefit can be recognized in the financial statements. To meet this threshold, the enterprise must determine that upon examination by the taxing authority, the tax position is more likely to be sustained than not, based on the technical merits of the position. Once the recognition threshold has been met, enterprises are required to recognize the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. In both steps, enterprises must presume that the taxing authority has full knowledge of all relevant information. The Interpretation also requires enterprises to make explicit disclosures at the end of each reporting period about uncertainties in their income tax positions, including a detailed rollforward of tax benefits taken that do not qualify for financial statement recognition. The Interpretation is effective for fiscal years beginning after December 15, 2006, and should be applied to all tax positions upon initial adoption. The cumulative effect of applying the provisions of the Interpretation should be reported as an adjustment to the opening balance of retained earnings for that fiscal year.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB

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having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. This Statement is required to be adopted by the Group on July 1, 2008. The Group is currently assessing the impact of the adoption of this Statement.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R) ("SFAS 158"). SFAS 158 requires companies with publicly traded equity securities that sponsor a postretirement benefit plan to fully recognize, as an asset or liability, the overfunded or underfunded status of their benefit plan(s). The funded status is measured as the difference between the fair value of the plan's assets and its benefit obligation. SFAS 158 also requires companies to measure their plan assets and benefit obligations as of year-end balance sheet date. SFAS 158 is becoming effective for fiscal years ending after December 15, 2006; the provision to require measurement at the entity's year-end balance sheet date will be effective for fiscal years ending after December 15, 2008. The Group does not expect the adoption of SFAS 158 to have a material impact on its financial position or results of operations.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2005, 2004 and 2003 consisted of the following:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash and cash equivalents on deposit with:			
Third parties	3,732	2,286	1,109
Moscow Bank of Reconstruction and Development ("MBRD"), a subsidiary of Sistema	<u>6,630</u>	<u>4,254</u>	<u>5,039</u>
Total	<u>10,362</u>	<u>6,540</u>	<u>6,148</u>

The Group had USD 500 thousand, USD 468 thousand and nil of time deposits classified as cash equivalents as of December 31, 2005, 2004 and 2003, respectively.

4. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net of provision for doubtful debts, as of December 31, 2005, 2004 and 2003 consisted of the following:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Trade receivables from third parties	6,267	3,966	1,435
Trade receivables from Sistema subsidiaries	14,958	492	355
Less: provision for doubtful debts	<u>(296)</u>	<u>(481)</u>	<u>(109)</u>
Total	<u>20,929</u>	<u>3,977</u>	<u>1,681</u>

As of December 31, 2005, trade receivables from Sistema subsidiaries included USD 14,442 thousand due from MGTS, a subsidiary of Sistema, for reimbursement of construction costs incurred.

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5. TAXES RECEIVABLE

Taxes receivable as of December 31, 2005, 2004 and 2003 consisted of the following:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
VAT receivable	22,608	14,611	12,234
Other taxes receivable	2,450	1,342	3,165
Total	<u>25,058</u>	<u>15,953</u>	<u>15,399</u>

6. PREPAID EXPENSES AND OTHER ASSETS, NET

Prepaid expenses and other assets, net of provision for doubtful debts, as of December 31, 2005, 2004 and 2003 consisted of the following:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Advance payments to third parties	3,233	1,681	1,814
Other receivables from Sistema subsidiaries	276	588	2,902
Prepaid expenses	1,111	1,223	173
Other assets	1,597	525	9,288
Less: provision for doubtful debts	(2,300)	(202)	—
Total	<u>3,917</u>	<u>3,815</u>	<u>14,177</u>

Management assesses the likelihood of the performance of services in respect of advances paid on an annual basis. This assessment identified advances paid for construction of residential property for which the receipt of services is unlikely and, accordingly, has provided for those advances paid.

Other assets as of December 31, 2003 included USD 8,661 thousand in respect of amounts due from Sistema for the restoration of the Davydov Estate ("Usadba Davydova"). This amount was settled during the year ended December 31, 2004.

7. LOANS AND NOTES RECEIVABLE

Loans and notes receivable as of December 31, 2005, 2004 and 2003 consisted of the following:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Loans receivable from Sistema and its subsidiaries	7,258	2,704	9,095
Loans receivable from third parties	450	8,331	—
Total	<u>7,708</u>	<u>11,035</u>	<u>9,095</u>

The weighted average interest rate for loans unpaid as of December 31, 2005, 2004 and 2003 was 5.54%, 2.73% and nil, respectively.

The schedule of repayment of loans and notes receivable is as follows:

Year ended December 31,	
2006	5,509
2007	2,199
Total	<u>7,708</u>

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

Costs and estimated earnings in excess of billings on uncompleted contracts as of December 31, 2005, 2004 and 2003 consisted of the following:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Accumulated costs and earnings	102,345	60,360	53,380
Less: amounts billed	(63,997)	(42,219)	(16,611)
Total	<u>38,348</u>	<u>18,141</u>	<u>36,769</u>

9. REAL ESTATE INVESTMENTS, NET

Real estate investments, net of accumulated depreciation, as of December 31, 2005, 2004 and 2003 consisted of the following:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Real estate developed for sale	124,312	109,585	39,730
Income producing properties:			
Buildings and constructions	51,290	26,171	21,566
Construction in progress	130	16,508	14,240
	<u>51,420</u>	<u>42,679</u>	<u>35,806</u>
Less: accumulated depreciation	(3,840)	(1,945)	(1,801)
Total	<u>47,580</u>	<u>40,734</u>	<u>34,005</u>
Total	<u>171,892</u>	<u>150,319</u>	<u>73,735</u>

Depreciation charges on income producing properties for the years ended December 31, 2005, 2004 and 2003 amounted to USD 1,925 thousand, USD 829 thousand and USD 470 thousand, respectively.

10. PLANT AND EQUIPMENT, NET

Plant and equipment, net of accumulated depreciation, as of December 31, 2005, 2004 and 2003 consisted of the following:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Plant and equipment	3,114	2,289	1,664
Other assets	2,136	1,725	1,127
	<u>5,250</u>	<u>4,014</u>	<u>2,791</u>
Less: accumulated depreciation	(1,894)	(1,507)	(862)
Total	<u>3,356</u>	<u>2,507</u>	<u>1,929</u>

Depreciation charges for the years ended December 31, 2005, 2004 and 2003 amounted to USD 799 thousand, USD 681 thousand and USD 207 thousand, respectively.

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11. DEVELOPMENT RIGHTS AND OTHER INTANGIBLE ASSETS, NET

Development rights and other intangible assets, net of accumulated amortization, as of December 31, 2005, 2004 and 2003 consisted of the following:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Development rights—Kuntsevo properties	43,156	43,156	43,156
Other intangible assets	137	131	131
	<u>43,293</u>	<u>43,287</u>	<u>43,287</u>
Less: accumulated amortization	(115)	(56)	(10)
Total	<u>43,178</u>	<u>43,231</u>	<u>43,277</u>

Amortization charges for the years ended December 31, 2005, 2004 and 2003 amounted to USD 59 thousand, USD 46 thousand and USD 8 thousand, respectively.

In 2001, the Group obtained control over Kuntsevo-Invest, which, as of the date of acquisition, was holding developer's rights and obligations under the program for reconstruction of residential property in the Western Kuntsevo district of Moscow in accordance with the Decree of the Moscow City Government # 158 of March 4, 1997 ("the Kuntsevo properties"). Under the program, as subsequently amended, the Group is committed to complete construction of 381.4 thousand square meters of residential living space to be sold in the market ("commercial buildings") and of additional 173.3 thousand square meters of residential living space to be transferred to the Moscow City Government ("municipal buildings"). In February 2005, Kuntsevo-Invest entered into an investment agreement with Inteko, an unrelated party, pursuant to which Inteko undertook to (i) develop, fund and construct approximately 50% of the commercial buildings and (ii) fund the development and construction of approximately 50% of the municipal buildings.

The purchase price allocation for acquisition of Kuntsevo-Invest was as follows:

Development rights	43,156
Construction obligations	(27,316)
Other liabilities	(5,481)
Deferred taxes	(10,358)
Purchase price	<u>1</u>

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

Year ended December 31,	
2006	3,321
2007	6,643
2008	6,643
2009	6,643
2010	6,643
Thereafter	<u>13,285</u>
Total	<u>43,178</u>

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.

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12. INVESTMENTS IN SHARES

Investments in shares as of December 31, 2005, 2004 and 2003 consisted of the following:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
MBRD common shares	—	—	5,539
Other	287	259	596
Total	<u>287</u>	<u>259</u>	<u>6,135</u>

The Group's investment in common shares of MBRD as of December 31, 2003 was transferred to Sistema in 2004.

13. PAYABLES TO SUPPLIERS AND SUBCONTRACTORS

Payables to suppliers and subcontractors as of December 31, 2005, 2004 and 2003 consisted of the following:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Payables to third parties	10,568	17,398	10,506
Payables to Sistema subsidiaries	1,580	1,128	2,324
Total	<u>12,148</u>	<u>18,526</u>	<u>12,830</u>

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

Billings in excess of costs and estimated earnings on uncompleted contracts as of December 31, 2005, 2004 and 2003 consisted of the following:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Amounts billed	44,820	37,876	27,906
Less: accumulated costs and earnings	(30,824)	(22,665)	(9,114)
Total	<u>13,996</u>	<u>15,211</u>	<u>18,792</u>

15. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities as of December 31, 2005, 2004 and 2003 consisted of the following:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Accrued expenses and other liabilities to third parties	3,725	3,876	7,527
Other liabilities to Sistema subsidiaries	1,473	20	2,838
Total	<u>5,198</u>	<u>3,896</u>	<u>10,365</u>

16. CONSTRUCTION OBLIGATIONS

Upon acquisition of Kuntsevo-Invest, as referred to in Note 11, the Group assumed obligations to construct two residential buildings (15, Elninskaya St. and 9, Aviatorov St.). During the year ended December 31, 2005, the Group entered into an agreement with the Moscow City Government whereby it satisfied obligation to give a portion of the non-residential space in the 15, Elninskaya St. residential building to the city by transferring to the city a similarly sized portion of a residential building completed at 8, Budanova St. As a result of this transaction, the Group has revised its estimate of

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construction obligations outstanding as of December 31, 2005. Gain resulting from the change in estimate of the construction obligations in amount of USD 5,288 thousand was recorded as a reduction in the Group's operating expenses for the year ended December 31, 2005.

17. LOANS AND NOTES PAYABLE

The Group's loans and notes payable as of December 31, 2005, 2004 and 2003 consisted of the following:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Loans and promissory notes payable to Sistema and its subsidiaries:			
MBRD	129,572	64,583	59,924
Sistema	45,259	62,358	—
Other Sistema subsidiaries	7,609	3,749	78,087
	<u>182,440</u>	<u>130,690</u>	<u>138,011</u>
Loans and promissory notes payable to third parties:			
Commerzbank	20,000	20,000	—
West LB Vostok	10,400	5,000	—
Other	3,660	1,684	375
	<u>34,060</u>	<u>26,684</u>	<u>375</u>
Total loans and notes payable	<u>216,500</u>	<u>157,374</u>	<u>138,386</u>
Current portion of loans and notes payable	152,857	45,142	82,054
Non-current portion of loans and notes payable	63,643	112,232	56,332

The Group's activities have historically primarily been financed through the provision of loans and notes by the controlling shareholder and its subsidiaries. The interest rates on loans and notes obtained by the Group from Sistema and its subsidiaries are fixed and range from 0% to 17%.

The interest rate on the CommerzBank loan was LIBOR+5% (9.84% and 7.4% as of December, 31 2005 and 2004 respectively). The loan was guaranteed by Sistema and has been settled in March 2006.

The interest rate on the West LB Vostok loan was LIBOR+6.8% (11.64% and 9.4% as of December 31, 2005 and 2004 respectively). The loan was guaranteed by MGTS, a subsidiary of Sistema, and has been settled in March 2006.

The weighted average interest rate for loans unpaid as of December 31, 2005, 2004 and 2003 was 9.01%, 7.47% and 5.30%, respectively.

The schedule of repayments of loans and notes payable over the five-year period beginning on December 31, 2005 is as follows:

Year ended December 31,	
2006	152,857
2007	50,516
2008	10,231
2009	1,931
2010	965
Total	<u>216,500</u>

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18. TRANSFERS FROM/(TO) SISTEMA AND OTHER CAPITAL TRANSACTIONS

During the year ended December 31, 2004, the Group has completed the Bolshaya Ordynka development project and disposed of it for an amount of USD 52,932 thousand. The net gain from sale of USD 12,933 thousand was retained by Sistema.

During the year ended December 31, 2004, Sistema acquired a 99% stake in Terra, a 100% stake in Kaskad and a 98% stake in Yalta Fish Processing Plant for an aggregate consideration of USD 29,467 thousand. These entities hold rights to land plots, that the Group plans to develop. The cost of the acquisitions were paid for by Sistema (see Note 26).

In June 2005, Sistema-Hals issued 125 common shares to Sistema with par value of RUB 50 at RUB 3,480 thousand per share. The proceeds from the issuance amounted to USD 15,113 thousand.

During the year ended December 31, 2005, Sistema-Hals acquired from Sistema's subsidiaries, outside of the Group, 50% of the ordinary shares in Sistema-Temp for USD 2,091 thousand, 81% of the ordinary shares in Kuntsevo-Invest for USD 2 thousand and 30% of the ordinary shares in City-Hals for USD 10 thousand.

During the year ended December 31, 2005, Mosdachtrest issued 19,894 common shares with a par value of RUB 16,361. The Moscow Government acquired 7,162 common shares for USD 4,046 thousand. Other shareholders acquired 10 common shares for USD 6 thousand. The remaining shares were acquired by Sistema-Hals. These transactions increased Sistema-Hals' ownership interest in Mosdachtrest to 56%. The excess of the Moscow Government contribution over the book value of the respective share of Mosdachtrest's net assets of USD 316 thousand has been recorded as a capital transaction.

The share capital of Sistema-Hals as of December 31, 2005, 2004 and 2003, comprises 1,175, 1,050 and 1,050 authorized, issued and outstanding common shares, respectively, with par value of 50 RUB.

19. OPERATING EXPENSES

Operating expenses for the years ended December 31, 2005, 2004 and 2003 comprised the following:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cost of sales of development projects	51,969	62,596	14,355
Payroll and employee related costs	15,318	10,763	7,722
Consulting services	4,584	4,062	4,220
Depreciation and amortization	2,783	1,556	685
Rent of premises and land	2,512	1,754	570
Security expenses	1,884	1,107	367
Taxes other than income taxes	1,451	702	62
Repairs and maintenance	1,021	963	113
Utilities and energy costs	1,021	157	342
Insurance	608	58	31
Advertising and marketing	489	624	213
Change in the estimate of construction obligations (Note 16)	(5,288)	—	—
Bad debt expense	2,041	876	109
Other	1,032	1,949	2,726
Total	<u>81,425</u>	<u>87,167</u>	<u>31,515</u>

20. SALE OF A CONTROLLING INTEREST IN A SUBSIDIARY

The Group disposed of 50% of its interest in the previously wholly owned subsidiary Kamenny Ostrov to a third party for USD 3,000 thousand. As a result of this disposal, the Group recognized a

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gain on disposal of USD 2,781 thousand and retained a 50% interest in Kamenny Ostrov. Subsequent to the disposal, the Group accounted for its remaining 50% interest under the equity method.

21. INCOME TAXES

The Group's provision for income taxes for the years ended December 31, 2005, 2004 and 2003 was as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current expense	3,978	2,031	155
Deferred tax expense/(benefit)	539	(13)	(1)
Total	<u>4,517</u>	<u>2,018</u>	<u>154</u>

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Income tax provision computed on income before taxes at statutory rate	2,347	4,080	(339)
Adjustments due to:			
Non-deductible items	745	474	234
Non-taxable items	(137)	(616)	(176)
Profit on sale of a project, retained by the controlling shareholder	—	(3,104)	—
Taxable losses not carried forward	1,103	1,587	541
Currency exchange and translation differences	459	(403)	(106)
Total	<u>4,517</u>	<u>2,018</u>	<u>154</u>

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, 2005, 2004 and 2003:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Deferred tax assets:			
Construction obligations	5,062	6,123	6,153
Other	914	455	317
Less: valuation allowance	(5,976)	(6,578)	(6,470)
Total deferred tax assets	<u>—</u>	<u>—</u>	<u>—</u>
Deferred tax liabilities:			
Development rights	(10,330)	(10,330)	(10,330)
Other	(553)	(14)	(27)
Total deferred tax liabilities	<u>(10,883)</u>	<u>(10,344)</u>	<u>(10,357)</u>

Valuation allowance is primarily attributable to the deferred tax asset relating to construction obligations. The valuation allowance has been recorded, as it is "more likely than not" that taxable income generated by the respective entity of the Group during the periods when the deductible temporary differences are expected to reverse, will not be sufficient for this asset to realize.

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22. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2005, 2004 and 2003, the Group entered into the following transactions with Sistema and its subsidiaries:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues from development projects	17,333	1,383	15,490
Interest costs	(12,399)	(7,316)	(5,996)
Services provided	1,269	1,112	625
Services purchased	(374)	(590)	(4,567)
Interest income	96	—	121

Development projects:

MGTS

In the year ended December 31, 2005, the Group derived revenues of USD 13,922 thousand from the reconstruction of MGTS' building at Nastasyinsky lane.

MTS

In the year ended December 31, 2003, the Group derived revenues from MTS, a subsidiary of Sistema, of USD 9,114 thousand from the reconstruction of several of its buildings in Saint Petersburg.

Agreements to act as a developer:

In the year ended December 31, 2004, the Group entered into an agreement with Detsky Mir, a subsidiary of Sistema, to act as a developer for a project to redevelop Detsky Mir's flagship store.

In the year ended December 31, 2005, the Group entered into an agreement with NIIDAR, a subsidiary of Sistema, to act as a developer for a project to develop a land plot, on which NIIDAR facilities are located, into a multipurpose residential, office and retail complex.

In the year ended December 31, 2005, the Group entered into a series of agreements with MGTS to act on its behalf as a developer for the first stage of the project to redevelop MGTS' telephone exchanges.

The Group has an investment agreement with Manezh 13/1, a wholly owned subsidiary of Sistema, for redevelopment of Mokhovaya 13/1 office building, owned by Manezh 13/1. In the year ended December 31, 2005, Sistema decided to appoint a contractor, owned by a director of Sistema-Hals, to perform construction and finishing works under the project. The Group is recognizing a fee related to the supervisory, management and administrative services provided in respect of the Mokhovaya 13/1 redevelopment project, determined as 5% of the total construction costs.

Interest costs:

In the years ended December 31, 2005, 2004 and 2003, interest costs on the Group's borrowings from MBRD amounted to USD 12,399 thousand, USD 7,316 thousand and USD 5,996 thousand, respectively.

Rental revenues:

In the years ended December 31, 2005, 2004 and 2003, the Group received rental revenues from Radio Centre, then a subsidiary of Sistema, of USD 519 thousand, USD 630 thousand and USD 396 thousand respectively.

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Certain single-family houses owned by Mosdachtrest are leased to Sistema's related parties. The amount of rental revenues from these leases has been insignificant for the years ended December 31, 2005, 2004 and 2003.

Services provided:

In the years ended December 31, 2005, 2004 and 2003, the Group provided site management services of USD 640 thousand, USD 508 thousand and USD 174 thousand, respectively, to Sistema subsidiaries.

Related party balances and guarantees as of December 31, 2005, 2004 and 2003 are disclosed in the corresponding notes to the financial statements.

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 at December 31 2005, common shares of the Group's entities have been pledged under borrowings from MBRD as follows:

	Number of shares	Ownership interest
Mosdachtrest	5,788	32%
Rosturstroy	36	8%
Landshaft	65	65%

As of December 31, 2005, the Group has also pledged land lease rights with the fair value of USD 11,093 thousand and title to apartments with the fair value of USD 1,243 thousand.

As of December 31, 2005, Sistema has guaranteed MBRD's borrowings to the Group in the amount of USD 39,288 thousand.

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24. COMMITMENTS AND CONTINGENCIES

a) Licenses

The Group's revenues are derived from operations conducted pursuant to licenses issued by state authorities. Our principal licenses expire in 2007; however, our construction activities remain subject to licensing only until January 1, 2007, according to the Federal Law on Licensing of Certain Types of Activities.

b) Taxation environment

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include VAT, income tax, unified social tax, together with others. The government's policy on implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Russia that are more significant than typically found in countries with more developed tax systems. Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. Management believes that it has adequately provided for tax liabilities; however, the risk remains that relevant authorities could take a different position with regard to interpretive issues.

c) Russian environment and current economic situation

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

d) Industry regulation

Construction and development of real estate in Russia is primarily governed by the Civil Code, the Federal Land 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. In addition, a new City Construction Code and the Federal Law on Entry into Effect of the City Construction Code came into force on December 30, 2004. Construction and development involves compliance with burdensome regulatory requirements, and authorizations from a large number of authorities at the federal, regional and local levels. In particular, the Federal Agency on Construction, Housing and the Communal Sector, or Rosstroi, the Federal Service for Supervision in the Sphere of Use of Natural Resources, the Federal Service on Ecological, Technologic and Nuclear Supervision and regional bodies of the state architectural and construction supervision are involved in the process of authorizing and supervising real estate development.

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

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

e) 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

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pending litigations or other legal proceedings will not have a material effect upon the financial condition, results of operations or liquidity of the Group.

f) 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, 2005. A summary of significant commitments under construction contracts as of December 31, 2005 is provided below:

Leningradsky 39—The Group has contracted for construction works, including foundations, shell and core, utilities and other general construction expenditures for the total amount of USD 114,663 thousand. In addition, in connection with this project, the Group undertook obligations to provide the Central Army Sports Club (“CSCA”) with 17,437 sq.m of residential housing.

MGTS properties—The Group entered contractual agreements for reconstruction of the abovementioned buildings for the total amount of USD 12,216 thousand.

Mosdachtrest properties—The Group has contracted for construction works related to Mosdachtrest properties for the total amount of USD 32,429 thousand.

Western Kuntsevo properties—The Group has hired a contractor to perform general construction works for USD 13,231 thousand.

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

g) Operating leases

With a few exceptions, the land in Moscow is owned by the Moscow Government. The lease of land in Moscow is subject to a separate regulatory regime administered by the Government. As a general rule, such land lease rights are granted by the Government on the basis of an auction or tender, typically in exchange for either an upfront payment or ongoing consideration in the form of periodic lease payments. Periodic lease payments under land lease agreements in effect during the years ended December 31, 2005, 2004 and 2003 have not been significant.

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

h) Commitment to maintain production at Yalta Fish Processing Plant

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

i) Environmental regulations

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

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25. SEGMENT INFORMATION

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

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

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

<u>As of and for the year ended December 31, 2005</u>	<u>Real estate development</u>	<u>Project and construction management</u>	<u>Real estate asset management</u>	<u>Facility management</u>	<u>Total</u>
Net sales to external customers	48,497	22,729	14,878	7,020	93,124
Intersegment sales	463	14	421	247	1,145
Interest income	638	136	—	—	774
Interest expense, net of amounts capitalized	(1,956)	(1,948)	(541)	—	(4,445)
Depreciation and amortization	(261)	(274)	(2,223)	(25)	(2,783)
Operating income/(loss)	(6,642)	11,553	6,740	370	12,021
Income tax expense	(644)	(2,836)	(987)	(50)	(4,517)
Income/(loss) before income tax and minority interests	(1,948)	9,119	2,533	76	9,780
Segment assets	253,560	28,643	85,862	4,113	372,178
Capital expenditures	15,282	439	8,043	32	23,796

<u>As of and for the year ended December 31, 2004</u>	<u>Real estate development</u>	<u>Project and construction management</u>	<u>Real estate asset management</u>	<u>Facility management</u>	<u>Total</u>
Net sales to external customers	87,786	8,646	10,063	2,482	108,977
Intersegment sales	365	180	234	76	855
Interest income	552	—	—	—	552
Interest expense, net of amounts capitalized	(2,106)	—	(108)	—	(2,214)
Depreciation and amortization	(157)	(151)	(1,248)	—	(1,556)
Operating income	12,619	4,703	4,646	118	22,086
Income tax expense	(222)	(1,145)	(649)	(2)	(2,018)
Income/(loss) before income tax and minority interests	8,266	5,608	2,930	197	17,001
Segment assets	175,788	23,665	74,329	4,404	278,186
Capital expenditures	62,525	68	18,546	1,858	82,997

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As of and for the year ended December 31, 2003	Real estate development	Project and construction management	Real estate asset management	Facility management	Total
Net sales to external customers	18,296	3,040	6,224	4,975	32,535
Intersegment sales	613	461	—	—	1,074
Interest income	121	—	—	—	121
Interest expense, net of amounts capitalized	(3,555)	—	(274)	—	(3,829)
Depreciation and amortization	(63)	(100)	(470)	(52)	(685)
Operating income/(loss)	(365)	4	1,879	(192)	1,326
Income tax expense	—	(83)	(69)	(2)	(154)
Income/(loss) before income tax and minority interests	(2,474)	(984)	2,281	(237)	(1,414)
Segment assets	158,584	5,602	53,770	1,746	219,702
Capital expenditures	14,826	110	12,506	—	27,442

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

	2005	2004	2003
Total segment operating income	12,021	22,086	1,326
Intersegment eliminations	(322)	(276)	(306)
Other (expenses)/income, net	(1,201)	(1,275)	2,251
Interest income	682	552	121
Interest expense, net of amounts capitalized	(3,988)	(2,214)	(3,829)
Loss on foreign currency transactions	(193)	(1,872)	(977)
Gain on sale of a controlling interest in a subsidiary	2,781	—	—
Income/(loss) before income tax and minority interests	9,780	17,001	(1,414)
Total segment assets	372,178	278,186	219,702
Intersegment eliminations	(47,143)	(22,409)	(11,357)
Total assets	325,035	255,777	208,345

26. SUBSEQUENT EVENTS

Acquisitions and transfers to Sistema—In January 2006, PSO Sistema-Hals acquired 25% plus one share of OJSC Sibmost for USD 2,400 thousand. Sibmost is a leading infrastructure project manager and developer in the Siberian Federal Region.

In March 2006, Sistema-Hals acquired 50% of the share capital of TRK Kazan, which it did not already own, for USD 11 thousand from another shareholder, after which TRK Kazan became a wholly owned subsidiary.

In May 2006, the Group acquired a 51% stake in NPTC Transtekhpoeekt for consideration of USD 36 thousand. NPTC Transtekhpoeekt is engaged in the construction, modernization and electrification of railways, motor roads, aerodromes and air terminals, sea and river ports, bridges, tunnels and subways, as well as industrial, housing and other facilities unrelated to transportation. The accounts of NPTC Transtekhpoeekt are included in the Group's financial statements starting from June 1, 2006.

In August 2006, to complete the corporate reorganization of Sistema's Real Estate segment, Sistema-Hals acquired from Sistema's subsidiaries outside of the Group a 99% stake in Terra, a 98% stake in Yalta Fish Processing Plant, 100% stake in Kaskad and a 100% stake in Hotel Korona-Intourist for an aggregate consideration of USD 30,300 thousand.

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In August 2006, the Group acquired from related parties a 100% stake in Nostro for consideration of USD 26,600 thousand and committed to additionally invest USD 7,200 thousand to settle the debts of that entity. Nostro owns a building located at Sadovnicheskaya st., 75. The difference between the purchase price for the Group and the price paid by the related parties was recorded by the Group as a distribution to the related parties.

In October 2006, Sistema-Hals acquired a 19% stake in Kuntsevo-Invest for cash consideration of USD 102 thousand, thus increasing its ownership interest in this entity to 100%.

Financing—In August 2006, Sistema-Hals entered into a loan facility with Deutsche Bank AG in the amount of USD 140,000 thousand for the term of one year. The loan facility was extended for the Group's general operational needs and refinancing of its existing debt facilities and bears interest rate of 8.65%. The debt is guaranteed by Sistema. The guarantee fee payable by the Group is 3% per annum. The loan is subject to certain restrictive covenants including, but not limited to, certain financial ratios.

In September 2006, Sistema-Hals entered into a loan facility with NOMURA International Plc in the amount of USD 100,000 thousand for the term of one year. The loan facility was extended for the Group's general corporate purposes and working capital needs, refinancing of its existing debt facilities, as well as acquisition and development of real estate assets and bears interest rate of 8.45%. The debt is guaranteed by Sistema. The guarantee fee payable by the Group is 3% per annum. The loan is subject to certain restrictive covenants including, but not limited to, certain financial ratios.

In October 2006, Sistema-Hals entered into a loan facility with UBS AG in the amount of USD 100,000 thousand for the term of one year. The loan facility was extended for the Group's general operational needs and refinancing of its existing debt facilities and bears interest rate of 8.65%. The debt is guaranteed by Sistema. The guarantee fee payable by the Group is 3% per annum. The loan is subject to certain restrictive covenants including, but not limited to, certain financial ratios.

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	<u>Notes</u>	<u>June 30, 2006</u>	<u>December 31, 2005</u>
ASSETS			
Cash and cash equivalents	5	23,289	10,362
Accounts receivable, net	6	8,022	20,929
Taxes receivable	7	25,777	25,058
Prepaid expenses and other assets, net	8	10,831	3,917
Loans and notes receivable	9	12,302	7,708
Costs and estimated earnings in excess of billings on uncompleted contracts	10	33,705	38,348
REAL ESTATE INVESTMENTS, NET			
Real estate developed for sale	11	201,484	124,312
Income producing properties, net	11	50,505	47,580
Total		251,989	171,892
Plant and equipment, net	12	5,690	3,356
Development rights and other intangible assets, net	13	43,269	43,178
Investments in shares	14	2,667	287
TOTAL ASSETS		<u>417,541</u>	<u>325,035</u>
LIABILITIES			
Payables to suppliers and subcontractors	15	37,859	12,148
Billings in excess of costs and estimated earnings on uncompleted contracts	16	66,559	13,996
Accrued expenses and other liabilities	17	58,881	5,198
Taxes payable		1,841	856
Construction obligations	18	21,898	21,898
Loans and notes payable	19	164,590	216,500
Deferred tax liabilities	21	13,332	10,883
TOTAL LIABILITIES		<u>364,960</u>	<u>281,479</u>
COMMITMENTS AND CONTINGENCIES	24	—	—
MINORITY INTERESTS		14,316	14,125
NET ASSETS		<u>38,265</u>	<u>29,431</u>

See notes to financial statements.

SISTEMA-HALS REAL ESTATE DEVELOPMENT GROUP
STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)
(Amounts in thousands of U.S. Dollars)

		Six months ended June 30,	
	Notes	2006	2005
REVENUES	25	106,620	33,245
OPERATING EXPENSES	20	(64,627)	(29,349)
OPERATING INCOME		41,993	3,896
OTHER INCOME (EXPENSES):			
Other income, net		268	128
Interest income		846	220
Interest expense, net of amounts capitalized		(2,600)	(2,307)
Losses on foreign currency transactions		(4,819)	(953)
Gain on disposal of an equity investee	14	3,078	—
INCOME BEFORE INCOME TAX AND MINORITY INTERESTS		38,766	984
Income tax expense	21	(4,748)	(1,942)
INCOME/(LOSS) BEFORE MINORITY INTERESTS		34,018	(958)
Minority interests		(2,934)	(3,201)
NET INCOME/(LOSS)		<u>31,084</u>	<u>(4,159)</u>

See notes to financial statements.

SISTEMA-HALS REAL ESTATE DEVELOPMENT GROUP
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (unaudited)
(Amounts in thousands of U.S. Dollars)

	Six months ended June 30,	
	2006	2005
OPERATING ACTIVITIES:		
Net income/(loss)	31,084	(4,159)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operations:		
Depreciation and amortization	1,714	963
Loss on disposal of plant and equipment	191	131
Gain on disposal of an equity investee	(3,078)	—
Profit recognized by the percentage-of-completion method on real estate developed for sale	(34,935)	—
Minority interests	2,934	3,201
Deferred tax expense	2,449	173
Bad debt (reversal)/expense	(87)	2,300
Foreign currency transactions loss/(gain) on non-operating activities	4,413	(2,573)
Changes in operating assets and liabilities:		
Billings in excess of costs on uncompleted contracts	56,398	5,600
Accounts receivable	12,907	(3,912)
Prepaid expenses and other assets	(6,827)	(2,957)
Taxes receivable	(719)	(4,099)
Payables to suppliers and subcontractors	17,321	1,699
Accrued expenses and other liabilities	21,881	(8,219)
Taxes payable	985	328
Net cash provided by/(used in) operating activities	106,631	(11,524)
INVESTING ACTIVITIES:		
Payments for real estate investments	(59,414)	(14,492)
Proceeds from sale of real estate investments	30,341	—
Purchases of plant and equipment and intangible assets	(3,461)	(4,478)
Proceeds from sale of plant and equipment	331	204
Issuance of short-term loans and notes receivable, net	(4,117)	(1,449)
Purchases of long-term investments	(2,520)	(320)
Proceeds from sale of long-term investments	139	123
Proceeds from sale of an equity investees	3,094	—
Net cash used in investing activities	(35,607)	(20,412)

SISTEMA-HALS REAL ESTATE DEVELOPMENT GROUP
STATEMENTS OF CASH FLOWS (Continued)
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (unaudited)
(Amounts in thousands of U.S. Dollars)

	Six months ended June 30,	
	2006	2005
FINANCING ACTIVITIES:		
Principal payments on long-term borrowings	(30,400)	(41,248)
Proceeds from long-term borrowings	9,546	33,305
(Principal payments on)/proceeds from short-term borrowings, net	(35,946)	23,902
Net transfers from Sistema	—	14,730
Dividends paid to minority shareholders of subsidiaries	(1,922)	—
Net cash (used in)/provided by financing activities	(58,722)	30,689
Effects of foreign currency translation on cash and cash equivalents	625	(148)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	12,927	(1,395)
CASH AND CASH EQUIVALENTS, beginning of the period	10,362	6,540
CASH AND CASH EQUIVALENTS, end of the period	23,289	5,145
CASH PAID DURING THE PERIOD FOR:		
Income taxes	1,594	2,679
Interest, net of amounts capitalized	2,351	2,684

NON-CASH INVESTING AND FINANCING ACTIVITIES:

Non-cash investing and financing activities for the six months ended June 30, 2006 included transfer to Sistema of a share of profit on Pokrovka 40 development project, as described in Note 3, and acquisitions of subsidiaries, as described in Note 4.

See notes to financial statements.

SISTEMA-HALS REAL ESTATE DEVELOPMENT GROUP
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)
(Amounts in thousands of U.S. Dollars)

	Six months ended June 30,	
	2006	2005
Beginning balance	29,431	15,798
Net income/(loss)	31,084	(4,159)
Net transfers (to)/from Sistema (Note 3)	(22,250)	14,730
Ending balance	38,265	26,369

See notes to financial statements.

SISTEMA-HALS REAL ESTATE DEVELOPMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

1. BASIS OF PRESENTATION

The financial statements of Sistema-Hals Real Estate Development Group (the “Group”) are presented on a carve-out basis to include the historical operations of the Real Estate business segment of JSFC Sistema (“Sistema”). In August 2006, Sistema has completed the corporate reorganization of its Real Estate business segment by consolidating ownership of the segment’s entities under Sistema-Hals JSC, except that Pokrovka 40 LLC (Note 3), remains majority owned by Sistema. Pokrovka 40 will be transferred to the buyer of the office complex that the Group has developed at Pokrovka St. 40, Moscow, upon closing of the sale.

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

Business operations of the Group are conducted in the Russian Federation (hereinafter referred to as the “RF”) and the CIS, primarily in Moscow, the Moscow Region and Saint-Petersburg. All significant operating entities of the Group are incorporated in the CIS.

During the six months ended June 30, 2006 and 2005, Sistema did not charge the Group for any management services, including corporate oversight, financial, legal, corporate communications or human resources. Costs incurred by Sistema to provide such services to the Group have not been significant during these periods. However these financial statements may not necessarily be indicative of the conditions that would have existed or the results of operations and cash flows if the Group had been operated as a stand-alone company during the periods presented.

During the six months ended June 30, 2006 and 2005, majority of the Group’s borrowings was provided by Sistema. Significant portion of this financing was of a short-term nature. In August and September 2006, the Group obtained loans from international financial institutions for the term of one year (Note 26), that it expects to use, in part, to refinance borrowings from Sistema. Management believes, on the basis of cash flow forecasts, that the total facilities available to the Group will be sufficient to cover all of the Group’s current obligations.

All significant transactions within the Real Estate business segment of Sistema, balances and unrealized gains (losses) on such transactions have been eliminated in these financial statements.

SISTEMA-HALS REAL ESTATE DEVELOPMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)
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The beneficial ownership and proportion of voting power of Sistema in significant operating entities of the Group as of June 30, 2006 and December 31, 2005 were as follows:

Operating entities	Ownership interest		Voting power	
	June 30, 2006	December 31, 2005	June 30, 2006	December 31, 2005
Mosdachtrest	56%	56%	60%	60%
Sistema-Temp	100%	100%	100%	100%
Kuntsevo-Invest	81%	81%	81%	81%
Landshaft	100%	100%	100%	100%
Landshaft-2	100%	100%	100%	100%
City-Hals	100%	100%	100%	100%
Hals-Stroy	100%	100%	100%	100%
Beijing-Invest	90%	90%	90%	90%
Sistema-Hals Nord-West	76%	76%	76%	76%
Organizator	51%	51%	51%	51%
PSO Sistema-Hals	51%	51%	51%	51%
Hotel Korona-Intourist	100%	100%	100%	100%
Pokrovka 40	97%	—	97%	—
Terra	99%	99%	99%	99%
Yalta Fish Processing Plant	98%	98%	98%	98%
Kaskad	100%	100%	100%	100%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements as of June 30, 2006 and December 31, 2005 and for each of the six months ended June 30, 2006 and 2005 have been prepared by the Group, without audit. These financial statements should be read in conjunction with the audited financial statements and the notes thereto included herein. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position as of June 30, 2006 and December 31, 2005, results of operations and cash flows for each of the six months ended June 30, 2006 and 2005 and are not necessarily indicative of the operating results for the full year.

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

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

SISTEMA-HALS REAL ESTATE DEVELOPMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)
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The construction industry in general is subject to unique risks in respect to the means of financing, the legal and political risks and the financial risks associated with construction projects which transpire over a prolonged period of time. The Group is also reliant on a limited number of general contractors and subcontractors to undertake its commitments for construction in the timeframe required to avoid penalties and other associated costs.

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

Management believes that the USD is the functional currency of the Group, as the majority of its revenues, costs and capital expenditures are either priced, incurred, payable or otherwise measured in USD. In addition, the Group maintains significant portion of its debt instruments in USD. To the extent settlements are required to be in RUB, the Group sets prices and values in USD and performs the settlements in RUB using the then prevailing exchange rate of the Central Bank of Russia. As such, during the six months ended June 30, 2006 and 2005, the Group remeasured its assets, liabilities, income and expense items in USD. Monetary assets and liabilities were translated into USD at the rate in effect as of the balance sheet date; non-monetary assets and liabilities and income and expense items were translated at the rate prevailing on the date of the transaction. Exchange gains and losses arising from the remeasurement of monetary assets and liabilities not denominated in USD were included in gains/(losses) on foreign currency transactions in the statements of operations. The official exchange rates quoted by the Central Bank of Russia as of June 30, 2006 and December 31, 2005 were 27.08 and 28.78 rubles per 1 USD, respectively.

During the six months ended June 30, 2006 and 2005, the Russian ruble was not a fully convertible currency outside of the territory of the RF. The translation of ruble denominated assets and liabilities into USD for the purpose of these financial statements does not indicate that the Group could realize or settle in USD the reported values of the assets and liabilities.

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

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

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

Investments in real estate developed for sale where the sale is not consummated are accounted for under the deposit method in accordance with SFAS 66, except for those investments in development of office buildings, apartments, condominiums, shopping centers and similar structures, where criteria for revenue recognition have been met as of the balance sheet date. Such investments are accounted for by the percentage-of-completion method.

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

- (ii) The Group provides project and construction management services to municipal governments on certain socially important infrastructure projects. The Group’s remuneration for such services was determined as a percentage of project costs incurred by third parties and approved by the municipal government. Based upon the guidance in Emerging Issues Task Force Consensus 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent (“EITF 99-19”), management has concluded that the Group’s services under such contracts do not transfer to the Group full risks and rewards associated with the projects. Therefore, the Group recognizes as revenues only its fees from project management services. Fees are recognized as the project costs are incurred and approved by the municipal government.
- (iii) Revenues from real estate asset management include rental revenues, revenues from sale or assignment of rights to land plots and residential units. Rental revenues are recognized over the lease term on a straight-line basis. Revenues from sale or assignment of rights over real estate are recognized when substantially all the risks and rewards of ownership have been passed to the buyer.
- (iv) Revenues from service contracts for facility management are recognized on the accrual basis over the periods when services are provided.

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

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

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

Income producing properties—The Group has a number of developments where it generated or expects to generate economic benefits through retaining title to or lease rights for the property and

SISTEMA-HALS REAL ESTATE DEVELOPMENT GROUP
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receiving rental revenues. Such properties primarily consist of residential and commercial buildings and land which is, or will be, leased on either a short-term or long-term basis.

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

Financial instruments—The Group's financial instruments primarily comprise cash and cash equivalents, short-term and long-term investments, receivables, payables and debt. The estimated fair value of short-term financial instruments as of June 30, 2006 approximated their carrying value as reflected in the balance sheet. The fair value of long-term loans and notes payable which have variable interest rates based on market rates approximate the carrying amount of those financial instruments. The fair value of the Group's long-term loans and notes payable to Sistema and its subsidiaries is not practicable to estimate based on the related party nature of the underlying transactions. The fair value of long-term investments was not determined due to quoted market prices not being readily available and valuations not being obtained due to the excessive costs involved.

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

Loans and notes receivable—Loans and notes receivable with original maturities in excess of three months are being accounted for at amortized cost. Management annually assesses the realizability of the carrying values of loans and notes receivable and, if necessary, records impairment losses to write the investments down to fair value.

Investments in shares—The Group's share in net assets and net income of Amiral B.V., Telecom Development, Sibmost and Kamenny Ostrov, in which the Group holds 20-50% of voting shares and has the ability to exercise significant influence over their operating and financial policies ("affiliates") is accounted for using the equity method of accounting. During the six months ended June 30, 2006 and 2005, the Group's share in the net income (loss) of these entities was insignificant.

Investments in corporate shares where the Group owns less than 20% voting interest are accounted for at cost of acquisition.

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

Prepaid expenses—Prepaid expenses are primarily comprised of advance payments for services to vendors.

Value-added taxes—Value-added taxes ("VAT") related to sales are payable to the tax authorities either on an accrual or a cash basis (members of the Group are applying different methodologies, as allowed by Russian tax law) based upon invoices issued to the customer. VAT incurred for purchases may be reclaimed, subject to certain restrictions, against VAT related to sales. VAT related to purchase transactions that are reclaimable after the balance sheet dates is recorded in taxes receivable. Non-reclaimable VAT is included into the cost of construction as it is a cost necessarily incurred in the completion of the relevant object.

Plant and equipment—Plant and equipment with a useful life of more than one year is 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.

Items of 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.

SISTEMA-HALS REAL ESTATE DEVELOPMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

Development rights and other intangible assets—Development rights acquired by the Group are stated at acquisition cost. The costs of development rights will be amortized on a straight-line basis from the date when the project starts generating revenues until the development period expires. Development rights as of June 30, 2006 and December 31, 2005, comprise rights to develop residential property in the Western Kuntsevo district of Moscow. The development period for this project expires in 2012. Amortization of other finite-life intangible assets is computed on a straight-line basis.

Impairment of long-lived assets—The Group periodically evaluates the recoverability of the carrying amount of its long-lived assets in accordance with SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group compares undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, the Group records impairment losses to write the asset down to fair value, measured by the estimated discounted net future cash flows expected to be generated from the use of the assets. Management does not believe there should be any impairment charge recorded relating to the Group’s investments in long-lived assets during the six months ended June 30, 2006 and 2005.

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

Income taxes—Income taxes have been computed in accordance with the laws of the RF. The standard income tax rate in the RF for the six months ended June 30, 2006 and 2005 was 24%.

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

Retirement benefit and social security costs—The Group contributes to the RF state pension fund, social insurance fund, medical insurance fund on behalf of all of its current employees. 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. The contributions are expensed in the period in which they are incurred.

Borrowing costs—The Group capitalizes interest on borrowings during the active construction period of its capital projects. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. For the six months ended June 30, 2006 and 2005, capitalized borrowing costs were USD 3,779 thousand and USD 3,666 thousand, respectively. Other borrowing costs were recognized as an expense in the period in which they were incurred.

Advertising costs—The Group expenses the cost of advertising in the period in which they are incurred.

Minority interests—Minority interests represents share in book value of net assets of the Group’s entities proportional to equity interests in those entities owned, directly or indirectly, by shareholders other than Sistema and its subsidiaries.

Dividends and distributions—Dividends and distributions to shareholders are recognized at the date they are declared. Distributable retained earnings of the Group are based on amounts extracted from statutory accounts of individual entities and may differ from amounts calculated on the basis of U.S. GAAP.

Comprehensive income—Comprehensive income consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) refers to revenues, expenses, gains and losses that are not included in net income, but rather are recorded directly in net assets/(liabilities).

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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For the six months ended June 30, 2006 and 2005, the Group had no items of other comprehensive income (loss), and, accordingly, comprehensive income is the same as net income.

New accounting pronouncements—In March 2005, the FASB issued Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143.” This Interpretation clarifies that the term “conditional asset retirement obligation” as used in FASB Statement No. 143, “Accounting for Asset Retirement Obligations”, refers to a legal obligation to perform an asset retirement activity, in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists to make a reasonable estimate of the fair value of the obligation. Interpretation No. 47 is effective for the Group beginning January 1, 2006. The adoption of Interpretation No. 47 did not have a material impact on the Group’s financial position or results of operations.

In March 2005, the SEC released Staff Accounting Bulletin 107, “Share-Based Payments”, or SAB 107. The interpretations in SAB 107 express views of the SEC staff regarding the interaction between FAS No. 123R and certain SEC rules and regulations, and provide the SEC staff’s views regarding the valuation of share-based payment arrangements for public companies. In particular, SAB 107 provides guidance related to share-based payment transactions with nonemployees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of FAS No. 123R in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of FAS No. 123R, the modification of employee share options prior to adoption of FAS No. 123R.

In May 2005, the FASB issued FAS No. 154, “Accounting Changes and Error Corrections”, which replaces APB Opinion No. 20, “Accounting Changes” and FAS No. 3, “Reporting Accounting Changes in Interim Financial Statements”. FAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle and is applicable to all voluntary changes and to changes required by an accounting pronouncement if such pronouncement does not specify transition provisions. FAS No. 154 requires retrospective application to the prior periods’ financial statements of changes in accounting principle. In cases when it is impracticable to determine the period-specific or cumulative effects of an accounting change, the statement provides that the new accounting principle should be applied as of the earliest period for which retrospective application is practicable or, if impracticable to determine the effect of a change to all prior periods, prospectively from the earliest date practicable. This Statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In June 2005, the Emerging Issues Task Force (“EITF”) reached a consensus on EITF Issue No. 05-6, “Determining the Amortization Period for Leasehold Improvements.” As part of a business combination, the acquiring entity will often assume existing lease agreements of the acquired entity and acquire the related leasehold improvements. The issues are whether the “lease term” should be reevaluated at consummation of a purchase business combination and whether the amortization period for acquired leasehold improvements should be reevaluated by the acquiring entity in a business combination. The consensus reached by EITF No. 05-6 is effective for leasehold improvements that are purchased or acquired in reporting periods beginning June 29, 2005. The adoption of EITF No. 05-6 did not have a material impact on the Group’s financial position and results of operations.

In February 2006, the FASB issued FAS No. 155, “Accounting for Certain Hybrid Financial Instruments, an amendment to FAS No. 133 “Accounting for Derivative Instruments and Hedging activities” and FAS No. 140 “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities”. FAS No. 155 addresses application of FAS No. 133 to beneficial

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interests in securitized financial assets and permits to remeasure fair value for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, requires to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, amends FAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument, and clarifies certain other derivatives classification issues. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that starts after September 15, 2006, and is not expected to have a material impact on the Group's financial position and results of operations.

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes", of SFAS No. 109, "Accounting for Income Taxes". The Interpretation applies to all tax positions that are within the scope of SFAS No. 109 and requires the two-step approach for recognizing and measuring tax benefits. The Interpretation establishes a "more-likely-than-not" recognition threshold that must be met before a tax benefit can be recognized in the financial statements. To meet this threshold, the enterprise must determine that upon examination by the taxing authority, the tax position is more likely to be sustained than not, based on the technical merits of the position. Once the recognition threshold has been met, enterprises are required to recognize the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. In both steps, enterprises must presume that the taxing authority has full knowledge of all relevant information. The Interpretation also requires enterprises to make explicit disclosures at the end of each reporting period about uncertainties in their income tax positions, including a detailed rollforward of tax benefits taken that do not qualify for financial statement recognition. The Interpretation is effective for fiscal years beginning after December 15, 2006, and should be applied to all tax positions upon initial adoption. The cumulative effect of applying the provisions of the Interpretation should be reported as an adjustment to the opening balance of retained earnings for that fiscal year.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. This Statement is required to be adopted by the Group on July 1, 2008. The Group is currently assessing the impact of the adoption of this Statement.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R) ("SFAS 158"). SFAS 158 requires companies with publicly traded equity securities that sponsor a postretirement benefit plan to fully recognize, as an asset or liability, the overfunded or underfunded status of their benefit plan(s). The funded status is measured as the difference between the fair value of the plan's assets and its benefit obligation. SFAS 158 also requires companies to measure their plan assets and benefit obligations as of year-end balance sheet date. SFAS 158 is becoming effective for fiscal years ending after December 15, 2006; the provision to require measurement at the entity's year-end balance sheet date will be effective for fiscal years ending after December 15, 2008. The Group does not expect the adoption of SFAS 158 to have a material impact on its financial position or results of operations.

3. DISPOSAL OF THE OFFICE PART OF POKROVKA 40 DEVELOPMENT PROJECT

During the six months ended June 30, 2006, the Group has entered into a series of related transactions in order to arrange for disposal of the office part of a real estate complex, developed by

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the Group at Pokrovka St, 40. In April 2006, the Group has established a special-purpose entity, Pokrovka 40, where Sistema-Hals and subsidiaries own 36.4%, Sistema and subsidiaries own 60.6% and the ultimate buyer of the office building owns 3%. The shareholders contributed USD 30,000 thousand to the share capital of Pokrovka 40, in proportion to their ownership interests, that will be used to acquire rights for the office building from Hotel Korona-Intourist. During the six months ended June 30, 2006, the buyer has refunded contributions of Sistema and Sistema-Hals to the share capital of Pokrovka 40, and entered into a binding contract to acquire their ownership interests in that entity upon satisfactory transfer of the title for the completed office building to Pokrovka 40.

Upon entrance into a binding contract with the buyer, the Group started recognizing revenues and profits from the office part of Pokrovka 40 development project based on percentage of completion of the project. During the six month period ended June 30, 2006, revenues related to the office part of the complex amounted to USD 63,200 thousand. The profit share to be retained by Sistema and its subsidiaries amounted to USD 22,250 thousand.

4. ACQUISITIONS OF SUBSIDIARIES

During the six months ended June 30, 2006, the Group has acquired additional 50% interest in TRK Kazan, thus increasing its ownership interest in this entity to 100% and 51% interest in NPTC Transtekhpoeekt. The effect of these transactions on the financial statements for the six months ended June 30, 2006 was not significant.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2006 and December 31, 2005 consisted of the following:

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
Cash and cash equivalents on deposit with:		
Third parties	13,584	3,732
Moscow Bank of Reconstruction and Development ("MBRD"), a subsidiary of Sistema	<u>9,705</u>	<u>6,630</u>
Total	<u>23,289</u>	<u>10,362</u>

The Group had nil and USD 500 thousand of time deposits classified as cash equivalents as of June 30, 2006 and December 31, 2005, respectively.

6. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net of provision for doubtful debts, as of June 30, 2006 and December 31, 2005 consisted of the following:

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
Trade receivables from third parties	7,308	6,267
Trade receivables from Sistema subsidiaries	816	14,958
Less: provision for doubtful debts	<u>(102)</u>	<u>(296)</u>
Total	<u>8,022</u>	<u>20,929</u>

As of December 31, 2005, trade receivables from Sistema subsidiaries include USD 14,442 thousand due from MGTS for reimbursement of construction costs incurred.

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7. TAXES RECEIVABLE

Taxes receivable as of June 30, 2006 and December 31, 2005 consisted of the following:

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
VAT receivable	24,280	22,608
Other taxes receivable	1,497	2,450
Total	<u>25,777</u>	<u>25,058</u>

8. PREPAID EXPENSES AND OTHER ASSETS, NET

Prepaid expenses and other assets, net of provision for doubtful debts, as June 30, 2006 and December 31, 2005 consisted of the following:

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
Advance payments to third parties	4,774	3,233
Other receivables from Sistema subsidiaries	4,188	276
Prepaid expenses	1,875	1,111
Other assets	2,401	1,597
Less: provision for doubtful debts	(2,407)	(2,300)
Total	<u>10,831</u>	<u>3,917</u>

Management assesses the likelihood of the performance of services in respect of advances paid on an annual basis. This assessment identified advances paid for construction of residential property for which the receipt of services is unlikely and, accordingly, has provided for those advances paid.

9. LOANS AND NOTES RECEIVABLE

Loans and notes receivable as of June 30, 2006 and December 31, 2005 consisted of the following:

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
Loans and promissory notes receivable from subsidiaries of Sistema	8,177	7,258
Loans and promissory notes receivable from third parties	4,125	450
Total	<u>12,302</u>	<u>7,708</u>

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

Costs and estimated earnings in excess of billings on uncompleted contracts as of June 30, 2006 and December 31, 2005 consisted of the following:

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
Accumulated costs and earnings	60,614	102,345
Less: amounts billed	(26,909)	(63,997)
Total	<u>33,705</u>	<u>38,348</u>

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11. REAL ESTATE INVESTMENTS, NET

Real estate investments, net of accumulated depreciation, as of June 30, 2006 and December 31, 2005 consisted of the following:

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
Real estate developed for sale	201,484	124,312
Income producing properties:		
Buildings and constructions	54,791	51,290
Construction in progress	—	130
	<u>54,791</u>	<u>51,420</u>
Less: accumulated depreciation	(4,286)	(3,840)
Total	<u>50,505</u>	<u>47,580</u>
Total	<u>251,989</u>	<u>171,892</u>

Depreciation charge for the six months ended June 30, 2006 and 2005 amounted to USD 1,175 thousand and USD 658 thousand, respectively.

12. PLANT AND EQUIPMENT, NET

Plant and equipment, net of accumulated depreciation, as of June 30, 2006 and December 31, 2005 consisted of the following:

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
Plant and equipment	4,837	3,114
Other assets	2,609	2,136
	<u>7,446</u>	<u>5,250</u>
Less: accumulated depreciation	(1,756)	(1,894)
Total	<u>5,690</u>	<u>3,356</u>

Depreciation charge for the six months ended June 30, 2006 and 2005 amounted to USD 463 thousand and USD 279 thousand, respectively.

13. DEVELOPMENT RIGHTS AND OTHER INTANGIBLE ASSETS, NET

Development rights and other intangible assets, net of accumulated amortization, as of June 30, 2006 and December 31, 2005 consisted of the following:

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
Development rights—Kuntsevo properties	43,156	43,156
Other intangible assets	304	137
	<u>43,460</u>	<u>43,293</u>
Less: accumulated amortization	(191)	(115)
Total	<u>43,269</u>	<u>43,178</u>

Amortization charged for the six months ended June 30, 2006 and 2005 amounted to USD 76 thousand and USD 26 thousand, respectively.

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

Year ended June 30,	
2007	6,657
2008	6,657
2009	6,657
2010	6,657
2011	6,657
Thereafter	9,984
Total	<u>43,269</u>

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.

14. INVESTMENTS IN SHARES

Investments in shares, as of June 30, 2006 and December 31, 2005 consisted of the following:

	June 30, 2006	December 31, 2005
Sibmost	2,400	—
Other	<u>267</u>	<u>287</u>
Total	<u>2,667</u>	<u>287</u>

In January 2006, PSO Sistema Hals acquired 25% plus one share of Sibmost for USD 2,400 thousand. Sibmost is a leading infrastructure project manager and developer in the Siberian Federal Region.

In May 2006, Sistema-Hals sold its stake in Regiony for USD 3,094 thousand. The gain from disposal amounted to USD 3,078 thousand.

15. PAYABLES TO SUPPLIERS AND SUBCONTRACTORS

Payables to suppliers and subcontractors as of June 30, 2006 and December 31, 2005 consisted of the following:

	June 30, 2006	December 31, 2005
Payables to third parties	35,434	10,568
Payables to Sistema subsidiaries	<u>2,425</u>	<u>1,580</u>
Total	<u>37,859</u>	<u>12,148</u>

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

Billings in excess of costs and estimated earnings on uncompleted contracts as of June 30, 2006 and December 31, 2005 consisted of the following:

	June 30, 2006	December 31, 2005
Amounts billed	90,099	44,820
Less: accumulated costs and earnings	<u>(23,540)</u>	<u>(30,824)</u>
Total	<u>66,559</u>	<u>13,996</u>

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17. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities as of June 30, 2006 and December 31, 2005 consisted of the following:

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
Advances received from third parties	45,374	—
Advances received from Sistema subsidiaries	3,114	—
Accrued expenses and other liabilities to third parties	10,301	3,725
Other liabilities to Sistema subsidiaries	92	1,473
Total	<u>58,881</u>	<u>5,198</u>

18. CONSTRUCTION OBLIGATIONS

Upon acquisition of Kuntsevo-Invest, the Group assumed obligations to construct two residential buildings (15, Elninskaya St. and 9, Aviatorov St.). During the six months ended June 30, 2006, the Group incurred related construction costs in the amount of USD 8,435 thousand. The construction costs will be offset against the respective obligations when the completed buildings will be accepted by the customers and the Moscow City Government.

19. LOANS AND NOTES PAYABLE

The Group's loans and notes payable as of June 30, 2006 and December 31, 2005 consisted of the following:

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
Loans and notes payable to Sistema and its subsidiaries		
Sistema	40,891	45,259
MBRD	107,880	129,572
Other Sistema subsidiaries	3,593	7,609
Total	<u>152,364</u>	<u>182,440</u>
Loans and notes payable to third parties:		
Elizairing EKS	6,629	—
Commerzbank	—	20,000
West LB Vostok	—	10,400
Other	5,597	3,660
Total	<u>12,226</u>	<u>34,060</u>
Total loans and notes payable	<u>164,590</u>	<u>216,500</u>
Current portion of loans and notes payable	132,784	152,857
Non-current portion of loans and notes payable	31,806	63,643

The Group's activities have historically been financed through the provision of loans and notes by the controlling shareholder and its subsidiaries.

The weighted average interest rate on loans is 8.51% and 10.17% as at June 30, 2006 and December 31, 2005, respectively.

The interest rates on loans and notes obtained by the Group from Sistema and its subsidiaries are fixed and range from 0% to 16%.

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The interest rate on the CommerzBank loan was LIBOR+5% (9.84% as of December, 31 2005). The loan was guaranteed by Sistema and has been settled in March 2006.

The interest rate on the West LB Vostok loan was LIBOR+6.8% (11.64% as of December 31, 2005). The loan was guaranteed by MGTS, a subsidiary of Sistema, and has been settled in March 2006.

In June 2006, the Group entered into a loan agreement with Elizairing EKS for a total amount of USD 6,629 thousand. The interest rate under the agreement is 12%. Funds for this loan were provided by MBRD.

The schedule of repayments of long-term debt is as follows:

Year ended June 30,	
2007	132,784
2008	21,075
2009	3,008
2010	7,723
Thereafter	—
Total	<u>164,590</u>

20. OPERATING EXPENSES

Operating expenses for the six months ended June 30, 2006 and 2005 comprised the following:

	Six months ended June 30,	
	2006	2005
Cost of sales of development projects	45,926	14,578
Payroll and employee related costs	11,280	6,240
Consulting services	467	1,379
Depreciation and amortization	1,714	963
Rent of premises and land	830	738
Security expenses	506	672
Taxes other than income taxes	135	296
Repairs and maintenance	1,182	56
Utilities and energy costs	472	795
Insurance	51	204
Advertising and marketing	248	208
Bad debt (reversal)/expense	(87)	2,300
Other	1,903	920
Total	<u>64,627</u>	<u>29,349</u>

21. INCOME TAXES

The Group's provision for income taxes for the six months ended June 30, 2006 and 2005 was as follows:

	Six months ended June 30,	
	2006	2005
Current expense	2,299	1,769
Deferred tax expense/(benefit)	2,449	173
Total	<u>4,748</u>	<u>1,942</u>

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

	<u>Six months ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Income tax provision computed on income before taxes at statutory rate	9,304	236
Adjustments due to:		
Non-deductible items	664	79
Non-taxable items	(30)	(114)
Share of profit on Pokrovka 40 development project, retained by the controlling shareholder	(5,340)	—
Taxable losses not carried forward	874	1,820
Currency exchange and translation differences	(724)	(79)
Total	<u>4,748</u>	<u>1,942</u>

Temporary differences between the Russian statutory tax accounts and these financial statements give rise to the following deferred tax assets and liabilities as of June 30, 2006 and December 31, 2005.

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
Deferred tax assets		
Construction obligations	5,062	5,062
Other	1,089	914
Less: valuation allowance	(6,151)	(5,976)
Total deferred tax assets	<u>—</u>	<u>—</u>
Deferred tax liabilities		
Development rights	(10,330)	(10,330)
Other	(3,002)	(553)
Total deferred tax liabilities	<u>(13,332)</u>	<u>(10,883)</u>

Valuation allowance is primarily attributable to the deferred tax asset relating to construction obligations. The valuation allowance has been recorded, as it is 'more likely than not' that taxable income generated by the respective entity of the Group during the periods when the deductible temporary differences are expected to reverse, will not be sufficient for this asset to realize.

22. RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2006 and 2005, the Group entered into the following transactions with Sistema and its subsidiaries:

	<u>Six month ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Services provided	3,287	598
Services purchased	(148)	(146)
Interest income	444	—
Interest costs	(6,244)	(5,137)

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AGREEMENTS TO ACT AS A DEVELOPER

In the six months ended June 30, 2006 and 2005, the Group had agreements with Detsky Mir, NIIDAR and MGTS, subsidiaries of Sistema, to act as a developer for projects to redevelop properties owned by these entities.

The Group has an investment agreement with Manezh 13/1, a wholly owned subsidiary of Sistema, for redevelopment of Mokhovaya 13/1 office building, owned by Manezh 13/1. In the year ended December 31, 2005, Sistema decided to appoint a contractor, owned by a director of Sistema-Hals, to perform construction and finishing works under the project. The Group is recognizing a fee related to the supervisory, management and administrative services provided in respect of the Mokhovaya 13/1 redevelopment project, determined as 5% of the total construction costs.

FINANCE COSTS

In the six months ended June 30, 2006 and 2005, borrowing costs on the Group's loans from MBRD amounted to USD 6,244 thousand and USD 5,137 thousand, respectively. Interest income on the MBRD promissory notes and deposits with MBRD for the six months ended June 30, 2006 and 2005 amounted to USD 444 thousand and nil, respectively.

SITE MANAGEMENT SERVICES PROVIDED

Services provided in the six months ended June 30, 2006 and 2005, included site management revenues of USD 3,287 thousand and USD 598 thousand, respectively. These services are being performed primarily for Sistema and its subsidiary MTS.

RENTAL REVENUES

During the six months ended June 30, 2006 and 2005, the Group received rental revenues from Radio Centre, then a subsidiary of Sistema, of USD 205 thousand and USD 312 thousand, respectively.

Certain single-family houses owned by Mosdachtrest are leased to Sistema's related parties. The amount of rental revenues from these leases has been insignificant for the six months ended June 30, 2006 and 2005.

Related party balances as of June 30, 2006 and December 31, 2005 are disclosed in the corresponding notes to the financial statements.

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 an exploitation 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 at June 30, 2006, common shares of the Group's entities have been pledged under borrowings from MBRD as follows:

	Number of shares	Ownership interest
Mosdachtrest	7,093	39%
Landshaft	72	72%

As of June 30, 2006, the Group has also pledged title to apartments with the fair value of USD 7,781 thousand and future proceeds on sale of hotel part of Pokrovka 40 real estate complex in amount of USD 4,867 thousand.

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As of June 30, 2006, Sistema has guaranteed MBRD's borrowings to the Group in the amount of USD 19,963 thousand.

As of June 30, 2006, MBRD guaranteed PSO Sistema-Hals' obligations to FGUP Dorogi Rossii to provide services in relation to a highway construction project. The guarantee is secured by funds of PSO Sistema-Hals deposited in MBRD in the amount of USD 1,810 thousand.

24. COMMITMENTS AND CONTINGENCIES

a) Licenses

The Group's revenues are derived from operations conducted pursuant to licenses issued by state authorities. Our principal licenses expire in 2007; however, our construction activities remain subject to licensing only until January 1, 2007, according to the Federal Law on Licensing of Certain Types of Activities.

b) Taxation environment

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include VAT, income tax, unified social tax, together with others. The government's policy on implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia that is more significant than typically found in countries with more developed tax systems. Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. Management believes that it has adequately provided for tax liabilities; however, the risk remains that relevant authorities could take a different position with regard to interpretive issues.

c) Russian environment and current economic situation

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

d) Industry regulation

Construction and development of real estate in Russia is primarily governed by the Civil Code, the Federal Land 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. In addition, a new City Construction Code and the Federal Law on Entry into Effect of the City Construction Code came into force on December 30, 2004. 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 Rosstroï, the Federal Service for Supervision in the Sphere of Use of Natural Resources, the Federal Service on Ecological, Technologic and Nuclear Supervision and regional bodies of the state architectural and construction supervision are involved in the process of authorizing and supervising real estate development.

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

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

e) 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.

f) Commitments under construction contracts

The Group has entered into agreements with third parties for construction of objects which will require capital outlays subsequent to June 30, 2006. A summary of significant commitments under construction contracts as of June 30, 2006 is provided below:

Leningradsky 39—The Group has contracted for construction works, including foundations, shell and core, utilities and other general construction expenditures. Commitments under these contracts amounted to USD 79,771 thousand as of June 30, 2006. In addition, in connection with this project, the Group undertook obligations to provide the Central Army Sports Club ("CSCA") with 17,437 sq.m of residential housing.

MGTS properties—The Group entered contractual agreements for reconstruction of the abovementioned buildings. Commitments under these contracts amounted to USD 19,128 thousand as of June 30, 2006.

Mosdachtrest properties—The Group has contracted for construction works related to Mosdachtrest properties. Commitments under these contracts amounted to USD 18,233 thousand as of June 30, 2006.

Western Kuntsevo properties—The Group has hired a contractor to perform general construction works. Commitments under these contracts amounted to USD 17,250 thousand as of June 30, 2006.

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

g) Operating leases

With a few exceptions, the land in Moscow is owned by the Moscow Government. The lease of land in Moscow is subject to a separate regulatory regime administered by the Government. As a general rule, such land lease rights are granted by the Government on the basis of an auction or tender, typically in exchange for either an upfront payment or ongoing consideration in the form of periodic lease payments. Periodic lease payments under land lease agreements in effect during the six months ended June 30, 2006 and 2005 have not been significant.

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

SISTEMA-HALS REAL ESTATE DEVELOPMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)
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h) Commitment to maintain production at Yalta Fish Processing Plant

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

i) Environmental regulations

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

25. SEGMENT INFORMATION

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

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

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

As of and for the six months ended June 30, 2006	Real estate development	Project and construction management	Real estate asset management	Facility management	Total
Net sales to external customers	77,660	13,296	11,242	4,422	106,620
Intersegment sales	418	67	186	601	1,272
Interest income	892	374	—	—	1,266
Interest expense, net of amounts capitalized	(2,647)	(100)	(316)	—	(3,063)
Depreciation and amortization	(192)	(181)	(1,358)	(5)	(1,736)
Operating income/(loss)	32,889	4,858	4,291	325	42,363
Income tax expense	(2,669)	(1,091)	(912)	(76)	(4,748)
Income/(loss) before income tax and minority interests	31,316	4,395	3,553	(498)	38,766
Segment assets	321,637	41,012	82,632	4,800	450,081
Capital expenditures	46,708	1,151	14,653	363	62,875

SISTEMA-HALS REAL ESTATE DEVELOPMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

As of and for the six months ended June 30, 2005	Real estate development	Project and construction management	Real estate asset management	Facility management	Total
Net sales to external customers	12,575	9,435	7,291	3,944	33,245
Intersegment sales	212	3	230	73	518
Interest income	406	15	—	—	421
Interest expense, net of amounts capitalized	(881)	(1,422)	(212)	(5)	(2,520)
Depreciation and amortization	(100)	(67)	(780)	(17)	(964)
Operating income/(loss)	(3,956)	5,443	2,876	(112)	4,251
Income tax expense	(132)	(1,283)	(521)	(6)	(1,942)
Income/(loss) before income tax and minority interests	(6,860)	3,926	4,039	(121)	984
Segment assets	231,012	22,935	82,681	3,657	340,285
Capital expenditures	8,186	100	6,185	21	14,492

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

	Six months ended June 30,	
	2006	2005
Total segment operating income	42,363	4,251
Intersegment eliminations	(370)	(355)
Other income, net	268	128
Interest income	846	220
Interest expense, net of amounts capitalized	(2,600)	(2,307)
Loss on foreign currency transactions	(4,819)	(953)
Gain on sale of equity investee	3,078	—
Income before income tax and minority interests	38,766	984
Total segment assets	450,081	340,285
Intersegment eliminations	(32,540)	(54,496)
Total assets	417,541	285,789

26. SUBSEQUENT EVENTS

Transfers to Sistema—In August 2006, to complete the corporate reorganization of Sistema's Real Estate segment, Sistema-Hals acquired from Sistema's subsidiaries outside of the Group a 99% stake in Terra, a 98% stake in Yalta Fish Processing Plant, 100% stake in Kaskad and a 100% stake in Hotel Korona-Intourist for an aggregate consideration of USD 30,300 thousand.

In August 2006, the Group acquired from related parties a 100% stake in Nostro for consideration of USD 26,600 thousand and committed to additionally invest USD 7,200 thousand to settle the debts of that entity. Nostro owns a building located at Sadovnicheskaya st., 75. The difference between the purchase price for the Group and the price paid by the related parties was recorded by the Group as a distribution to the related parties.

Financing—In August 2006, Sistema-Hals entered into a loan facility with Deutsche Bank AG in the amount of USD 140,000 thousand for the term of one year. The loan facility was extended for the Group's general operational needs and refinancing of its existing debt facilities and bears interest rate of 8.65%. The debt is guaranteed by Sistema. The guarantee fee payable by the Group is 3% per annum. The loan is subject to certain restrictive covenants including, but not limited to, certain financial ratios.

SISTEMA-HALS REAL ESTATE DEVELOPMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

In September 2006, Sistema-Hals entered into a loan facility with NOMURA International Plc in the amount of USD 100,000 thousand for the term of one year. The loan facility was extended for the Group's general corporate purposes and working capital needs, refinancing of its existing debt facilities, as well as acquisition and development of real estate assets and bears interest rate of 8.45%. The debt is guaranteed by Sistema. The guarantee fee payable by the Group is 3% per annum. The loan is subject to certain restrictive covenants including, but not limited to, certain financial ratios.

In October 2006, Sistema-Hals entered into a loan facility with UBS AG in the amount of USD 100,000 thousand for the term of one year. The loan facility was extended for the Group's general operational needs and refinancing of its existing debt facilities and bears interest rate of 8.65%. The debt is guaranteed by Sistema. The guarantee fee payable by the Group is 3% per annum. The loan is subject to certain restrictive covenants including, but not limited to, certain financial ratios.

Acquisitions—In October 2006, Sistema-Hals acquired a 19% stake in Kuntsevo-Invest for cash consideration of USD 102 thousand, thus increasing its ownership interest in this entity to 100%.

REPORT AND VALUATION FOR

SISTEMA HALS

**Bol. Tatarskaya.,
115184, Moscow Russia**

Of the following property:

“THE SISTEMA-HALS PROPERTIES”

30th JUNE 2006

Prepared by

**CUSHMAN & WAKEFIELD
STILES & RIABOKOBYLKO**

**115035, Moscow, Russia
B. Ordynka street, 21/2**

**Tel: +7 (495) 797-9600
Fax: +7 (495) 797-9601**

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The Directors
Sistema Hals
Bolshaya Tatarskaya str
Moscow
Russia
115184
For the attention of Michael Golomb

2nd October 2006

Dear Sirs

PROPERTY VALUATION AS AT 30th JUNE 2006
VARIOUS PROPERTIES TOGETHER KNOWN AS “THE SISTEMA-HALS PROPERTIES”
(“THE PROPERTIES”)
SISTEMA HALS (“THE COMPANY”)

In accordance with the contracts between ourselves and AFK Sistema, MGTS and Sistema Hals dated 26th October 2005 respectively and the further contract between ourselves and Sistema Hals dated 7th April 2006, we have pleasure in reporting to you as follows:

1.1 SCOPE OF INSTRUCTIONS

We, Cushman & Wakefield Stiles & Riabokobylko (“C&W”), have considered each property as set out in the Appendix.

We are instructed to prepare this Valuation Report for investment purposes.

The effective date of each valuation is 30th June 2006.

Each valuation has been prepared in accordance with the Practice Statements contained in the RICS Appraisal and Valuation Standards published by The Royal Institution of Chartered Surveyors in May 2003 (“*the Red Book*”) as amended, and prepared by an appropriate valuer who conforms to the requirements as set out in the Red Book, acting in the capacity of External Valuer.

We confirm that this Valuation Report is a Regulated Purpose Valuation as defined in the Red Book.

1.2 BASIS OF VALUATION

Each property is either: held as an investment; for development; or is in the course of development and has, as instructed and in accordance with the requirements of the Red Book, been valued on the basis of Market Value, as defined in the Red Book as: “*The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably prudently and without compulsion.*”

1.3 TENURE AND TENANCIES

We have not had access to the Title Deeds or Leases and each valuation has been based entirely on the information which the Company has supplied to us as to tenure, tenancies and statutory notices. We understand each property is either held by the Company, its subsidiaries, or jointly with third parties. We have valued a 100% share of the tenure stated in each property, unless otherwise specifically stated, as if each property was held entirely by the Company as at the valuation date. We have not made any adjustment to value, which may be appropriate when considering fractural ownership for each individual property. In the summary below, an apportionment has been provided taking into account the share ownership of each property as provided to us by the company. This is a straight apportionment based on these percentages, and no further deductions have been made to reflect minority share ownerships or the fact of fractural ownership. This number therefore may differ from the Market Value for the share ownership of individual properties, particularly when only a minority interest is held by the Company.

A number of properties are held leasehold on ground leases from Moscow City Government. The standard terms of these leases are that rents are reviewed annually (upwards, or downwards) in accordance with a city-wide formula that is set by the Moscow City Government. Each ground lease is

subject to Term Extension Right Clause as standard, allowing for the extension of the duration of the lease upon expiry, on the same terms and conditions. However you should be aware that the effectiveness of the Term Extension Right Clause remains untested in the market because few leases have reached expiry. Our valuation assumes that the ground lease at each property can be extended in accordance with the Term Extension Right Clause.

Where a property is either “*currently in the course of development*” or “*held for future development*” and is held leasehold, the land leases generally confer the landlord’s permission to develop. Where the considered development scheme differs from that anticipated by the land lease, our valuation assumes that the required variation to the landlord’s permission will be forthcoming without material cost or delay. Where a property is to be held leasehold but the terms of the land lease are not finalised, our valuation takes in to account any additional, reasonable, risks of delay and cost in receiving landlord’s permissions. We have assumed that there are no unforeseeable circumstances that would cause additional cost or delay in excess of that generally experienced.

The development of the majority of properties identified in this report as “an *MGTS* property” is to incorporate a floor area suitable for the installation of the tenant’s digital telephone exchange. Each valuation includes the cost to the Company to provide such areas (structural and associated works), completed to a “shell” condition. Where we have been informed that there will be no future requirement for telephone exchange space this has been specifically identified in the report.

Upon completion, each valuation assumes that these areas will be leased to the telephone operator company for use as a digital telephone exchange, on normal market terms, save as to rent, which is nil.

Unless disclosed to us to the contrary and recorded in the property descriptions, each valuation is on the basis that:

- a) the property possesses a good and marketable title, free from any unusually onerous restrictions, covenants or other encumbrances;
- b) where the interest held in the property is leasehold, there are no unreasonable or unusual clauses which would affect value and no unusual restrictions or conditions governing the assignment or disposal of the interest;
- c) leases to which the property may be subject are on standard market terms, and contain no unusual or onerous provisions or covenants which would affect value;
- d) all notices have been served validly and within appropriate time limits;
- e) the property excludes any mineral rights; and
- f) vacant possession can be given of all accommodation which is unlet, or occupied either by the Company or by its employees on service occupancies.

In certain cases we have been informed by the Company that land lease rights are “*in the process of being formulated*”. Unless otherwise stated our valuation is for a full share interest in the Property and assumes that a good and marketable title exists. This should be taken into account in consideration of individual properties. Where specific outstanding costs have been identified to us as being required to arrive at ownership of a full share interest in the requisite Property or in order to obtain the necessary permits, these costs have been taken into account in the valuation in full.

For some properties we have been informed by the Company that investment contracts are held for the development. In these cases our valuations assume that a ground lease and an ownership certificate will be issued upon completion of the development, as is normal development practice in Moscow.

1.4 NET ANNUAL RENT

The net annual rent for each property is referred to in the Schedule at Appendix One. Net annual rent is defined in the Listing Rules as:

“the current income or income estimated by the valuer:

- (i) ignoring special receipts or deductions arising from the property;*
- (ii) excluding Value Added Tax and before taxation (including tax on profits and any allowances for interest on capital or loans); and*

(iii) *after making deductions for superior rents (but not for amortisation), and any disbursements including, if appropriate, expenses of managing the property and allowances to maintain it in a condition to command its rent”.*

1.5 TOWN PLANNING

We have not made formal searches, but have generally relied on verbal enquiries and any informal information received from the Local Planning Authority, or from the Company. Each valuation is on the basis that the property has been erected either prior to planning control or in accordance with a valid planning permission and is being occupied and used without any breach of planning or building regulations. Except where stated otherwise, each valuation is on the basis that each property is not affected by proposals for road widening, Compulsory Purchase, planning inquiry, or archaeological investigation.

We are informed by the Company that for a number of “properties held for development”, the relevant planning permission approvals are either; “*in the process of being applied for*”, or “*in the process of being updated*”. Each valuation assumes that all required planning permission consents will be received within a normally acceptable timescale and that there are no such issues which would materially delay the issuance of the required consent, or have a material effect on value or marketability.

Although, where appropriate, we have considered the Company’s business plan to develop each property, each valuation reflects our opinion of an appropriate development that could reasonably be expected to form the basis of a bid for a property by a third party. I.e. the Highest and Best Use as defined by the International Valuation Standards has been considered for each property. The Highest and Best Use is defined in Paragraph 3.4 of IVS 1 as: The most probable use of a property which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of the property being valued.

Therefore our valuations do not necessarily reflect the Company’s intended investment/development program.

1.6 STRUCTURE

We have neither carried out a structural survey of each property, nor tested any services or other plant or machinery. We are therefore unable to give any opinion on the condition of the structure or services at any property. Each valuation takes into account any information supplied to us and any defects noted during our inspection, but otherwise are on the basis that there are no latent defects, wants of repair or other matters which would materially affect each valuation.

We have not inspected those parts of each property which are covered, unexposed or inaccessible and each valuation is on the basis that they are in good repair and condition.

We have not investigated the presence or absence of High Alumina Cement, Calcium Chloride, Asbestos and other deleterious materials. In the absence of information to the contrary, each valuation is on the basis that no hazardous or suspect materials or techniques have been used in the construction of any property.

You may wish to arrange for investigations to be carried out to verify this.

1.7 SITE AND CONTAMINATION

We have not investigated ground conditions/stability and each valuation is on the basis that any buildings have been constructed, having appropriate regard to existing ground conditions. Where the property has development potential, our valuation is on the basis that there are no adverse ground conditions which would affect building costs. However, where you have supplied us with a building cost estimate, we have relied on it being based on full information regarding existing ground conditions. We have considered the Company’s construction estimates in the light of typical market norms.

We have not carried out any investigations or tests, nor been supplied with any information from you or from any relevant expert that determines the presence or otherwise of contamination (including any ground water). Accordingly, our valuation has been prepared on the basis that there are no such matters that would materially affect our valuation. Should this basis be unacceptable to you or should you wish to verify that this basis is correct, you should have appropriate investigations made and refer the results to us so that we can review our valuation.

1.8 PLANT AND MACHINERY

Where the interest held in the property is freehold, usual landlord's fixtures such as lifts, escalators and central heating have been treated as an integral part of the building and are included within the asset valued. Where the interest held in the property is short leasehold (<50 years), these items have been treated as belonging to the landlord upon reversion of the lease.

Process-related plant/machinery and tenants' fixtures/trade fittings have been excluded from each valuation.

1.9 INSPECTIONS, AREAS AND DIMENSIONS

We have inspected each property internally, and externally from ground level on dates as specified in each of the Property descriptions below unless specific reference is made to a limited inspection. The valuation has been carried out in two phases, with the first tranche of properties having been first valued at the end of 2005, with the valuations having been subsequently updated to the valuation date. The inspections for these properties therefore in most cases refer to the initial inspection. Further inspections have been carried out where there has been significant changes to any individual property, and these further inspection dates, where applicable, are identified in the property descriptions below.

No measured surveys have been carried out by C&W, we have relied entirely on the site and floor areas and dimensions provided to us by the Company. We have assumed that these are correct and calculated on the appropriate basis, as normally adopted by the local property market. Any reference to the age of buildings are approximate.

1.10 GENERAL PRINCIPLES

Each valuation is based on the information which has been supplied to us by the Company or which we have obtained in response to our enquiries. We have relied on this information as being correct and complete and on there being no undisclosed matters which would affect each valuation.

In respect of tenants' covenants, whilst we have taken into account information of which we are aware, we have not received a formal report on the financial status of the tenants. We have not been supplied with any information to indicate that there are material arrears or that the tenants are unable to meet their commitments under the leases. Each valuation is on the basis that this is correct. You may wish to obtain further information to verify this.

Where we have reflected development potential in a valuation, we have assumed that all structures at the property will be completed using good quality materials and first class workmanship and that the development scheme will let to tenants who satisfy the tenant mix policy and are of reasonable covenant status and on typical market lease terms.

No allowances have been made for any expenses of realisation arising from a sale or development of each property. Each valuation does not make allowance either for the cost of transferring sale proceeds internationally or elsewhere within the Company, or for any restrictions on doing so. No account has been taken of any leases granted between subsidiaries of the Company, and no allowance has been made for the existence of a mortgage, or similar financial encumbrance on or over each property. Where a grant has been received, no allowance has been made in our valuations for any requirement to repay the grant.

A purchaser of a property is likely to obtain further advice or verification relating to certain matters referred to above before proceeding with a purchase. You should therefore note the conditions on which this Valuation Report has been prepared.

The valuation of each property has been undertaken by the professional(s) identified in the valuation schedule below.

We strongly recommend that no disposal of any property should be undertaken without proper exposure to the market. Each valuation assumes that there is an active letting and funding market. This Valuation Report should be read in conjunction with the contracts referred to above, our terms of engagement and in particular our Standard Terms and Conditions of Appointment of Cushman & Wakefield Stiles & Riabokobylko as Valuers.

1.11 SPECIAL ASSUMPTIONS, RESERVATIONS AND DEPARTURES

We can confirm that each valuation is not made on the basis of any Special Assumptions or any Departures from the Practice Statements contained in the Red Book. Subject to the general limitations of our inspections and sources of information set out above, each valuation is not subject to any specific Reservations in relation to restricted information or property inspection.

1.12 DISCLOSURE

The members of The Royal Institution of Chartered Surveyors who are referred to in Section 10 above have not previously been the signatories to the valuations provided to the Company for the same purposes as this Valuation Report. C&W have not previously carried out these valuations for the same purpose as this Valuation Report on behalf of the Company.

C&W have from time to time provided other professional or agency services to the client and have done so for a period of less than 5 years. In relation to the preceding financial year the proportion of the total fees payable by the Company to the total fee income of C&W is less than 5%.

1.13 AGGREGATE VALUATION

Subject to the foregoing, and based on values current as at 30th June 2006, we are of the opinion that the aggregation of the Market Value of each 100% share of each freehold and leasehold interest held by the Company in each property, as set out in the appendix, is the total sum of:

US\$1,865,403,000

(One Billion Eight Hundred and Sixty Five Million Four Hundred and Three Thousand US Dollars)

This sum may be apportioned as follows:

	<u>Freehold</u>	<u>Leasehold (less than 50 Years)</u>
Properties Held as Investments	237,430,000	70,618,000
Properties in the Course of Development	8,225,000	853,108,000
Properties Held for Development	—	690,872,000
Properties acquired after the Effective valuation date	—	5,150,000
Total	<u>245,655,000</u>	<u>1,619,748,000</u>

Based on the information supplied to us as regards ownership, we are of the opinion that the Market Value of the Company's beneficial share in each Property, on the basis outlined above is the total sum of:

US\$1,509,534,139

(One billion Five Hundred and Nine Million Five Hundred and Thirty Four Thousand One Hundred and Thirty Nine US Dollars)

This sum may be apportioned as follows:

	<u>Freehold</u>	<u>Leasehold (less than 50 Years)</u>
Properties Held as Investments	39,757,934	187,965,970
Properties in the Course of Development	4,630,675	725,001,600
Properties Held for Development	—	547,027,960
Properties acquired after the Effective valuation date	—	5,150,000
Total	<u>44,388,609</u>	<u>1,465,145,530</u>

The valuation stated above represents the aggregate of the current values attributable to the individual properties and should not be regarded as a valuation of the portfolio as a whole in the context of a sale as a single lot. We set out the value ascribed to each property in the appendix.

We have considered an appropriate development commencement date and development period for each property in isolation, based on each property's particular circumstance. Each valuation does not

consider any effect of multiple properties being developed concurrently (eg. any resource, expense or savings issues if undertaken by a single developer), or released to the market (occupation or investment) together.

The Summary Valuation Schedule shows our opinion of the appropriate discount rate on an unleveraged basis as used in the Market Valuation for each property. This discount rate is calculated on the assumption that each property would be held for a reasonable period to allow stabilisation of income upon development completion, with the exception of the development of residential property for sale, and that no debt is used (see “Global Assumptions—Debt Assumptions” below).

1.14 CONFIDENTIALITY

The contents of this Valuation Report are intended to be confidential to the addressees and for the specific purpose stated. Consequently, and in accordance with current practice, no responsibility is accepted to any other party in respect of the whole or any part of its contents. Before the Valuation Report or any part of its contents are reproduced or referred to in any document, circular or statement or disclosed orally to a third party, our written approval as to the form and context of such publication or disclosure must first be obtained. For the avoidance of doubt, such approval is required whether or not this firm is referred to by name and whether or not our Valuation Report is combined with others.

Notwithstanding the preceding paragraph, our prior written approval shall not be required for the reproduction and inclusion of this report, in its entirety, in the Sistema Hals Offering Memorandum or for the reproduction and dissemination of this report in its entirety in connection with the Sistema Hals Offering. Where part only of this report is reproduced, included or disseminated, the preceding paragraph will apply.

Yours faithfully

For and on behalf of Cushman & Wakefield Stiles & Riabokobylko

TJ MILLARD MA(Cantab) MRICS
Partner
Head of Advisory Services

K LEBEDEV
Valuation Team Leader
Advisory Services

APPENDIX ONE

VALUATION METHODOLOGY

GLOBAL ASSUMPTIONS

SCHEDULE OF VALUES

PROPERTY SCHEDULES: PROPERTIES HELD AS INVESTMENTS

PROPERTY SCHEDULES: PROPERTIES IN COURSE OF DEVELOPMENT

PROPERTY SCHEDULES: PROPERTIES HELD FOR DEVELOPMENT

VALUATION METHODOLOGY

There are three generally adopted approaches used to value property: *The Sales Comparison Approach*; *The Income Approach*; and *The Cost Approach*. We have valued the properties using the income approach, taking account of sales comparables where available, except for those properties in the summary below for which no discount rate is indicated which have been valued using the sales comparison approach. The cost approach has not been used as this produces a “Non-Market Value” suitable for financial statements relating only to “specialised properties”. An overview of The Sales Comparison Approach and The Income Approach and how these relate to the Russian Market, follows.

The Sales Comparison Approach

This method involves analysing all available information on sales of comparable properties that have taken place and making adjustments in the prices achieved to reflect the differences in the properties sold and the property to be valued. This approach hinges on the availability of reliable market evidence of comparable sales. Distinction must be drawn between information that is known to be accurate and reported information that is second hand or at best hearsay. Only information that is known to be accurate can be relied upon with any degree of comfort to provide an accurate valuation.

There are severe difficulties of applying this valuation approach in emerging real estate markets, including Russia, as due to their comparative immaturity the availability of reliable market information is very limited. To reflect this, the International Valuation Standards Committee (“IVSC”) (the leading international body for setting valuation standards) devoted a recent White Paper to the study. It identifies specific problems for valuers in emerging markets, which apply very well to Moscow and to Russia—and these problems also tend to inhibit the operation of the market as a whole, in particular as regards investment.

The principal problem is a lack of transparency and a relatively low volume of recorded deals. In mature property markets there is a wealth of information available on completed sales transactions, in the form of yields and total sales prices, and this makes it relatively straight-forward to apply this valuation technique to any property. In Moscow this sort of information is often not available, and where the details of transactions are publicized their accuracy can not always be guaranteed. In addition, a large number of sales transactions in Moscow take place “off-market” and therefore details of them are seldom known beyond those who were party to the deal.

The volume of completed deals is very low in all sectors of the Moscow real estate market. In addition—as outlined above, deal information is rarely reported accurately and is often manipulated for other reasons benefiting the separate parties to any sale deal. Therefore it is often necessary to use offered prices as a basis for assessing the opinion as to value using the sales comparison approach.

Additionally the large majority of the properties included in this valuation are either “held for development” or “in the course of development”. Properties in the course of development are rarely transacted and there is therefore very little comparable information for properties of this type. Development sites are transacted, but these transactions are usually “off-market” and therefore reliable comparable information is therefore only available to the parties to the transactions and their advisers—who are usually bound by confidentiality restrictions.

We are aware of the details of a number of transactions of land held for development. This comparable information has been taken into account in assessing the valuations herein, and where possible these comparables are referred to. However—in most cases we are bound by confidentiality and therefore can only provide guideline information.

The Income Approach

The most commonly used technique for assessing market value within the Income Approach is Discounted Cashflow. This is a financial modelling technique based on explicit assumptions regarding the prospective cashflow to a property or business and the costs associated with being able to generate the income. To this assessed cashflow is applied a market-derived discount rate to establish a present value of the income stream. This Net Present Value (“NPV”) is an indication of Market Value⁽¹⁾. This approach is considered to be the most sophisticated valuation technique, over and above even the Sales Comparison Approach, because it allows differences between comparable sales and the subject property to be explicitly considered and analysed. It is therefore less based on subjective judgements but objectively on market available information.⁽²⁾

For the basis of the current valuations where for the majority of properties consents exist for a specific type of development, the income approach is the most relevant. The residual value for properties under development or properties held for future development is the NPV of all future income streams less the NPV of all future costs. The costs include all of the development costs still outstanding in respect of each property and future incomes are assessed based on current returns for completed properties of a similar nature in the market adjusted to reflect the expected completion date for the particular project and anticipated future trends in rents and/or sales prices.

The difficulty in applying this method in the Russian market is assessing the correct market derived discount rate, due to the very small number of transactions, the lack of transparency in the reporting of information and in the wide variations in returns required on projects from different investors.

The costs and incomes associated with the project have been assessed on the basis of standard construction costs in the market together with property or project specific information provided by the developer and current market returns adjusted to reflect anticipated future trends.

In order to assess the residual valuation of the land a discount rate has to be applied to the projected cashflows. The discount rate is market derived and reflects the minimum returns a typical investor would require to undertake a project of this type. This approach then provides the maximum value that an investor would be willing to pay for the land in its current condition, being the Net Present Value of all identified future costs and incomes at the necessary rate of return.

In the Moscow market this approach specifically excludes the use of debt and the effect of leverage. The availability of debt, and on what terms, varies widely from investor to investor, and there is no market standard—especially in a comparatively immature debt market such as Moscow. Pre-debt discount and capitalization rates are therefore used to represent the risk-return requirement of investors.

The Cost Approach

Under IVS this approach is relevant to specialised properties (i.e. properties that are rarely if ever sold on the open market... due to their uniqueness which arises from their specialised nature and design of the buildings, their configuration, size, location or otherwise) and Limited Market Property (i.e. properties that because of market conditions, unique features, or other factors attract relatively few buyers).

GLOBAL ASSUMPTIONS

For those properties “held for development” or “in the course of development”, some general assumptions have been made in developing the residual valuations, in addition to the assumptions and conditions above.

These are summarised below:

Acquisition Cost:

The properties are currently owned. However an acquisition cost is assumed in the modelling process. The properties are assumed to be held freehold. Therefore the assumed purchase price is correctly treated on the balance sheet so that all of the property tax,

(1) International Valuation Standards Sixth Edition—Guidance Note 9

(2) International Valuation Standards Committee Newsletter—Global Valuation Issues (Sept. 2003)

depreciation and other tax issues can be correctly identified. See below;

Development Proposals

It has been assumed where project documentation exists that any development would conform to the overall sizes as provided to us unless it is reasonable to assume that development could take place in some other form. For each MGTS property it has been assumed that it is only possible to convert the existing buildings (with the exception of two specific properties) and that the building sizes will therefore remain the same. It has been assumed that the ongoing space requirements for housing the digital phone exchanges as supplied to us are accurate;

Utilities & Road Improvement

In Russia the cost of providing utilities and executing necessary road improvements can vary widely. Where utilities need to be provided or road works executed it has been assumed that the cost estimates supplied to us are accurate;

Construction Phasing

All projects, unless specifically stated otherwise, have been assumed to be constructed in one phase. Due to the size of the NIIDAR project it has been assumed that it would be phased and that the phasing would be designed to maximise the returns from the site;

Construction Costs

Construction costs have been assessed in accordance with standard rates in the market that a third party developer/purchaser would expect to have to pay in the course of the development of each project. In some cases these costs differ in their general level from the anticipated construction costs as provided by the Company;

Construction Contract

An advance payment is included in the cost calculations, which is charged to the first quarter of the construction contract. A hold-back against defects requiring remedy is also included and is charged to the quarter after completion of construction of the relevant phase. The remaining construction costs are applied equally throughout the development period;

Permit & Design Costs

Where there are outstanding permitting costs these have been assessed in line with the anticipated numbers as supplied by the client as, once again, there can be a wide variation in the permitting costs. Design costs—where appropriate have been assessed in line with market standards;

Assumed Sale

In order to assess the capital value of a completed development, we have assumed that a property is to be held upon completion for a period until the net income stabilizes, and thereafter is sold. This is a valuation technique and does not necessarily represent the intention of the owner;

Returns

Rental rates for commercial office and retail spaces have been projected together with capitalization rates, for the period of the cashflow. Sales prices for residential developments have been assessed for the reasonably expected completion dates; These figures are based on research carried out by *Cushman & Wakefield Stiles & Riabokobylko* and market information. In respect of commercial rents they are exclusive of operating expenses and VAT and have been assessed on a conservative projection of future market movements (see *market analysis* below). They therefore provide realistic minimum figures that it is anticipated can be achieved;

Market Capitalization rates have been projected based on the assessment that the property investment market for the Moscow and Moscow region will become more sophisticated over the period

and that the number of active investors will increase. It is therefore anticipated that the changes in market yields will reflect the experiences in other Eastern European countries where the property investment environment is already more mature such as Poland and the Czech Republic and that there will be a yield compression over time. See the commentary on market yields below;

Review/Renewal Period	This is the length of the initial leases. The rents for the initial leases remain fixed for their entire term, in line with current market practices where indexation and rent reviews are not prevalent, and the rent during this period will depend upon the prevailing market rental rate in the year of completion. The assumed length of initial leases varies depending upon the property class—office leases are typically 5 years and retail leases are typically 3 to 5 years;
Vacancy Rate	Vacancy has been assumed for the duration of each project and depends upon the property class, its location, the local market and the relative merits of each anticipated project;
Operating Expenses	For commercial properties these are assumed to be paid by the tenant at cost, and they are therefore cashflow and VAT neutral and they are not included in the cashflow analysis. For residential properties it is also assumed that operating expenses will be passed through to residents in the form of a service charge or similar;
Security Deposit	It is common for tenants to pay security deposits in the Russian market which are held interest free by the Landlord and offset against the last relevant period of the lease. Standard levels of Security Deposit have been assumed for different property classes. These deposits are treated as financing cashflow and will be off-settable against the final relevant period of each lease;
Debt Assumptions	In assessing the Market Value of property it has been assumed that no debt is used. There are wide variations as to the financing terms available in the as yet immature Russian property finance market and it is not therefore possible to apply standard terms. Therefore unleveraged yields are used to provide a consistent approach;
VAT Rate	<p>The VAT rate has been taken at the current rate of 18% introduced at the beginning of 2004. The VAT rate is of importance because although in theory VAT in Russia is immediately recoverable from the government the practice is slightly different. The VAT paid on construction and other development costs is considered a VAT credit account in favour of the landowner. VAT on future rents can be retained and offset against the VAT account until it is zeroed out. This has a significant effect on cashflow. For the purchase of existing properties VAT is payable in respect of that part of the purchase price apportioned to building improvements. VAT is not payable in respect of the part (or whole) of the purchase price that relates to the land plot (or land lease).</p> <p>It has been assumed that all of the costs in association with the development of the project will be subject to VAT and also that all of the tenants (where appropriate) will be VAT paying. Where applicable the current VAT credit account has been taken into account—depending upon the tenure of the property. I.e. freehold property sales are subject to VAT, but sales of shares in a company are not. For the purposes of this valuation all properties have been assessed on a freehold basis as opposed to the existence of any SPVs;</p>

VAT Inflation Loss	The VAT credit account is ruble denominated whereas rents are receivable in dollars. A factor is used to take account of annual losses to the VAT credit account balance, which is non-interest bearing, due to inflation and exchange rate movements;
Cash Reserve	A contingency account against future capital expenditures is a prudent measure. Contributions to this cash reserve have been set depending on the different criteria of each proposed development;
Agent's & Brokers Fees	Standard market practice is to use brokers to lease commercial space. This has been taken into account;
Depreciation	Assessed over 30 years on a straight line basis, in line with local regulations excluding that part of the balance sheet value that relates to the underlying land value. The type of tenure affects the annual depreciation and will therefore affect the level of costs which are deductible for profit tax purposes. A sale of a freehold property results in the property being held on the balance sheet at the transaction value and usually results in a higher level of depreciation and therefore a higher level of tax deductible costs, potentially increasing income. Where a property is held in a Special Purpose Vehicle (SPV) any sale of the shares will not affect the value of the property on the balance sheet (usually the existing depreciated construction cost) and this will ordinarily result in a lower level of depreciation. As outlined above, all of the properties in this report have been valued on the basis of a freehold sale;
Taxes	Similarly property tax is payable on the book value of any property, excluding that part that relates to the underlying land value, currently at 2.2% and the nature of the tenure will affect the overall level of property tax payable. There may also be affects on the level of other taxes payable due to the type of tenure. All of these factors have been taken into account.

SCHEDULE OF VALUES

A summary table is included below. The appendices contain information for each of the individual properties within the classes of: “Properties held as investments”, “Properties in the course of development”, and “Properties held for development”.

Property Ref.	City	Property Address	Tenure	Net annual rent \$US	Net Market Rental Value US\$ per annum (upon completion)	Estimated market value (on 100% equity basis) as at 30 June 2006	Sistema-Hals ownership share	Sistema-Hals profit distribution upon completion	Market value according to the interest of Sistema-Hals	Type
Properties held as an investment										
68	Moscow	Bobrov lane, 4,1-4	Leasehold			\$ 11,200,000	56.30%	100.00%	\$ 6,305,600	Office
69	Moscow	Bolshaya Tatarskaya, OAO Sistema-temp	Leasehold			\$ 25,600,000	100.00%	100.00%	\$ 25,600,000	Industrial and office buildings
70	Moscow region	Landshaft	Ownership			\$ 3,550,000	100.00%	100.00%	\$ 3,550,000	Land plots
71	Moscow region	Profaliance	Leasehold			\$ 14,976,255	100.00%	100.00%	\$ 14,976,255	Land plots
72	Moscow region	Merkury	Leasehold			\$ 14,079,060	100.00%	100.00%	\$ 14,079,060	Land plots
73	Moscow region	Geokom	Leasehold			\$ 39,959,685	100.00%	100.00%	\$ 39,959,685	Land plots
74	Moscow region	Mosdachtrest				\$ 171,108,000			\$ 96,333,804	
		Kraskowo	Ownership			\$ 3,230,000	56.30%	56.30%	\$ 1,818,490	Cottage development
		Klyazma	Ownership			\$ 5,420,000	56.30%	56.30%	\$ 3,051,460	Cottage development
		Zagorianka	Ownership			\$ 938,000	56.30%	56.30%	\$ 528,094	Cottage development
		Trudovaya	Ownership			\$ 34,450,000	56.30%	56.30%	\$ 19,395,350	Cottages
		Krasnaya Pakhra	Ownership			\$ 2,500,000	56.30%	56.30%	\$ 1,407,500	Cottage development
		Opalikha	Ownership			\$ 1,300,000	56.30%	56.30%	\$ 731,900	Cottage development
		Barvikha	Ownership			\$ 6,000,000	56.30%	56.30%	\$ 3,378,000	Cottages
		Zhavoronki	Ownership			\$ 1,970,000	56.30%	56.30%	\$ 1,109,110	Cottage development
		Zaveti Ilich	Ownership			\$ 3,940,000	56.30%	56.30%	\$ 2,218,220	Cottage development
		Udelnoe	Ownership			\$ 3,150,000	56.30%	56.30%	\$ 1,773,450	Cottage development
		Zdravnitsa	Leasehold			\$ 4,190,000	56.30%	56.30%	\$ 2,358,970	Cottage development
		Serebryanny Bor	Leasehold			\$ 96,300,000	56.30%	56.30%	\$ 54,216,900	Cottages
		Kuchino	Ownership			\$ 5,090,000	56.30%	56.30%	\$ 2,865,670	Cottage development
		Skhodnia	Ownership			\$ 2,630,000	56.30%	56.30%	\$ 1,480,690	Cottage development
64	Moscow	Zhukowka	Leasehold	\$ 190,000		\$ 1,500,000	56.30%	56.30%	\$ 844,500	Office
75	Moscow region	Botanicheskaya str. 14	Leasehold	\$ 226,280		\$ 1,275,000	100.00%	100.00%	\$ 1,275,000	Office
	Moscow	Sadovnicheskaya str	Leasehold			\$ 24,800,000	100.00%	100.00%	\$ 24,800,000	Office
	Moscow region	Terra (Solnechnogorsky administrative district)	Leasehold	0		\$ 5,150,000	100.00%	100.00%	\$ 5,150,000	Land plot
		Total:				\$ 313,198,000			\$ 232,873,904	

Property Ref.	Estimated GBA, sq.m	Estimated net rentable area, sq.m (excl. parking area)	Average Rental Rate	Vacancy Rate	Date of inspection	Project Start Date	Start of construction works	Estimated Completion Date	Assumed Exit Date	Status of project	Gross Development Value upon completion (note 1)	Market Value assuming built and fully let (note 2)	Total outstanding development costs	Discount Rate	Current Estimated Objectives
68	2,636				4/17/2006					Property held as an investment					Sale
69	12,000				11/9/2005					Property held as an investment					Own to lease
70	122,566				4/20/2006					Property held as an investment					Own to lease
	177,500														
71	100,000				4/20/2006					Property held as an investment					Own to lease
72	94,100				4/20/2006					Property held as an investment					Own to lease
73	266,000				4/20/2006					Property held as an investment					Own to lease
74	2,437,245									Property held as an investment					
	160,000				4/20/2006			n/a		Property held as an investment					
	160,000				4/19/2006			n/a		Property held as an investment					
	67,000				4/19/2006			n/a		Property held as an investment					
	17,061				9/23/2005			n/a		Property held as an investment					
	86,000				4/28/2006			n/a		Property held as an investment					
	50,700				4/18/2006			n/a		Property held as an investment					
	2,116				4/18/2006			n/a		Property held as an investment					
	48,600				4/18/2006			n/a		Property held as an investment					
	464,000				4/19/2006			n/a		Property held as an investment					
	225,000				4/20/2006			n/a		Property held as an investment					
	254,000				4/18/2006			n/a		Property held as an investment					
	247,568				11/23/2005			n/a		Property held as an investment					
	509,000				4/20/2006			n/a		Property held as an investment					
	146,200				4/21/2006			n/a		Property held as an investment					
64	634		\$	300	n/a	4/20/2006				Property held as an investment				12.50%	Own to lease
75	565.7		\$	400	n/a	4/14/2006		n/a		Property held as an investment				16.50%	Own to lease
	8,555		\$	520	n/a	6/26/2006		n/a		Property held as an investment				11.00%	Own to lease
	382,000				9/12/2006					Property held for development					

Property Ref.	City	Property Address	Tenure	Net annual rent \$US	Net Market Rental Value US\$ per annum (upon completion)	Estimated market value (on 100% equity basis) as at 30 June 2006	Sistema-Hals ownership share	Sistema-Hals profit distribution upon completion	Market value according to the interest of Sistema-Hals	Type					
Properties in the course of development															
1	Moscow	Aviatorov, 9	Leasehold	0		\$ 12,450,000	81.00%	100.00%	\$ 12,450,000	Residential					
2	Moscow	Kuntsevo project	Leasehold	0		\$ 184,466,000	81.00%	100.00%	\$ 184,466,000	Residential					
		Ak. Pavlova, 40	Leasehold	0		\$ 14,093,000	81.00%	100.00%	\$ 14,093,000	Residential					
		Ak. Pavlova, 56	Leasehold	0		\$ 40,059,000	81.00%	100.00%	\$ 40,059,000	Residential					
		Ak. Pavlova, 38	Leasehold	0		\$ 20,380,000	81.00%	100.00%	\$ 20,380,000	Residential					
		Yartsevskaya str, 32	Leasehold	0		\$ 24,710,000	81.00%	100.00%	\$ 24,710,000	Residential					
		Molodogvardeyskaya, 36B	Leasehold	0		\$ 6,080,000	81.00%	100.00%	\$ 6,080,000	Residential					
		Rublevskoe sh., 111	Leasehold	0		\$ 24,785,000	81.00%	100.00%	\$ 24,785,000	Residential					
		Yartsevskaya, 27V	Leasehold	0		\$ 23,715,000	81.00%	100.00%	\$ 23,715,000	Residential					
		Yartsevskaya, 31	Leasehold	0		\$ 12,582,000	81.00%	100.00%	\$ 12,582,000	Residential					
		Yartsevskaya, 34	Leasehold	0		\$ 18,062,000	81.00%	100.00%	\$ 18,062,000	Residential					
29	Kazan	Detsky Mir	Leasehold	0	\$ 5,485,000	\$ 23,250,000	100.00%	100.00%	\$ 23,250,000	Retail					
30	Krasnoyarsk	Detsky Mir	Leasehold	0	\$ 5,060,000	\$ 4,322,000	100.00%	100.00%	\$ 4,322,000	Retail					
42	Moscow	Leningradskiy pr-kt, 39	Leasehold	0	\$18,780,000	\$ 146,800,000	100.00%	100.00%	\$ 146,800,000	Office					
63	Moscow	Avrora	Leasehold	0		\$ 45,140,000	100.00%	100.00%	\$ 45,140,000	Cottages					
65	Moscow region	Zdravnitsa	Ownership	0	n/a	\$ 8,225,000	56.30%	56.30%	\$ 4,630,675	Cottages					
6	Moscow	B. Gruzinskaya, 30A (MGTS-1)	Leasehold	0	n/a	\$ 3,463,000	50.00%	50.00%	\$ 1,731,500	Standard exchange building, held for development to provide a residential “enhanced comfort” building					
34	Moscow	Bakuninskaya 3 (MGTS-1)	Leasehold	0	\$ 5,500,000	\$ 9,916,000	50.00%	50.00%	\$ 4,958,000	Standard exchange building, held for development to provide a office areas of class “A”					
35	Moscow	Vsevolzhsky lane, 5 (MGTS-1)	Leasehold	0	\$ 2,090,000	\$ 861,000	50.00%	50.00%	\$ 430,500	Standard exchange building, held for development to provide a office areas of class “B”					
37	Moscow	Daev lane, 19 (MGTS-1)	Leasehold	0	\$ 3,700,000	\$ 6,418,000	50.00%	50.00%	\$ 3,209,000	Standard exchange building, held for development to provide a office areas of class “A”					
46	Moscow	Nastasinsky lane 7 (MGTS-1)	Leasehold	n/a	\$ 4,190,000	\$ 4,119,000	100.00%	100.00%	\$ 4,119,000	Standard exchange building, held for development to provide a office areas of class “A”					
48	Moscow	Rogozhsky val,11 (MGTS-1)	Leasehold	0	\$23,230,000	\$ 29,270,000	50.00%	50.00%	\$ 14,635,000	Standard exchange building, held for development to provide a Mix Use Development					
50	Moscow	Stoliarny 5 (MGTS-1)	Leasehold	0	\$ 8,890,000	\$ 16,392,000	50.00%	50.00%	\$ 8,196,000	Standard exchange building, held for development to provide a office areas of class “B”					
59	Moscow	Milutinsky lane 5 (MGTS-1)	Leasehold	0	\$ 3,360,000	\$ 10,659,000	50.00%	50.00%	\$ 5,329,500	Standard exchange building, held for development to provide a hotel areas					
Property Ref.	Estimated GBA, sq.m	Estimated net rentable area, sq.m (excl. parking area)	Average Rental Rate	Vacancy Rate	Date of inspection	Project Start Date	Start of construction works	Estimated Completion Date	Assumed Exit Date	Status of project	Gross Development Value upon completion (note 1)	Market Value assuming built and fully let (note 2)	Total outstanding development costs	Discount Rate	Current Estimated Objectives
1	25,592	4,460			6/10/2006	2,005	Q4 2005	Q4 2006	Q4 2006	Property currently in course of development	\$ 17,750,000	\$ 18,955,000	\$ 5,298,000	19.00%	Sell
2	351,858					2,005				Property currently in course of development	\$483,468,000	\$ 766,499,000	\$303,992,800		Sell
	35,314	17,694			10/13/2005		Q3 2009	Q3 2011	Q3 2011	Property currently in course of development	\$ 44,218,000	\$ 75,995,000	\$ 30,123,800	19.00%	
	65,042	36,444			10/13/2005		Q1 2007	Q4 2009	Q4 2009	Property currently in course of development	\$105,420,000	\$ 157,350,000	\$ 65,370,000	19.00%	
	65,159	24,896			10/13/2005		Q4 2009	Q1 2012	Q1 2012	Property currently in course of development	\$ 53,505,000	\$ 107,543,000	\$ 38,124,000	19.00%	
	53,057	28,000			10/13/2005		Q3 2006	Q4 2012	Q4 2012	Property currently in course of development	\$ 77,140,000	\$ 121,250,000	\$ 52,430,000	19.00%	
	11,402	7,925			10/13/2005		Q3 2009	Q1 2012	Q1 2012	Property currently in course of development	\$ 15,330,000	\$ 33,681,000	\$ 9,250,000	19.00%	
	25,935	13,099			10/13/2005		Q3 2006	Q4 2008	Q4 2008	Property currently in course of development	\$ 46,800,000	\$ 57,950,000	\$ 22,000,000	19.00%	
	29,910	16,285			10/13/2005		Q3 2006	Q2 2007	Q2 2007	Property currently in course of development	\$ 51,860,000	\$ 68,250,000	\$ 28,144,000	19.00%	
	17,982	10,645			10/13/2005		Q1 2007	Q3 2009	Q3 2009	Property currently in course of development	\$ 30,405,000	\$ 44,880,000	\$ 17,825,000	19.00%	
	48,057	22,320			10/13/2005		Q3 2008	Q2 2011	Q2 2011	Property currently in course of development	\$ 58,790,000	\$ 99,600,000	\$ 40,726,000	19.00%	
29	20,671	13,124	\$ 440	5.00%	9/20/2005	2,003	Q2 2004	Q4 2006	Q4 2007	Property currently in course of development	\$ 32,850,000	\$ 40,636,000	\$ 9,604,000	17.00%	Sell
30	37,343	26,847	\$ 230	8.00%	10/18/2005		Q2 2005	Q3 2007	Q3 2008	Property currently in course of development	\$ 30,193,000	\$ 36,140,000	\$ 25,871,000	17.00%	Sell
42	110,070	57,775	\$ 625	3.00%	10/12/2005	2,004	Q4 2005	Q3 2007	Q3 2008	Property currently in course of development	\$351,000,000	\$ 234,770,000	\$204,900,000	15.00%	Sell / Own to lease
63	930,500				9/14/2005	2,003	Q4 2005	Q4 2006	Q3 2009	Property currently in course of development	\$ 71,731,000	\$ 96,038,000	\$ 26,490,000	15.00%	Sell
65	16,600				10/21/2005		Q1 2007	Q4 2008	Q4 2009	Property currently in course of development	\$ 26,000,000	\$ 44,300,000	\$ 17,775,000	20.00%	Own to lease
6	6,070	3,770			9/13/2005	Q2 2005	Q2 2006	Q2 2008	Q2 2008	Property held for development	\$ 9,546,000	\$ 19,990,000	\$ 6,084,000	17.50%	Anticipated to be sold with vacant possession upon completion
34	12,000	8,000	\$ 685	5.00%	9/14/2005	Q4 2005	Q4 2007	Q4 2008	Q4 2009	Property held for development	\$ 25,515,000	\$ 50,000,000	\$ 15,900,000	17.50%	Own to lease
35	7,910	3,800	\$ 535	5.00%	9/13/2005	Q4 2005	Q4 2006	Q2 2007	Q1 2008	Property held for development	\$ 10,176,000	\$ 17,400,000	\$ 9,315,000	17.50%	Own to lease
37	9,155	5,840	\$ 625	5.00%	9/12/2005	2,005	Q3 2006	Q1 2008	Q1 2009	Property held for development	\$ 15,990,000	\$ 34,000,000	\$ 9,573,000	17.50%	Own to lease
46	10,140	5,696	\$ 700	3.00%	9/13/2005	Q4 2005	Q1 2007	Q2 2008	Q2 2009	Property held for development	\$ 14,440,000	\$ 38,000,000	\$ 10,325,000	17.50%	Own to lease
48	59,000	32,000	\$ 690	5.00%	9/12/2005	Q4 2005	Q4 2006	Q4 2008	Q4 2009	Property held for development	\$ 98,650,000	\$ 211,179,000	\$ 69,382,000	17.50%	Own to lease
50	21,500	12,400	\$ 710	5.00%	9/13/2005	2,005	Q2 2006	Q4 2008	Q1 2009	Property held for development	\$ 42,951,000	\$ 85,000,000	\$ 26,559,000	17.50%	Own to lease
59	10,733	5,700	\$ 630	5.00%	9/12/2005	2,005	Q1 2007	Q3 2008	Q4 2009	Property held for development	\$ 24,000,000	\$ 37,300,000	\$ 13,346,000	17.50%	Own to lease

Property Ref.	City	Property Address	Tenure	Net annual rent \$US	Net Market Rental Value US\$ per annum (upon completion)	Estimated market value (on 100% equity basis) as at 30 June 2006	Sistema-Hals ownership share	Sistema-Hals profit distribution upon completion	Market value according to the interest of Sistema-Hals	Type					
60	Moscow	Novy Arbat, 2 (MGTS-1)	Leasehold	0	\$ 11,000,000	\$ 26,447,000	50.00%	50.00%	\$ 13,223,500	Exchange building, held for development to provide a office and retail space in Calss A Business Center					
7	Moscow	Dnepropetrovskaya 25A	Leasehold	0	n/a	\$ 14,140,000	50.00%	50.00%	\$ 7,070,000	Land plot for construction of economy class residential complex					
14	Moscow	Michurinsky Prospekt, 39	Leasehold	0	n/a	\$ 42,837,000	50.00%	50.00%	\$ 21,418,500						
17	Moscow	4, Nakhimovsky Prospekt	Leasehold	0	n/a	\$ 25,715,000	50.00%	50.00%	\$ 12,857,500						
31	St. Petersburg	7, Pulkovskoye shosse	Leasehold	n/a	\$ 34,719,000	\$ 60,183,000	100.00%	100.00%	\$ 60,183,000	Land plot, held for development to provide retail warehousing					
53	Moscow	1st. Bulhovostova street. 12/11 (NIIDAR)	Leasehold	0	\$110,740,000	\$ 106,060,000		100.00%	\$ 106,060,000	Light industrial and administrative buildings					
66	Moscow region	Serebianny Bor 2	Leasehold	\$6,420,000	n/a	\$ 75,000,000	56.30%	56.30%	\$ 42,225,000	Cottages					
67	Moscow region	Serebianny Bor 3	Leasehold	n/a	n/a	\$ 5,200,000	56.30%	56.30%	\$ 2,927,600	Cottages					
Total:						\$ 861,333,000			\$ 729,632,275						
Properties held for future development															
9	Moscow	Klenovy b., 23 (MGTS-2)	Leasehold	0	n/a	\$ 1,880,000	0.00%	100.00%	\$ 1,880,000	Standard exchange building, held for development to provide a residential “enhanced comfort” building					
10	St. Petersburg	3, Krestovki river emb.	Leasehold	0	n/a	\$ 19,990,000	50.00%	50.00%	\$ 9,995,000	Offices and light industrial					
11	Moscow	Lomonosovsky pr, 36 (MGTS-3)	Leasehold	0	n/a	\$ 6,970,000	0.00%	100.00%	\$ 6,970,000	Standard exchange building, held for development to provide a residential “enhanced comfort” building					
12	Moscow	3-d Lusinovsky lane 1 (MGTS-3)	Leasehold	0	n/a	\$ 9,976,000	0.00%	100.00%	\$ 9,976,000	Standard exchange building, held for development to provide a residential “enhanced comfort” building					
13	Moscow	Mel’nikova, 29 (MGTS-3)	Leasehold	0	n/a	\$ 9,687,000	0.00%	100.00%	\$ 9,687,000	Standard exchange building, held for development to provide a residential “enhanced comfort” building					
16	Moscow	Nagornaya, 28 (MGTS-3)	Leasehold	0	n/a	\$ 10,012,000	n/a	100.00%	\$ 10,012,000	Standard exchange building, held for development to provide a residential “enhanced comfort” building					
Property Ref.	Estimated GBA, sq.m	Estimated net rentable area, sq.m (excl. parking area)	Average Rental Rate	Vacancy Rate	Date of inspection	Project Start Date	Start of construction works	Estimated Completion Date	Assumed Exit Date	Status of project	Gross Development Value upon completion (note 1)	Market Value assuming built and fully let (note 2)	Total outstanding development costs	Discount Rate	Current Estimated Objectives
60	21,100	Office 8 184 Retail 1 925	Office \$735 Retail \$1900	3.00%	9/14/2005	2,005	Q2 2007	Q4 2008	Q4 2009	Property held for development	\$ 50,940,000	\$ 104,700,000	\$ 24,500,000	17.50%	Own to lease
7	23,390	10,472			10/13/2005	2,004	Q2 2006	Q3 2007	Q3 2007	Property held for development	\$ 31,250,000	\$ 39,027,000	\$ 17,110,000	17.50%	Anticipated to be sold with vacant possession upon completion
14	40,000	23,290			10/13/2005	2,004	Q3 2006	Q4 2007	Q4 2007	Property held for development	\$ 80,495,000	\$ 110,904,000	\$ 37,657,000	17.50%	Anticipated to be sold with vacant possession upon completion
17	44,451	17,397			10/13/2005	2,004	Q3 2006	Q3 2007	Q3 2007	Property held for development	\$ 59,568,000	\$ 73,651,800	\$ 33,852,000	17.50%	Anticipated to be sold with vacant possession upon completion
31	125,500	Anchors 35 000 Mini-anchors 15 000 Middle-size shops 7 000 Galleries 24 247	Mini-Anchors—\$250 Middle Size \$400 Galleries \$700	8.00%	9/19/2005	2,004	Q4 2006	Q4 2007	Q3 2008	Property held for development	\$157,950,000	\$ 220,170,000	\$ 97,760,000	17.50%	Own to lease
53	642,000	Residential 211 000 Retail 60 000 Office tower 96 000 Office-Business Park 112 000	Retail \$550 Offices \$375	7.00%	9/8/2006	2,004	Q4 2006	Q2 2013		Property held for development	\$ 1,102,000	\$1,787,000,000	\$996,500,000	22.00%	Residential part is for sale, other premises—own to lease
66	n/a				4/26/2006	2,006	Q3 2006	Q4 2006							
67	n/a				4/26/2006										
9	8,480	5,764			10/5/2005	Q3 2006	Q3 2006	Q2 2008	Q2 2008	Property held for development	\$ 9,445,000	\$ 17,800,000	\$ 7,565,000	22.50%	Anticipated to be sold with vacant possession upon completion
10	40,000	20,000			9/19/2005	Q3 2006	Q3 2006	Q1 2008	Q1 2008	Property held for development	\$ 61,889,000	\$ 92,410,000	\$ 41,900,000	20.00%	Sell
11	11,617	4,632			4/24/2006	Q3 2006	Q3 2007	Q3 2008	Q3 2008	Property held for development	\$ 19,000,000	\$ 22,586,000	\$ 12,030,000	20.00%	Anticipated to be sold with vacant possession upon completion
12	10,860	4,548			4/24/2006	Q3 2006	Q3 2007	Q3 2008	Q3 2008	Property held for development	\$ 20,100,000	\$ 23,800,000	\$ 10,034,000	20.00%	Anticipated to be sold with vacant possession upon completion
13	12,317	5,461			4/26/2006	Q3 2006	Q3 2007	Q3 2008	Q3 2008	Property held for development	\$ 23,040,000	\$ 27,594,000	\$ 13,355,000	20.00%	Anticipated to be sold with vacant possession upon completion
16	19,817	7,543			4/26/2006	Q3 2006	Q3 2007	Q4 2008	Q4 2008	Property held for development	\$ 29,894,000	\$ 35,097,000	\$ 19,882,000	20.00%	Anticipated to be sold with vacant possession upon completion

Property Ref.	City	Property Address	Tenure	Net annual rent \$US	Net Market Rental Value US\$ per annum (upon completion)	Estimated market value (on 100% equity basis) as at 30 June 2006	Sistema-Hals ownership share	Sistema-Hals profit distribution upon completion	Market value according to the interest of Sistema-Hals	Type						
18	St. Petersburg	13, Petrovsky prospect	Leasehold	n/a	n/a	\$ 25,896,000	51.00%	51.00%	\$ 13,206,960	Land plot for construction of high-class residential complex						
20	Moscow	Sevastopolsky pr., 61a (MGTS-3)	Leasehold	0	n/a	\$ 4,844,000	0.00%	100.00%	\$ 4,844,000	Standard exchange building, held for development to provide a residential “enhanced comfort” building						
21	Moscow	Sel'skokhoziaystvennaya st., 5 (MGTS-3)	Leasehold	0	n/a	\$ 2,830,000	0.00%	100.00%	\$ 2,830,000	Standard exchange building, held for development to provide a residential “enhanced comfort” building						
22	Moscow	Simferopolsky b-r, 3 (MGTS-2)	Leasehold	0	n/a	\$ 3,900,000	0.00%	100.00%	\$ 3,900,000	Standard exchange building, held for development to provide a residential “enhanced comfort” building						
23	Moscow	Usievicha str, 10b (MGTS-3)	Leasehold	0	n/a	\$ 4,637,000	0.00%	100.00%	\$ 4,637,000	Standard exchange building, held for development to provide a residential “enhanced comfort” building						
24	Moscow	Photievoy str, 5 (MGTS-3)	Leasehold	0	n/a	\$ 10,480,000	0.00%	100.00%	\$ 10,480,000	Standard exchange building, held for development to provide a residential “enhanced comfort” building						
25	Yalta	Massandrovsky Park	Ownership	n/a	n/a	\$ 3,200,000	0.00%	75.00%	\$ 2,400,000	Fish complex, held for development to provide residential areas of “enhanced comfort”						
32	Moscow	Detsky Mir	Leasehold	n/a	\$ 37,017,000	\$ 121,145,000	0.00%	100.00%	\$ 121,145,000	Retail						
33	Moscow	Aviatsionnaya, 57 (MGTS-2)	Leasehold	0	\$ 5,325,000	\$ 8,400,000	0.00%	100.00%	\$ 8,400,000	Standard exchange building, held for development to provide a office areas of class “B”						
36	Moscow	Grimau, 10a (MGTS-3)	Leasehold	0	\$ 1,700,000	\$ 6,690,000	0.00%	100.00%	\$ 6,690,000	Standard exchange building, held for development to provide a office areas of class “B”						
38	Moscow	Demiana Bednogo 15 (MGTS-2)	Leasehold	0	\$ 5,100,000	\$ 6,455,000	0.00%	100.00%	\$ 6,455,000	Standard exchange building, held for development to provide a office areas of class “B”						
39	Moscow	Dubinskaya 33 (MGTS-3)	Leasehold	0	\$ 1,550,000	\$ 2,970,000	0.00%	100.00%	\$ 2,970,000	Standard exchange building, held for development to provide a office areas of class A-B						
40	Moscow	Zorge str. 3 (MGTS-2)	Leasehold	0	\$ 4,800,000	\$ 4,000,000	50.00%	50.00%	\$ 2,000,000	Standard exchange building, held for development to provide a office areas of class “B”						
41	Moscow	1-st Krasnoselsky lane, 15/17 (MGTS-3)	Leasehold	0	\$ 2,420,000	\$ 1,260,000	0.00%	100.00%	\$ 1,260,000	Standard exchange building, held for development to provide a office areas of class B+, A-						
Property Ref.	Estimated GBA, sq.m	Estimated net rentable area, sq.m (excl. parking area)	Average Rental Rate	Vacancy Rate	Date of inspection	Project Start Date	Start of construction works	Estimated Completion Date	Assumed Exit Date	Status of project	Gross Development Value upon completion (note 1)	Market Value assuming built and fully let (note 2)	Total outstanding development costs	Discount Rate	Current Estimated Objectives	
18	53,360	32,000			9/19/2005	Q3 2006	Q1 2007	Q3 2008	Q3 2008	Property held for development	\$ 62,766,000	\$ 80,000,000	\$ 36,870,000	18.00%	Sale	
20	9,383	3,871			4/26/2006	Q3 2006	Q3 2007	Q3 2008	Q3 2008	Property held for development	\$ 14,912,000	\$ 17,834,000	\$ 10,068,000	20.00%	Anticipated to be sold with vacant possession upon completion	
21	14,830	6,351			4/26/2006	Q3 2006	Q3 2007	Q3 2008	Q3 2008	Property held for development	\$ 17,900,000	\$ 20,870,000	\$ 15,070,000	20.00%	Anticipated to be sold with vacant possession upon completion	
22	9,360	6,354			10/4/2005	Q3 2006	Q2 2006	Q4 2007	Q4 2007	Property held for development	\$ 7,841,000	\$ 15,207,000	\$ 6,813,000	22.50%	Anticipated to be sold with vacant possession upon completion	
23	13,250	5,460			4/26/2006	Q3 2006	Q3 2007	Q3 2008	Q3 2008	Property held for development	\$ 16,640,000	\$ 19,722,000	\$ 12,000,000	20.00%	Anticipated to be sold with vacant possession upon completion	
24	14,267	5,629			4/24/2006	Q3 2006	Q2 2007	Q3 2008	Q3 2008	Property held for development	\$ 24,450,000	\$ 29,905,500	\$ 13,970,000	20.00%	Anticipated to be sold with vacant possession upon completion	
25	91,150				5/4/2006	Q3 2006	n/a	n/a	n/a	Property held for development					Anticipated to be sold with vacant possession upon completion	
32	72,224	Main Anchors 13 760 Anchors 5 040 Mini-Anchors 6 850 Gallery Shops 5 630 Gallery Small Shops 7 490	Main Anchors—\$300 Anchors—\$450 Mini Anchors—\$550 Gallery—\$1700 Gallery Small shops—\$2500	4.00%	10/13/2005	Q3 2006	Q4 2006	Q1 2009	Q4 2009	Property held for development	\$293,830,000	\$ 462,720,000	\$172,500,000	16.50%	Own to lease	
33	21,020	12,739	\$	445	5.00%	9/29/2005	Q3 2006	Q1 2007	Q2 2008	Q1 2009	Property held for development	\$ 25,900,000	\$ 44,374,000	\$ 17,500,000	22.50%	Own to lease
36	5,219	3,732	\$	480	8.00%	4/24/2006	Q3 2006	Q1 2007	Q4 2007	Q4 2008	Property held for development	\$ 12,300,000	\$ 17,000,000	\$ 5,610,000	20.00%	Own to lease
38	17,590	11,265	\$	450	5.00%	9/29/2005	Q3 2006	Q1 2007	Q2 2008	Q2 2009	Property held for development	\$ 24,400,000	\$ 42,600,000	\$ 17,945,000	22.50%	Own to lease
39	7,637	3,000	\$	530	10.00%	4/26/2006	Q3 2006	Q3 2007	Q3 2008	Q4 2009	Property held for development	\$ 10,100,000	\$ 16,290,000	\$ 7,130,000	20.00%	Own to lease
40	18,443	11,790	\$	445	5.00%	9/29/2005	Q3 2006	Q4 2006	Q1 2008	Q4 2008	Property held for development	\$ 20,900,000	\$ 40,000,000	\$ 16,900,000	22.50%	Own to lease
41	10,930	4,460	\$	535	8.00%	4/26/2006	Q3 2006	Q3 2006	Q3 2008	Q4 2009	Property held for development	\$ 13,900,000	\$ 25,500,000	\$ 12,640,000	20.00%	Own to lease

Property Ref.	City	Property Address	Tenure	Net annual rent \$US	Net Market Rental Value US\$ per annum (upon completion)	Estimated market value (on 100% equity basis) as at 30 June 2006	Sistema-Hals ownership share	Sistema-Hals profit distribution upon completion	Market value according to the interest of Sistema-Hals	Type
43	Moscow	Marshala Zhukova, 52 (MGTS-2)	Leasehold	0	\$ 2,760,000	\$ 3,810,000	100.00%	100.00%	\$ 3,810,000	Standard exchange building, held for development to provide a office areas of class "B"
44	Moscow	Nagatinskaya str, 34 (MGTS-2)	Leasehold	0	\$ 3,340,000	\$ 4,980,000	50.00%	50.00%	\$ 2,490,000	
45	Moscow	Nagatinskaya str, 4g (MGTS-2)	Leasehold	0	\$ 5,300,000	\$ 7,520,000	0.00%	100.00%	\$ 7,520,000	Standard exchange building, held for development to provide a office areas of class "B"
47	Moscow	Oktiabrskaya 103 (MGTS-2)	Leasehold	0	\$ 6,500,000	\$ 12,880,000	0.00%	100.00%	\$ 12,880,000	Standard exchange building, held for development to provide a office areas of class "B"
49	Moscow	Rochdelskaya 22	Leasehold	0	\$ 4,180,000	\$ 12,600,000	51.00%	50.00%	\$ 6,300,000	Office
51	Moscow	B. Cherkizovskaya st, 4a (MGTS-3)	Leasehold	0	\$ 1,700,000	\$ 4,050,000	0.00%	100.00%	\$ 4,050,000	Standard exchange building, held for development to provide a office areas of class "B"
54	Moscow	Vavilova str, 68 (MGTS-3)	Leasehold	0	\$ 1,800,000	\$ 6,370,000	0.00%	100.00%	\$ 6,370,000	Standard exchange building, held for development to provide a office areas of class "B"
55	Moscow	Kastanaevskaya str, 34 (MGTS-3)	Leasehold	0	\$ 1,320,000	\$ 4,260,000	0.00%	100.00%	\$ 4,260,000	Standard exchange building, held for development to provide a office areas of class "B"
56	Sochi	Kamelia, Kurortny pr, 89	Leasehold	0		\$ 3,180,000	0.00%	100.00%	\$ 3,180,000	Non-operating hotel buildings
57	Moscow	Leninsky pr, 90/2	Leasehold	0	\$113,230,000	\$ 206,730,000	50.00%	50.00%	\$ 103,365,000	Land plot, held for development to provide mix use development
58	Moscow	Leninsky pr., 45/2 (MGTS-3)	Leasehold	0	\$ 3,100,000	\$ 2,500,000	0.00%	100.00%	\$ 2,500,000	Standard exchange building, held for development to provide a office areas
61	Moscow	Bolshaya Sadovaya st., 5, bld. 1-2 (Office-Hotel complex Pekin)	Leasehold	0	\$ 65,042,000	\$ 144,360,000	90.00%	100.00%	\$ 144,360,000	Hotel
62	Moscow	Povarskaya str, 8	Leasehold		\$ 11,025,000	\$ 12,410,000	50.00%	50.00%	\$ 6,205,000	Mix use buildings
		Total:				\$ 690,872,000			\$ 547,027,960	
						\$1,865,403,000			\$1,509,534,139	

Property Ref.	Estimated GBA, sq.m	Estimated net rentable area, sq.m (excl. parking area)	Average Rental Rate	Vacancy Rate	Date of inspection	Project Start Date	Start of construction works	Estimated Completion Date	Assumed Exit Date	Status of project	Gross Development Value upon completion (note 1)	Market Value assuming built and fully let (note 2)	Total outstanding development costs	Discount Rate	Current Estimated Objectives
43	10,442	6,114	\$ 475	5.00%	10/5/2005	Q3 2006	Q1 2007	Q2 2008	Q2 2009	Property held for development	\$ 13,200,000	\$ 23,000,000	\$ 9,390,000	22.50%	Own to lease
44	11,100	5,693	\$ 485	5.00%	10/5/2005	Q3 2006	Q4 2006	Q1 2008	Q1 2009	Property held for development	\$ 13,665,000	\$ 28,000,000	\$ 8,683,000	22.50%	Own to lease
45	17,650	11,071	\$ 485	5.00%	10/5/2005	Q3 2006	Q4 2006	Q1 2008	Q1 2009	Property held for development	\$ 25,860,000	\$ 45,000,000	\$ 18,344,000	22.50%	Own to lease
47	19,271	12,330	\$ 515	5.00%	9/30/2005	Q3 2006	Q4 2006	Q1 2008	Q1 2009	Property held for development	\$ 34,700,000	\$ 59,000,000	\$ 21,820,000	22.50%	Own to lease
49	14,150	Office 5 490 Retail 640 Café 350 Apartments 630	Office \$640 Retail 800 Café 250	7.00%	10/6/2005	Q3 2006	Q1 2007	Q1 2008	Q1 2009	Property held for development	\$ 30,011,000	\$ 46,327,000	\$ 17,432,000	20.00%	Own to lease
51	11,230	4,112	\$ 450	10.00%	4/26/2006	Q3 2006	Q3 2007	Q4 2007	Q4 2008	Property held for development	\$ 11,400,000	\$ 16,900,000	\$ 7,350,000	25.00%	Own to lease
54	11,230	4,070	\$ 480	8.00%	4/24/2006	Q3 2006	Q1 2007	Q4 2007	Q4 2008	Property held for development	\$ 13,100,000	\$ 18,300,000	\$ 6,730,000	20.00%	Own to lease
55	7,250	3,002	\$ 470	8.00%	4/24/2006	Q3 2006	Q1 2007	Q4 2007	Q 2008	Property held for development	\$ 9,300,000	\$ 13,000,000	\$ 5,040,000	20.00%	Own to lease
56	76,000				5/10/2006	Q3 2006	n/a	n/a		Property held for development					Anticipated to be sold with vacant possession upon completion
57	390,000	Apart-Hotel 30 000 Retail 27 000 Office 162 000	Apart-Hotel \$450 Retail—\$785 Office—\$483	3.00%	9/7/2005	Q3 2006	Q3 2006	Q4 2008	Q2 2010	Property held for development	\$643,310,000	\$1,258,122,000	\$436,581,000	22.00%	Own to lease
58	12,320	4,841	\$ 615	5.00%	4/24/2005	Q3 2006	Q4 2006	Q3 2008	Q3 2009	Property held for development	\$ 18,800,000	\$ 32,600,000	\$ 16,300,000	20.00%	Own to lease
61	109,072	Four stars hotel 688 Retail 9 030 Office 25 332	Retail \$1000 Office \$635	5.00%	9/7/2005	Q3 2006	Q4 2006	Q4 2008	Q4 2010	Property held for development	\$313,465,000	\$ 813,023,000	\$169,105,000	22.00%	Own to lease
62	50,332	21,336	\$ 610	5.00%	4/14/2006	Q3 2006	Q3 2006	Q3 2008	Q3 2009	Property held for development	\$ 71,800,000	\$ 122,500,000	\$ 60,000,000	18.00%	Own to lease

Properties held as Investment

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No: 68	The property represents Class “B/C” office buildings, which the Client currently intends to redevelop into a high class residential complex.	n/a	n/a	n/a	US\$11,200,000
Bobrov lane 4					US\$6,305,600
Moscow Russia	<p>The office buildings were constructed in eighties years of XXth century. Three of the buildings were recently renovated and are representative of class B/C office premises. Two of them are owned by a bank and the third one by the FSB. The renovation was made using high quality materials and technologies. The buildings were equipped with internal and external video surveillance system, insulating glass units, internet line, new walling and air conditioning (split systems in most of the individual offices). The fourth building requires complete renovation, and is currently in very poor condition.</p> <p>The buildings are three storied office buildings extending to a total area of 2,635.8 square metres.</p> <p>Currently, three buildings (buildings 1, 2, and 3) of the Office complex are in good condition and do not have visible defects or signs of wear-out. The fourth building, which has a total area 655,6 square metres, is in poor condition and requires complete renovation.</p> <p>The buildings were built in soviet period and represent three storied mansions. Being recently renovated, they all still have ineffective corridor planning, and can be defined as class “B/C” office premises.</p> <p>According to the information supplied by the Company, the intended project (which is subject to revision) involves the construction of a high class residential development of 6,480 square metres. The proposed development will consist of 5,500 square metres above ground and 980 square metres underground to be used for parking. On this basis it is projected that the total area of the apartments will be 3,575 square metres, and that the underground parking will provide 28 spaces.</p> <p>In accordance with the proposals The City of Moscow will retain ownership of 555 square metres of apartments, out of the total of 3,575 above, for social uses together with 6 spaces in the underground parking.</p>			for the 56.3% share interest held by the Company	

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No: 69	The property comprises a “Thirteen buildings (including industrial building, boiler house, two office buildings, three substations and two warehouses buildings) of about 12 000 square metres total floor space.	n/a.	n/a.	n/a.	US\$25,600,000
Bolshaya Tatarskaya					US\$25,600,000
Moscow Russia	Full ownership rights for the buildings. The land underlying the property belongs to the State and we could not obtain exact information when it is going to be acquired by the company.				for the 100% share interest held by the Company
No: 70	The property consists from leasehold land plots with total area of 17.75 hectares intended for future development plus several freehold land plots with total area of 12.2566 which are represented by roads, sidewalks and public space—remaining part of the previous development.	n/a	n/a	n/a	US\$3,550,000
Landshaft					US\$3,550,000
Moscow region Russia	All leasehold land plots are intended for future development and to be converted into the freehold. They are covered with mainly coniferous forest and with birches in some places. The land plot of 5 hectares is represented by pounds which are intended for fire-prevention use.				for the 100% share interest held by the Company
No: 71	The property is represented by the leasehold land plot of 10 hectares intended for future development and to be converted into the freehold. The subject land plot is covered with mainly coniferous forest.	n/a	n/a	n/a	US\$14,976,255
Profaliance					US\$14,976,255
Moscow region Russia					for the 100% share interest held by the Company
No: 72	The property is represented by the leasehold land plot of 9.41 hectares intended for future residential development and to be converted into the freehold. The subject land plot is covered with mainly coniferous forest.	n/a	n/a	n/a	US\$14,079,060
Merkury					US\$14,079,060
Moscow region Russia	Currently the leasehold land plots of 9.41 hectares total area are intended for residential development and have no benefit of any utilities in place. As soon as the area of Zhukovka village is well developed, there are enough engineering capacities for electricity, gas and water supply there but after receiving permissions from the Local Government.				for the 100% share interest held by the Company
No: 73	The property is represented by the leasehold land plot of 26.6 hectares intended for future residential development and to be converted into the freehold. The subject land plot is covered with mainly coniferous forest.	n/a	n/a	n/a	US\$39,959,685
Geokom					US\$39,959,685
Moscow region Russia	Currently the leasehold land plots of 26.6 hectares total area are intended for residential development and have no benefit of any utilities in place. As soon as the area of Zhukovka village is well				for the 100% share interest held by the Company

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:	
No: 74 Mosdachrest Moscow region Russia	developed, there are enough engineering capacities for electricity, gas and water supply there but after receiving permissions from the Local Government.					
	Kraskovo	The property represents the land plot which consists of 3 separated habitations of approximately 16 hectares of total area, which is covered by low quality cottages, designed for summer rent. The cottages mostly are of 1933 year of construction. There are no communications in the houses.	Currently almost all cottages are subject to lease: 817.4 sq.m in life-hold lease, 574.2 sq.m. in long-term lease, 32 sq.m in social lease.	n/a	n/a	US\$3,230,000 US\$1,818,490 for the 56.3% share interest held by the Company
	Klyazma	The property represents the land plot which consists of approximately 16 hectares of land, which is covered by low quality cottages, designed for summer rent. The cottages mostly are of 1933 year of construction. There are no communications in the houses.	Currently almost all cottages are subject to lease: 265.7 sq.m in life-hold lease, 1,257.52 sq.m. in long-term lease, 1,155.56 sq.m in short-term lease.	n/a	n/a	US\$5,420,000 US\$3,051,460 for the 56.3% share interest held by the Company
	Zagorianka	The property represents by the land plot which of approximately 6.7 hectares of total area, which is covered by low quality cottages, mostly designed for summer rent. The cottages mostly are of 1935 - 1937 years of construction. There are some repaired houses which are suitable for year-round residence. Most of the cottages have only cold water supply and electricity supply. They were initially designed for summer rent i.e. from May till September, but some of them were renovated and now are suitable for all-year living. All buildings are made of sawn timber. The soil is mostly loam, which forces basement destruction during spring period by keeping melting water on the surface. The houses are of the different size.	Currently almost all cottages are subject to lease: 381.17 sq.m in life-hold lease, 826.19 sq.m. in long-term lease, 1,263.64 sq.m in social lease.	n/a	n/a	US\$938,000 US\$528,094 for the 56.3% share interest held by the Company
	Trudovaya	The property was in the course of development till 2nd quarter 2005. Currently it provides 89 residential units of three types, from 160 square metres to 200 square metres and one administrative building of 792 sq metres for supporting uses (convenience store, restaurant, leisure, club etc.). The buildings represent 89 a two storied cottages (totalling 17 061 square metres): 33 cottages of 163 square metres each; 21 cottage of 180 square metres each; and 35 cottages of 202 square metres each. Currently, title documents for	The Property has been projected to reach 50% occupancy by the end of 2006, with a steady lease up throughout the year, with continued similar progression to 80% by the end of 2008.	n/a	n/a	US\$34,450,000 US\$19,395,350 for the 56.3% share interest held by the Company

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
	<p>subject real estate objects are in reconciliation process, which expected to be finished by January 2007.</p> <p>The buildings were constructed according to the original architectural project and have a distinguished architectural exterior. Architectural design is a combination of several styles and details allowing this newly-built complex to fit in the requirements of high class residential complex.</p> <p>The facades are completed in modern style, using modern high-quality materials.</p> <p>There are several types of buildings, main construction elements of which are made of Brick and wood.</p>				
Krasnaya Pakhra	<p>The property represents the land plot, of approximately 8.6 hectares of total area, which is covered by high quality cottages, designed for all-year round live.</p> <p>The cottages were built between 1954 - 1958 years but the majority of them were renovated or rebuilt. The cottages have all communications and are suitable for living all year round.</p> <p>Quality of the most of the buildings is by up the high standards of construction. The soil is loam and sand.</p>	Currently almost all cottages are subject to lease: 1,324.56 sq.m in life-hold lease, 638.42 sq.m. in long-term lease, 70.8 sq.m in social lease.	n/a	n/a	<p>US\$2,500,000</p> <p>US\$1,407,500</p> <p>for the 56.3% share interest held by the Company</p>
Opalikha	<p>The property represents the land plot, of 5,07 hectares of total area, which is covered by low quality cottages, designed for summer rent. The cottages were built between 1954 - 1958 years and currently the majority of them are close to the state of emergency. The cottages don't have any communications but cold water supply and electricity supply. They were initially designed for summer rent i.e. from May till September. The buildings were constructed in soviet period and no complete renovation was made since construction.</p> <p>All buildings are made of sawn timber. The soil is mostly loam, which forces basement destruction during spring period by keeping melting water on the surface.</p> <p>Currently, all constructions on the site are of no value, because of physical and moral deterioration.</p>	Currently almost all cottages are subject to lease: 824.1 sq.m in short-term lease, 2,000.35 sq.m. in social lease.	n/a	n/a	<p>US\$1,300,000</p> <p>US\$731,900</p> <p>for the 56.3% share interest held by the Company</p>
Barvikha	<p>The property represents regular in shape and level land plot of approximately 0.8 hectares of total area, and six cottages located on it.</p> <p>Three cottages were constructed 10 years ago, but were renovated and gained all necessary communications, such as hot</p>	n/a	n/a	n/a	<p>US\$6,000,000</p> <p>US\$3,378,000</p> <p>for the 56.3% share interest held by the Company</p>

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
	<p>and cold water supply, internet line, and security systems. The other three cottages were built two years ago and were initially designed as high class town houses.</p> <p>The cottage development is equipped with satellite television (NTV+), video surveillance system, phone line, and ground parking (2 slots per each family).</p> <p>Currently the cottage development is in good condition and doesn't have visible defects and signs of wear-out.</p> <p>According to Sistema-Halls concept, three cottages of 750 square meters of total area, will be replaced by new, two storied cottages of 1,365 square meters of total area. Two cottages of 911 square meters of total area will be reconstructed. One cottage of 455 square meters is already reconstructed.</p>				
Zhavoronki	<p>The property represents the land plot of 4.86 hectares of total area which is covered by average quality cottages. The buildings were constructed in 1997. All improvements were initially designed for year-round rent, and have all necessary communications, such as gas, electricity, hot and cold water supply. All buildings were made of wood, the majority of them remain in average/good condition, but some require complete renovation, especially basements of cottages.</p>	Currently almost all cottages are subject to lease: 119.3 sq.m in long-hold lease, 1,201.1 sq.m. in short-term lease, 470.8 sq.m in social lease.	n/a	n/a	<p>US\$1,970,000</p> <p>US\$1,109,110</p> <p>for the 56.3% share interest held by the Company</p>
Zaveti Ilichia	<p>The property represents by the land plot which of approximately 46.4 hectares of total area, which is covered by low quality cottages, mostly designed for summer rent. The cottages mostly are of 1935 - 1937 years of construction. There are some repaired houses which are suitable for year-round residence.</p> <p>Most of the cottages have only cold water supply and electricity supply. They were initially designed for summer rent i.e. from May till September, but some of them were renovated and now are suitable for all-year living and provided with all necessary communications.</p> <p>All buildings are made of sawn timber. The soil is mostly loam, which forces basement destruction during spring period by keeping melting water on the surface.</p> <p>The houses are of the different size. Currently, almost all constructions on the site are of no value, because of physical and moral deterioration.</p>	Currently almost all cottages are subject to lease: 648.69 sq.m in life-hold lease, 97.7 sq.m. in long-term lease, 1,700.58 sq.m. in short-term lease, 6,056.8 sq.m in social lease.	n/a	n/a	<p>US\$3,940,000</p> <p>US\$2,218,220</p> <p>for the 56.3% share interest held by the Company</p>

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
Udelnoe	<p>The property represents by the land plot which of approximately 22.5 hectares of total area, which is covered by low quality cottages, mostly designed for summer rent. The cottages mostly are of 1935 - 1937 years of construction. There are some repaired houses which are suitable for year-round residence.</p> <p>Most of the cottages have only cold water supply and electricity supply. They were initially designed for summer rent i.e. from May till September, but some of them were renovated and now are suitable for all-year living and provided with all necessary communications.</p> <p>All buildings are made of sawn timber. The soil is mostly loam, which forces basement destruction during spring period by keeping melting water on the surface.</p> <p>The houses are of the different size and some of them hold up to 8 families.</p>	<p>Currently almost all cottages are subject to lease: 431.3 sq.m in life-hold lease, 177.3 sq.m. in long-term lease, 667,75 sq.m. in short-term lease, 3,049.5 sq.m in social lease.</p>	n/a	n/a	<p>US\$3,150,000</p> <p>US\$1,773,450</p> <p>for the 56.3% share interest held by the Company</p>
Zdravniza	<p>The property consists of the land plot of 25.4 hectares of total area, which is covered by low quality cottages. This settlement includes Trekhgorka and Trubocheevka cottage settlements.</p> <p>The improvements are approximately the same low quality as in Opalikha cottage development and do not represent any value, because of deterioration. All constructions have been built in the middle of XX century and haven't been renovated since construction. All cottages were initially designed for summer rent, and are closed from October till May.</p>	<p>Currently almost all cottages are subject to lease: 1,047.02 sq.m in life-hold lease, 796.5 sq.m. in long-term lease, 1,520.83 sq.m in short-term lease, 1,034.8 sq.m. in social lease.</p>	n/a	n/a	<p>US\$4,190,000</p> <p>US\$2,358,970</p> <p>for the 56.3% share interest held by the Company</p>
Serebrianny Bor	<p>The property comprises 61 residential buildings that have not been reconstructed and 41 residential buildings reconstructed by OAO "Mosdachrest". The total area of the reconstructed buildings is 7,828.3 square metres and the total area of the non-reconstructed buildings is 15,157.81 square metres.</p> <p>The area of an average cottage is approximately 225 square metres. The cottages are equipped with built-in appliances and air-conditioning systems, 2-3 bedrooms, 12-20 square meters kitchens, 2 bathrooms, and extra areas (porches and stanzas).</p> <p>In accordance with modern requirements of residential premises, cottages are equipped with engineering and telecommunication systems such as:</p> <ul style="list-style-type: none"> ● Hot and cold water ● Heating ● Electricity ● Canalization ● Phone 	n/a	n/a	n/a	<p>US\$96,300,000</p> <p>US\$54,216,900</p> <p>for the 56.3% share interest held by the Company</p>

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
	<ul style="list-style-type: none"> ● Television (including cable) ● Fire alarm system <p>The territory is secured and has a video monitoring system. Serebryany Bor is an artificial island, formed by the Moskva river. It has been a favorite place of rest for Moscovites since the 1930s. The total area of the land plots is 247,568.8 square metres according to the long-term land lease Agreement with Moscow Land Committee.</p>				
Kuchino	<p>The property represents the land plot which consists of 5 separated habitations of approximately 50.9 hectares of total area, which is covered by low quality cottages, designed for summer rent. The cottages mostly are of 1936-1938 years of construction. Some of them were renovated in 1980.</p> <p>There are no communications in the houses but electricity and gas during summer period as the houses were initially designed for summer rent i.e. from May till September. The buildings were constructed in soviet period and only a few of them were complete renovated since construction.</p> <p>All buildings are made of sawn timber. The soil is mostly sand.</p>	Currently almost all cottages are subject to lease: 291.75 sq.m in life-hold lease, 666.79 sq.m. in long-term lease, 3,766.25 sq.m in short-term lease, 7,104.66 sq.m. in social lease.	n/a	n/a	US\$5,090,000 US\$2,865,670 for the 56.3% share interest held by the Company
Skhodnia	<p>The property represents the land plot of 14.62 hectares of total area, which is covered with 47 low quality cottages. The improvements were built in 1937 and were initially designed for summer rent. Although the buildings were built 70 years ago they remain in average condition due to good maintenance. Nevertheless they are overaged.</p> <p>Currently, building improvements, which are placed on the site have no value due to deterioration and moral obsolesce.</p>	Currently almost all cottages are subject to lease: 1,055.8 sq.m in short-term lease, 1,224.4 sq.m. in social lease	n/a	n/a	US\$2,630,000 US\$1,480,690 for the 56.3% share interest held by the Company
No: 64 Zhukovka Moscow Russia	<p>The property is represented by office building of approximately 634 square meters total area. The property consists of two stories above ground plus underground floor.</p> <p>It is currently occupied by ZAO "Landshaft" company as sales office of residential real estate and land plots.</p>	n/a	US\$ 190,000	n/a	US\$1,500,000 US\$844,500 for the 56.3% share interest held by the Company
No: 75 Botanicheskaya str 14 Moscow Russia	<p>The office building was constructed in 1958. Previously the building belonged to Scientific and Research bureau of automated informational systems and has a correspondent corridor planning. Premises which are owned by OJSC "Leasing Company Promleasing" are located on first and second floors of the building and represent class "C" office premises. The premises are equipped with conditioning (Split Systems), fire</p>	n/a	\$226,280	n/a	US\$1,275,000 US\$1,275,000 for the 100% share interest held by the Company

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
	<p>alarm system, video surveillance system. The floors are covered with linoleum or block flooring in cabinets. The premises, located on first floor of the building are currently under repair and will represent the same class premises upon completion.</p> <p>The building represents a five-story office building.</p> <p>Currently, the building is in a good condition and does not have visible defects and signs of wear-out.</p> <p>The site contains approximately 2 681 square meters of land, most of which is covered by the building improvements and ground parking.</p>				
Sadovnicheskaya str. 75	<p>The office building was constructed during the years 1997 – 1998 year. The Turkish company Baytur was a general contractor of this project.</p> <p>The building represents a five-story office building of class B with a total area of 8,555.2sqm (4,342.5sqm leasable area) together with underground parking for 46 slots. Currently, the subject property is in a good condition and does not have visible defects and signs of wear-out.</p> <p>The building was constructed according to the original architectural project and has a distinguished architectural exterior. The main construction elements of the building are made of monolith reinforced concrete.</p> <p>Expensive finishing materials are used for interior and exterior of the building. The engineering systems of the building are made entirely of the imported parts and equipment of a high quality.</p> <p>In general, the level of facing and equipment of the building conforms to the international standards for the “B” class.</p>	n/a	US\$3,030,000	n/a	<p>US\$24,800,000</p> <p>US\$24,800,000</p> <p>for the 100% share interest held by the Company</p>
Moscow, Russia					

Properties in course of development

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No: 1	The property comprises two buildings with a total area of 25,592 square meters (15,203 square meters usable area). Closed to the property there is a construction of two-level parking for 96 slots.				US\$12,450,000
Aviatorov str., 9					US\$12,450,000
Moscow Russia	Land plot with total area of 13,200 square meters is held by FSS (Federal Security Service).				for the 100% share interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$18,955,000)
No: 2	Kuntsevo project represents a complex plan for the redevelopment of number of properties in the district Kuntsevo in the north west of Moscow.				US\$184,466,000
Kuntsevo project					US\$184,466,000
Moscow Russia	Essentially this involves building new residential blocks for the re-housing of residents from old soviet apartment buildings, which will result in vacated buildings that can be demolished and redeveloped as new apartment buildings.				for the 100% share interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$766,500,000)
	This is a complex scheme that is being undertaken in conjunction with the Moscow City Government, that will allow, over a period of approximately 6 years, the construction of a number of new apartment buildings—having re-housed existing residents. As this area of one of the more attractive residential districts of Moscow this offers the potential to earn significant sales revenues, but over a long period of time and with a high level of investment. However—the project is also likely to earn political capital for the Company as well due to the benefits provided to existing residents of the area.				
	The total area of the project is approximately 351,000 square meters. Total outstanding development costs are estimated as circa US\$303,983,000				
No: 29	Property located on the land plot of 0.642 hectare of land according to Tatar Republic Head of Administration resolution dated 01 September 2005, under the number # 2174	n/a	US\$0	US\$5,485,000 upon completion	US\$23,250,000
Detsky Mir					US\$23,250,000 for the 100% share interest held by the Company according to information provided to us (Assuming built and fully let on market terms circa US\$40,636,000)
Kazan Russia	The retail-entertainment complex “Detsky Mir” is currently under construction and is approximately 70% completed. Approximate delivery date is estimated to be the forth quarter of 2006. There will be three entrances to the building: the central entrance will be from Peterburgskaya street, the entrance from the metro station “Ploschad Tukaya”, which is situated right in the estimated building, and the independent entrance to the building.				

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No: 41 Detsky Mir Krasnoyarsk Russia	The Property comprises a four-storey (including socle and technical floors) retail-entertainment complex plus underground level.				
	The main construction elements of the building are made of monolith reinforced concrete. The engineering systems of the building are made entirely of imported parts and equipment of a high quality, external hydro insulation. The building roof will be made from monolithic concrete slab with "Rockwool" type heat insulation, the foundation is from monolithic concrete.				
	The retail-entertainment complex "Detsky Mir" and hypermarket "Koltso", adjacent to the building, will be having a joined parking place with approximately 700 slots. The project for parking place is currently under developing.				
	Total outstanding development costs are estimated as US\$9,604,000				
No: 42 Leningradsky pr, 39 Moscow Russia	The retail-entertainment complex "Detsky Mir" is currently under construction and is approximately 15% completed. The projected delivery date is estimated to be the third quarter of 2007.			US\$ 5,060,000 upon completion	US\$4,322,000 US\$4,322,0000 for the 100% share interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$36,140,000)
	The subject property represents a three-story (excluding underground parking and underground floor) complex. There will be 105 surface and 234 underground car parking spaces on the minus two level. On the minus one level there will be areas for presentations, technical areas, workshops for repairing an appliance shop and office areas. There would be a hypermarket on the first floor together with small shops areas. On the second floor there will be children's goods and cafes. The cinema complex, children's complex, restaurant, book shop, music shop and food-court will be located on the third floor.				
	Russian company OOO "SIBIRIAK" is a general contractor of this project. Special construction works were performed by local subcontractors.				
	Total outstanding development costs are estimated as US\$25,871,000				
No: 42 Leningradsky pr, 39 Moscow Russia	The subject property will consist of Class A office containing 110,070 square metres consisting primarily of office space.	n/a		US\$18,780,000 upon completion	US\$146,800,000 US\$146,800,000 for the 100% share interest held by the Company according to information provided to us (Assuming built and fully let on market terms
	The building will be situated on the land plot of 1.004 hectares.				
	The property will consist of 2 towers with a total area of 110,070 square meters: first tower is intended to be SIEMENS property, the second tower is intended				

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
	for the commercial sale. Planned delivery date of the project is the Q3 of 2007. Construction works has been started in Q4 of 2005 (currently the project is on the stage excavation of ditch for foundation).				US\$234,770,000)
	Total outstanding development costs are estimated as US\$204,900,000				
No: 63	The property comprises a 93.05 ha land site.	The property is not subject to any tenancies.	n/a	n/a	US\$45,140,000
Avrora					US\$45,140,000
Moscow Russia	The property is in the course of development and is to be developed in accordance with 2 existing planning permission dated October 2003 for construction of individual residential units on 30 ha and 48,5 respectively. Riverside land plot with a total area of 14.55 ha is held for development to provide a yacht-club.	There are no other contractual arrangements disclosed that effect the property.			for the 100% share interest held by the Company according to information provided to us
	There are currently no buildings on the site with exception of temporary structures in connection with the construction works and electricity sub-station. Construction has started in accordance with the consents outlined below, and currently preliminary ground works are under way.				
	The land in total extends to a large area adjoining the village of Stepan'kovo on the west. The land has been used for agricultural purposes. The land plot is regular in shape.				
No: 65	The project covers the construction of 83 individual cottages. The size of an average cottage is 200 square metres. All cottages will be furnished and equipped with built-in appliances and an air-conditioning system.	n/a	n/a	n/a	US\$8,225,000
Zdravnitsa					US\$4,630,675 for the 56.3% share interest held by the Company according to information provided to us
Moscow region Russia	The total area of the buildings is projected to be 16,600 square metres. The construction works have commenced, but have been frozen for some considerable time.				(Assuming built and fully let on market terms
	Total outstanding development costs are estimated as US\$17,775,000.				US\$44,300,000)
No. 6	The property comprises a standard building constructed in the 1980's, arranged over 6 floors (with high ceilings) above ground and 1 basement level, providing a gross area of 4,593.8sqm. The existing use of each is as a telecommunications central exchange, with 1 floor used as offices.	The property is not subject to any tenancies.		n/a as is anticipated to be sold with vacant possession upon completion	US\$3,463,000
B. Gruzinskaya str. 30a		There are no other contractual arrangements disclosed that effect the property.			US\$1,731,500 for the 50% share interest held by the Company according to information provided to us
Moscow, Russia	The land area comprises 2,304sqm and is held on a 15 year land lease from Moscow City Government from 12 th April 1995 subject to standard Statutory annual rent review and extension rights. The building is held freehold.				(Total Gross Development Value is circa \$19,990,000)

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
	<p>The property is held for development. The development is anticipated to commence in the second quarter of 2006 and to be completed in the second quarter of 2008 to include a renovation of the existing structure to provide residential areas of “enhanced comfort” together with underground car parking with 40 spaces.</p> <p>Total outstanding development costs are estimated as circa US\$6,084,000.</p>				
No. 34 1-3,5, Bakuninskaya street Moscow, Russia	<p>The property comprises 2 principal buildings. The first one was constructed in the 1970's and is arranged over nine floors above ground and one underground level, to provide a gross area of 7,103.8 square metres above ground. The other was built in the 1930's, is arranged over four floors above ground, and provides a gross area of 4,046.3 square metres. The existing use is as a telecommunications central exchange. Telephone station equipment is located from the fourth to the ninth floors in the larger building. There is only one tenant on the fourth floor of the building (“Spets-Yzel”).</p> <p>The property is situated on a land plot with a total area of 3,495sqm according to the long-term (25 years) lease agreement with Moscow Land Committee # M-01-001473 dated 19.12.1994.</p> <p>There is a heating system is on each floor. There are two types of floor covering in the building: linoleum prevail, parquet boards partially. The building has a basement with boiler plant inside. There are three elevators in the larger building: two passengers and one cargo. The property is held for development.</p> <p>The development is anticipated to commence on forth quarter of 2007 and to be completed on forth quarter 2008, to provide a reconstruction of the property to provide a Class A office buidling.</p> <p>Total outstanding development costs are estimated as approximately US\$15,900,000.</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	US\$5,500,000 upon completion	<p>US\$9,916,000</p> <p>\$4,958,000 for the 50% share interest held by the Company according to information provided to us</p> <p>(Assuming built and fully let on market terms is US\$50,000,000)</p>

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No. 35 Vsevolzhsky lane 5 Moscow, Russia	<p>The property comprises a standard exchange building constructed in 1979, arranged over four above ground floors plus underground level, providing a gross area of 5, 185 square metres. The existing use is as a telecommunications central exchange with some vacant areas. There are two types of heating systems in the building: hydronic heating and air heating system.</p> <p>The land area comprises 2,327sqm and is held on a 25 year land lease from Moscow City Government from 20th December 1994 subject to standard Statutory annual rent review and extension rights. The building is held freehold.</p> <p>The property is held for development. The development is anticipated to commence in the third quarter 2006 and to be completed in the second quarter 2007 to include a renovation of the existing structure to provide 7,910 square metres of office accommodation of Class B, together with parking facilities and 50 square metres dedicated to the renovated telephone exchange.</p> <p>Total outstanding development costs are estimated as US\$9,315,000.</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	US\$2,090,000 upon completion	<p>US\$861,000</p> <p>US\$430,500 for the 50% share interest held by the Company according to information provided to us</p> <p>(Assuming built and fully let on market terms US\$17,400,000)</p>
No. 37 Daev lane, 19 Moscow, Russia	<p>The property comprises a standard MGTS exchange building constructed in the 1980s, arranged over 6 floors above ground and 1 basement level, providing a gross area of 6,468.7sqm. The existing use is as a telecommunications central exchange with the ground floor used as offices.</p> <p>The land area comprises 2,943sqm and is held on a 25 year land lease from Moscow City Government from 20th December 1994 subject to standard Statutory annual rent review and extension rights. The building is held freehold.</p> <p>The property is held for development. The development is anticipate to commence in third quarter of 2006 and to complete on the first quarter of 2008 to include a renovation of the existing structure to provide 9,155 sqm of "class A" office accommodation together with surface and structured car parking providing 78 spaces.</p> <p>Total outstanding development costs are estimated as US\$9,573,000.</p>	<p>Four tenants occupy a total of 432sqm on short term annually renewable leases for a total rent of US\$91,525. The tenants are responsible for operating expenses, utilities and internal repair. Two of these are inter-company leases and are in the same form as the third party leases.</p> <p>The property is partially occupied by the Company for the purposes of the business. It is assumed that the company will not occupy any area after development in addition to the 1,200sqm required for the telephone exchange.</p> <p>There are no other contractual arrangements disclosed that affect the property.</p>	n/a	US\$3,700,000 upon completion	<p>US\$6,418,000</p> <p>US\$3,209,000 for the 50% share interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$34,000,000)</p>

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No. 46 Nastasinsky lane, 7/1 Moscow, Russia	<p>The Building comprises a four-storey building plus underground floor with a gross area of 2,906.8 square metres. There are 4 floors of exchange space (including underground floor) and 1 floor used as offices.</p> <p>The land area comprises 4,215 sqm and is held on a 25 year land lease from Moscow City Government from 05 May 1995, subject to standard Statutory annual rent review and extension rights. The building is held freehold.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p> <p>The property is held for development. Planning permission approvals are in the process of being applied for.</p> <p>The development is anticipated to commence on first quarter 2007 and complete second quarter .2008 to include a renovation of the existing structure and to provide 10,140 square metres of Class A office accommodation. The project is currently under development so the total area of the property could be changed, the number of slots is under approval.</p> <p>Total outstanding development costs are estimated as US\$10,325,000.</p>	<p>The property is partially occupied by the Company for the purposes of the business.</p>	n/a	US\$4,190,000 upon completion	<p>US\$4,119,000</p> <p>US\$4,119,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$38,000,000)</p>
No. 48 Rogozhsky val, 11 Moscow, Russia	<p>The property comprises a standard exchange building and ancillary buildings constructed in the 1950's and 1970's, together providing a gross area of 4,758sqm. The existing use of each respectively is as a telecommunications central exchange, offices and 2 warehouses.</p> <p>The land area comprises 5,937 sqm and is held on a 25 year land lease from Moscow City Government from 21st March 1996 subject to standard Statutory annual rent review and extension rights. The building is held freehold.</p> <p>The property is held for development. Planning permission approvals are in the process of being applied for.</p> <p>The development is anticipated to commence in the 4Q of 2006 and to be completed in the 4Q of 2008 to include demolition of the existing structures and new construction to provide 59,000 sqm of a Mix Used Development with 561 car parking spaces.</p> <p>Total outstanding development costs are estimated as US\$69,382,000.</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	US\$23,230,000 upon completion	<p>US\$29,270,000</p> <p>US\$14,635,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$211,179,000)</p>

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No. 50 Stoliarny per., 5 Moscow, Russia	<p>The property comprises a standard building constructed in the 1960's, arranged over 6 floors above ground and 1 basement level, providing a gross area of 6,415.8sqm. The existing use is as a telecommunications central exchange.</p> <p>The land area comprises 4,182 sqm and is held on a 25 year land lease from Moscow City Government from 22nd December 1995, subject to standard Statutory annual rent review and extension rights. The buildings are held freehold.</p> <p>The property is held for development. Planning permission approvals are in the process of being applied for.</p> <p>The development is anticipated to commence in the second quarter of 2006 and to be completed in the fourth quarter of 2008 to include a renovation of the existing structure and extension with new build to provide 21,500 square metres of Class B office accommodation together with surface car parking (approximately 185 slots).</p> <p>Total outstanding development costs are estimated as US\$26,559,000.</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	US\$8,890,000 upon completion	<p>US\$16,392,000</p> <p>US\$8,196,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$85,000,000)</p>
No. 59 Milutinsky lane 5 Moscow, Russia	<p>The property comprises a standard building constructed in the 1970's, arranged over 9 floors above ground and 1 basement level, providing a gross area of 6,860.8sqm. The existing use is as a telecommunications central exchange with some vacant areas.</p> <p>The title documents on the land lease rights as regards the 3,834 square metre site are currently under affirmation at the Moscow Land Committee. We have assumed that the Moscow Land Committee will execute a lease agreement with MGTS within a reasonable time period. The building is held freehold.</p> <p>The property is held for development. Planning permission approvals are in the process of being applied for.</p> <p>The property is held for development. The development is projected to commence in the first quarter of 2007 and to be completed by the third quarter of 2008 to include a renovation and extension of the existing structure to provide 10,733 sqm of hotel accommodation together with surface car parking for 50 slots.</p> <p>Total outstanding development costs are estimated as US\$13,346,000</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	US\$3,360,000 upon completion	<p>US\$10,659,000</p> <p>US\$5,329,500 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$37,300,000)</p>

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No. 60 Novy Arbat 2 Moscow, Russia	<p>The property comprises a standard building constructed in the 1970's, arranged over seven floors and one technical floor, providing a gross area of 11,113.8 square metres. The existing use is as a telecommunications central exchange together with some leased areas for office and retail uses. Telephone exchange equipment is located on part of the first and the third and fifth floors.</p> <p>The land area comprises 1,509 sqm and is held on a 25 year land lease from Moscow City Government from 22 January 1994, subject to standard Statutory annual rent review and extension rights. The building is held freehold.</p> <p>The property is held for development. The development is anticipated to commence on second quarter 2007 and complete on fourth quarter 2008 to provide the total area of 21,100 square metres for office and retail space in Class A Business Centre.</p> <p>Total outstanding development costs are estimated as US\$24,500,000.</p>	There are many tenants on the first and second floors, such as MTS, Bank, Strim Line, Post office, ect.	US\$0	US\$11,000,000 upon completion	<p>US\$26,447,000</p> <p>US\$13,223,500 for the 50% share interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$104,700,000)</p>
No. 7 Dnepropetrovskaya str, 25a Moscow, Russia	<p>The property comprises a land plot with a total area of 11,500 square metres, for construction of Economy class Residential complex.</p> <p>The property is held for development. The developer plans to start construction works in the 2nd quarter of 2006 and to finish them by 3rd quarter 2007</p> <p>Total outstanding development costs are estimated as US\$17,110,000.</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	n/a	<p>US\$14,140,000</p> <p>US\$7,070,000 for the 50% share interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$39,027,000)</p>
No. 14 Michurinsky pr., 39a Moscow, Russia	<p>The property comprises a land plot of approximately 15,000 square metres, for construction of a Business class Residential complex.</p> <p>Ownership rights for the land plot are in the process of negotiation, which were expected to be completed in November 2005. Currently the Company has not provided us with any title documents for the subject property.</p> <p>The property is held for development.</p> <p>Developer plans to start construction works in the 3rd quarter of 2006 and to complete by the 4th quarter of 2007</p> <p>Total outstanding development costs are estimated as US\$37,657,000.</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	n/a	<p>US\$42,837,000</p> <p>US\$21,418,500 for the 50% of share interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$110,904,000)</p>

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No. 17 Nakhimovsky pr., 4a Moscow, Russia	<p>The property comprises a land plot of 15,800 square metres, for construction of Business-class Residential complex.</p> <p>Ownership rights for the land plot are in the process of negotiation, which were anticipated to be completed in November 2005. Currently the Company has not provided us with any title documents for the Property.</p> <p>The property is held for development.</p> <p>Developer plans to start construction works in the third quarter 2006 and to complete them by the third quarter 2007.</p> <p>Total outstanding development costs are estimated as US\$33,852,000.</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	n/a	<p>US\$25,715,000</p> <p>US\$12,857,000 for the 50% os share interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$73,651,800)</p>
No. 31 Pulkovskoe sh., 7 Saint-Petersburg, Russia	<p>The property comprises a cleared 12.6 ha. site held for development. The former use was as an agricultural nursery.</p> <p>The property is held Freehold.</p> <p>The property is held for development and existing planning permission approval, dated February 2004 for public-business zone development, is in the process of being updated.</p> <p>The property forms part of a larger master-planned retail park of anticipated 180-200,000sqm (gross) retail space, with associated surface car parking.</p> <p>The development is anticipated to commence in fourth quarter 2005 and to be completed in third quarter 2007, to provide approx. 125,500 sqm of retail premises together with associated surface car parking.</p> <p>Total outstanding development costs are estimated as US\$97,760,000.</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	n/a	US\$34,719,000 upon completion	<p>US\$60,183,000</p> <p>US\$60,183,000 for the 100% share interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$220,170,000)</p>

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No. 53 Bukhvostova str., 3 NIIDAR Moscow, Russia	<p>The property comprises a land plot of 11.4 ha. with 30 industrial, light industrial and administrative buildings, plus 5 parts of other buildings, constructed variously from 1940s to 1980s, together providing a gross area totaling 144,149sqm. The existing use is a research institute and production and office facilities.</p> <p>The land is held on 2 lease agreements with Moscow City Government. The first, dated 1 November 2002, relates to 9.3ha. and expires 30th July 2012. The second, dated 27 June 1996, relates to 2.1ha. and expires 30 September 2019. Both are subject to standard Statutory annual rent reviews and extension rights. The buildings are held freehold.</p> <p>The property is held freehold. According to the concept total area of the complex will be 642,000 square metres. A detailed breakdown of these costs has not been provided it is understood that the additional infrastructure costs will amount to approximately US\$996,500,000.</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	US\$110,740,000 upon completion	<p>US\$106,060,000</p> <p>US\$106,060,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$1,787,000,000))</p>
No. 66 Serebrianny Bor, 2 Moscow region, Russia	<p>The project “second phase of Serebryany Bor” is in starting phase of residential cottage development.</p> <p>Initially it consisted from 20 old wooden houses of 2,932.8 square meters total area which have been constructed in early 20th century. The majority of buildings were already demolished on the valuation date.</p>	n/a	n/a	n/a	<p>US\$75,000,000</p> <p>US\$42,225,000 for the interest held by the Company according to information provided to us</p>
No. 67 Serebrianny Bor 3 Moscow, Russia	<p>The area of an average cottage is approximately 200 square meters. A majority of cottages are equipped with built-in appliances and conditioning system, 2-3 bedrooms, 12-20 square meters kitchens, 2 bathrooms, and extra area (porches and stanzas).</p> <p>In accordance with modern requirements residential premises, cottages are equipped with engineering and telecommunication systems, hot and cold water, heating, electricity, canalization, phone, television (including cable), fire alarm system. The territory is secured and has video monitoring system.</p> <p>Serebryany Bor is an artificial island, formed by Moskva River. It had been a favourite place of rest for Moscovites since 30s.</p>	n/a	n/a	n/a	<p>US\$5,200,000</p> <p>US\$2,927,600 for the interest held by the Company according to information provided to us</p>

Properties held for future development

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No. 9 Klenovy b-r 23 Moscow, Russia	<p>The property comprises a standard building constructed in the 1985's, arranged over four floors above ground, providing a gross area of 5,000.3 square metres. The existing use is as a telecommunications central exchange with the whole second floor and a small part of the first floor used as offices. There is an old elevator in the building. There is no heating system in the building. The telephone equipment is located on the third and fourth floors, and there is a ventilation system on each of these floors.</p> <p>The property is situated on a land plot with a total area of 2,950sqm according to the long-term (10 years) lease agreement with Moscow Land Committee # M-05-002001 dated 07.04.1995.</p> <p>The property is held for development. The development is anticipated to commence on 3Q of 2006 and to be completed on 2Q of 2008. The Developer is still formulating the exact nature of the redevelopment.</p> <p>Total outstanding development costs are estimated as US\$7,565,000</p>	<p>The property is not subject to any tenancies.</p> <p>The property is partially occupied by the Company for the purposes of its business. It is assumed that the company will not occupy any area after development in addition to the 500sqm required for the telephone exchange.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	n/a as is anticipated to be sold with vacant possession upon completion	<p>US\$1,880,000</p> <p>US\$1,880,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$17,800,000)</p>
No. 10 Krestovki nab, 3 Saint-Petersburg, Russia	<p>The property comprises a mansion type building (arranged over 4 floors, to provide 3,372.3sqm) and 7 ancillary buildings originally constructed in 1940s and 1950s as an institute. The ancillary buildings include a workshop (arranged over 3 floors, to provide 4,498.3sqm), further workshop (1 floor, 319.3sqm), former health club (1 floor, 124.7sqm), old garage (2 floors, 344.4sqm), new garage (2 floors, 167sqm), warehouse (1 floor, 175.3sqm) and electrical house (1 floor, 21.7sqm). Existing uses are offices and light industrial. The site is located in one of the most prestigious residential zones of St. Petersburg.</p> <p>Land lease rights are in the process of being formulated and the size of the land will be assessed accurately at that time. The building is held freehold.</p> <p>The property is held for development. The property is held for development. The development is anticipated to commence on 3Q of 2006 and to be completed on 1Q of 2008. The</p> <p>Total outstanding development costs are estimated as US\$41,900,000.</p>	<p>Currently, about 85% of rentable premises are leased. Rental rate for this premises is US\$75 per square metre per year (excluding VAT and operational expenses). However, the value of the site is driven by the potential to redvelp it for residential purposes.</p>	n/a	n/a	<p>US\$19,990,000</p> <p>US\$9,995,000 for the 50% share interest held by the Company according to information provided to us (Total Gross Development Value is \$92,410,000)</p>

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No. 11 Lomonosovsky pr., 36 Moscow, Russia	<p>The property comprises a standard building constructed in 1965, arranged over three floors and a basement facility providing a gross area of 2,505.1 square meters. The existing use is as a telecommunications central exchange. The second and third floors are used for call centres. The technical space and security are located on the first floor. There is a heating system is on each floor and there is a ventilation system in the building. There are no lifts in the building. There is also a small, brick one storey building near the main MGTS building and on the same land plot.</p> <p>The property is situated on a land plot with a total area of 3,001 sq.m. according to agreement with Moscow Land Committee # M-07-001718 dated 06.02.1995.</p> <p>The property is held for development. The development is anticipated to commence in the third quarter of 2007 and to be completed in the third quarter of 2008 to include a renovation of the existing structure to provide residential areas of “enhanced comfort” together with underground car parking with 116 spaces.</p> <p>Total outstanding development costs are estimated as circa US\$12,030,000.</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	n/a as is anticipated to be sold with vacant possession upon completion	<p>US\$6,970,000</p> <p>US\$6,970,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$22,586,000)</p>
No. 12 3-d Lusinovsky lane 1 Moscow, Russia	<p>The property comprises a standard exchange building constructed in 1965, arranged over three floors and basement providing a gross area of 2,714.1 square meters. The existing use is as a telecommunications central exchange. The second and third floors are used for exchange equipment. The first floor is occupied by technical space and security. There is a heating system on each floor and there is also common ventilation system in the building. There are no elevators in the building.</p> <p>There is also a small, brick one storey building near the MGTS property on the same plot, where the line service room is situated.</p> <p>The property is located on a land plot with a total area of 2,961 square meters in accordance with Land Lease Agreement #M-01-001510</p> <p>The property is held for development. The development is anticipated to commence in the third quarter of 2007 and to be completed in the third quarter of 2008 to include a renovation of the existing structure to provide residential areas of “enhanced comfort” together with underground car parking with 112 spaces.</p> <p>Total outstanding development costs are estimated as circa US\$10,034,000.</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	n/a as is anticipated to be sold with vacant possession upon completion	<p>US\$9,976,000</p> <p>US\$9,976,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$23,800,000)</p>

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No. 13 Melnikova str, 29 Moscow, Russia	<p>The property comprises a standard building constructed in 1968, arranged over four floors and a mezzanine facility providing a gross area of 5,018.8 square meters. The first floor is used for exchange equipment, technical and engineering spaces, and a security post. There are cabinet offices on the second floor and partially new exchange equipment. Repair works have been recently carried out on the second floor. The third floor is empty. The fourth floor is used for cabinet offices.</p> <p>The property is located on a land plot with a total area of 3,284 square meters in accordance with Land Lease Agreement # M-04-001481 dated 22.12.1994</p> <p>The property is held for development. The development is anticipated to commence in the third quarter of 2007 and to be completed in the third quarter of 2008 to include a renovation of the existing structure to provide residential areas of “enhanced comfort” together with underground car parking with 112 spaces.</p> <p>Total outstanding development costs are estimated as circa US\$13,355,000.</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	n/a as is anticipated to be sold with vacant possession upon completion	<p>US\$9,687,000</p> <p>US\$9,687,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$27,594,000)</p>
No. 16 Nagornaya str., 28 Moscow, Russia	<p>The property comprises a standard building constructed in 1965, arranged over three floors and basement facility providing a gross area of 2,505.1 square meters. The existing use is as a telecommunications central exchange. The second and third floors are used for call centres. The technical space and security are occupied on the first floor. Heating system is on each floor, there is also ventilation system in the building. There are no elevators in the building. There is also a small, brick one story building near MGTS property on the same territory.</p> <p>The property is located on a land plot with a total area of 3,001 square meters in accordance with Land Lease Agreement #M-07-001718.</p> <p>The property is held for development. The development is anticipated to commence in the third quarter of 2007 and to be completed in the fourth quarter of 2008 to include a renovation of the existing structure to provide residential areas of “enhanced comfort” together with underground car parking with 116 spaces.</p> <p>Total outstanding development costs are estimated as circa US\$19,882,000.</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	n/a as is anticipated to be sold with vacant possession upon completion	<p>US\$10,012,000</p> <p>US\$10,012,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$35,097,000)</p>

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No. 18 Petrovsky, 13 Saint-Petersburg, Russia	<p>The property comprises a land plot with a total area of 32,000sqm for the construction of a high-class residential complex with a total area of 53,360sqm (residential area of 32,000sqm) together with underground parking for 360 slots.</p> <p>Currently title documents for the subject property are in the process of negotiation.</p> <p>The property is held for development. The development is anticipated to commence in the first quarter of 2007 and to be completed in the third quarter of 2008.</p> <p>Total outstanding development costs are estimated as US\$36,870,000.</p>		n/a	n/a	<p>US\$25,896,000</p> <p>US\$13,206,960 for the 51% share interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$ 80,000,000)</p>
No. 20 Sevastopolsky pr., 61a Moscow, Russia	<p>The property comprises a standard building constructed in 1967, arranged over three floors and a basement facility providing a gross area of 2,621.7 square meters. The existing use is as a telecommunications central exchange. The second and third floors are used for call centres. Technical space, security and office spaces are located on the first floor. There is a heating system on each floor and there is a ventilation system in the building. There are no lifts in the building. There is also a small, brick one story building near the main MGTS building and on the same plot.</p> <p>The property is located on a land plot with a total area of 2,464 square meters in accordance with Land Lease Agreement #M-06-002195</p> <p>The property is held for development. The development is anticipated to commence in the third quarter of 2007 and to be completed in the third quarter of 2008 to include a renovation of the existing structure to provide residential areas of “enhanced comfort” together with underground car parking with 94 spaces.</p> <p>Total outstanding development costs are estimated as circa US\$10,068,000.</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	n/a as is anticipated to be sold with vacant possession upon completion	<p>US\$4,844,000</p> <p>US\$4,844,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$17,834,000)</p>
No. 21 Selskokhoziaystvennaja str, 5 Moscow, Russia	<p>The property comprises a standard building constructed in 1961, arranged over four floors and a basement facility providing a gross area of 4,252 square meters. The building has four floors and mezzanine facility. The first floor is used for exchnage equipment, technical and engineering spaces, and security post. The second, third and forth floors are used for call centres.</p> <p>The property is located on a land plot with a total area of f4,252 square meters in accordance with Land Lease Agreement # M-02-001805 dated 20.02.1995</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	n/a as is anticipated to be sold with vacant possession upon completion	<p>US\$2,830,000</p> <p>US\$2,830,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$20,870,000)</p>

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
	<p>The property is held for development. The development is anticipated to commence in the third quarter of 2007 and to be completed in the third quarter of 2009 to include a renovation of the existing structure to provide residential areas of “enhanced comfort” together with underground car parking with 136 spaces.</p> <p>Total outstanding development costs are estimated as circa US\$15,070,000.</p>				
No. 22	The property comprises a standard MGTS building, arranged over four floors, providing a gross area of 4,549.5 square metres. The existing use is as a telecommunications central exchange with the second and third floors used as offices. The telephone exchange equipment is located on the second and fourth floors. Maintenance works have been carried out to the offices on the fourth floor. There are several offices on the first floor, plus technical space, storage facility, etc.	There are several tenants in the building: “YUM” company, “MTK Telecom” and Set’ XXI”. There are heating and ventilation systems on each floor.	US\$0	n/a as is anticipated to be sold with vacant possession upon completion	US\$3,900,000
Simferopolsky b-r, 3	<p>The land area comprises 3,034sqm and is held on a 25 year land lease from Moscow City Government from 06th April 1995 subject to standard Statutory annual rent review and extension rights. The buildings are held freehold.</p> <p>The property is held for development. Planning permission approvals are in the process of being applied for.</p> <p>The development is anticipated to commence in the third quarter of 2006 and to be completed in the fourth quarter of 2007 to provide a total area of 9,360 square metres of office space in a Class B Business Centre.</p> <p>Total outstanding development costs are estimated as US\$6,813,000.</p>	<p>The property is partially occupied by the Company for the purposes of the business. It is assumed that the company will not occupy any area after development in addition to the 300sqm required for the telephone exchange.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>			US\$3,900,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$15,207,000)
Moscow, Russia					

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No. 23 Usievicha str., 10b Moscow, Russia	<p>The property comprises a standard building constructed in 1960, arranged over four floors and basement facility providing a gross area of 3,539.8 square meters. The first floor is used for call equipment, technical and engineering spaces, and security post. The second, third and forth floors are used for call centres.</p> <p>The property is located on a land plot with a total area of 4,066 square meters in accordance with Land Lease Agreement # M-09-002972 dated 01.09.1995.</p> <p>The property is held for development. The development is anticipated to commence in the third quarter of 2007 and to be completed in the third quarter of 2009 to include a renovation of the existing structure to provide residential areas of “enhanced comfort” together with underground car parking with 90 spaces.</p> <p>Total outstanding development costs are estimated as circa US\$12,000,000.</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	n/a as is anticipated to be sold with vacant possession upon completion	<p>US\$4,637,000</p> <p>US\$4,637,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$19,722,000)</p>
No. 24 Photievoy str, 5 Moscow, Russia	<p>The property comprises a standard building constructed in 1958, arranged over four floors and basement facility providing a gross area of 2,851 square meters. The existing use is as a telecommunications central exchange. The first, second, third and fourth floors are used for call equipments. Security post is located on the first floor of the building. Heating system is on each floor, there is also common ventilation system in the building. There are no elevators in the building.</p> <p>There is also a small, one story building near MGTS property on the same territory, which is leased by OOO “Politekhjilstroy” company.</p> <p>The property is located on a land plot with a total area of 3,806 square meters in accordance with Land Lease Agreement M-06-001557.</p> <p>The property is held for development. The development is anticipated to commence in the second quarter of 2007 and to be completed in the third quarter of 2008 to include a renovation of the existing structure to provide residential areas of “enhanced comfort” together with underground car parking with 143 spaces.</p> <p>Total outstanding development costs are estimated as circa US\$13,970,000.</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	n/a as is anticipated to be sold with vacant possession upon completion	<p>US\$10,480,000</p> <p>US\$10,480,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$29,905,500)</p>

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No. 31 Massandrovsky Park Yalta, Ukraine	<p>The subject property represents a fish complex. On the territory of the site there are: main tree-storey building constructed in 1956, central material warehouse, a refrigerated building, an industrial refused-fired plant. The transported objects: diesel shopfloor, canteen, garage. All above described buildings are a subject to demolition.</p> <p>The property is held for development to provide residential areas with total area of 91,150 square meters.</p>	n/a	n/a		US\$3,200,000
No. 32 Detsky Mir Moscow, Russia	<p>The property comprises a purpose built department store constructed in 1957 and arranged over seven above ground floors, mezzanine and basement providing a gross area of 57,568.3sqm of which 33,328.5sqm is sales area. Existing use is retail.</p> <p>The land area comprises 9,868sqm and is held on a 49 year land lease from Moscow City Government from 11 August 1995, subject to standard Statutory annual rent review and extension rights. The building is held freehold.</p> <p>The property is held for development. Existing planning permission approvals for redevelopment for retail/entertainment purposes are in the process of being updated.</p>	<p>Currently the premises are occupied by a total of 178 tenants on 183 lease agreements and is producing a total rent of US\$10,688,469 per annum. This rent is inclusive of operating expenses, ground rent and utilities. It is understood that all of the tenancies are short term (less than one year) and that there is no security of tenure.</p>	n/a	US\$37,017,000 upon completion	<p>US\$121,145,000</p> <p>US\$121,145,000 for the interest held by the Company according to information provided to us</p>
No. 33 Aviazionnaya str., 57 Moscow, Russia	<p>The property comprises a standard building constructed in the 1970's, arranged over four floors and basement facility together providing a gross area of 3,039.60 square metres. The existing use is as a telecommunications central exchange.</p> <p>The land area comprises 3,193sqm and is held on a 15 year land lease from Moscow City Government from 30th November 1995 subject to standard Statutory annual rent review and extension rights. The building is held freehold.</p> <p>The property is held for development. Planning permission approvals are in the process of being applied for.</p> <p>The development is anticipated to commence in the first quarter of 2007 and to be completed in the second quarter of 2008. Again this timescale seems to be optimistic as the development is projected to be a new building to provide 21,020 square metres of Class B office accommodation. The project is currently under development so the total area of the property could be changed.</p> <p>Total outstanding development costs are estimated as US\$17,500,000.</p>	<p>The property is not subject to any tenancies.</p> <p>The property is partially occupied by the Company for the purposes of the business. It is assumed that the company will occupy 300sqm area after development.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	US\$5,325,000 upon completion	<p>US\$8,400,000</p> <p>US\$8,400,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$44,374,000)</p>

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No. 36 Grimau str., 10a Moscow, Russia	<p>The property comprises a standard building constructed in 1960, arranged over four floors and basement facility providing a gross area of 2,875.8 square meters. The existing use is as a telecommunications central exchange. The second, third and fourth floors are used for call equipments. The technical space and security are occupied the first floor of the building. Heating system is on each floor, there is also common ventilation system in the building. There are no elevators in the building.</p> <p>The property is located on a land plot with a total area of 1,800 square meters in accordance with Land Lease Agreement M-06-012326.</p> <p>The property is held for development. The development is anticipated to commence in the first quarter of 2007 and to be completed in the fourth quarter of 2007 to include a renovation of the existing structure to provide office areas of Class B together with underground car parking with 25(62) spaces.</p> <p>Total outstanding development costs are estimated as circa US\$5,610,000.</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	US\$1,700,000 upon completion	<p>US\$6,690,000</p> <p>US\$6,690,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$17,000,000))</p>
No. 38 Demiana Bednogo str, 15 Moscow, Russia	<p>The property comprises a standard building constructed in the 1970's, arranged over four floors and basement facility providing a gross area of 3,053.2 square metres. The existing use is as a telecommunications central exchange. There is a heating system on each floor, there is also a ventilation system in the building. There are no elevators in the building and the fit-out is in very poor condition. There is also a small, brick one story building near the MGTS property and situated on the same land plot.</p> <p>The property is situated on a land plot with a total area of 3,998sqm according to the long-term (15 years) lease agreement with Moscow Land Committee # M-08-001377 dated 30.11.1994.</p> <p>The property is held for development. The development is anticipated to commence on the first quarter of 2007 and to be completed in the 2Q 2008 to provide 17,590 square metres of Class B office accommodation. The project is currently being formulated so the total area of the development could be changed. The number of slots is awaiting approval. However, these projected numbers have been used for the purposes of this analysis</p> <p>Total outstanding development costs are estimated as circa US\$17,945,000</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	US\$5,100,000 upon completion	<p>US\$6,455,000</p> <p>US\$6,455,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$42,600,000)</p>

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No. 39 Dubininskaya str, 33 Moscow, Russia	<p>The property comprises a standard building constructed in 1969, arranged over four floors and basement facility providing a gross area of 3,226.1 square meters. The existing use is as a telecommunications central exchange. The first, second, third and fourth floors are used for call equipments. Call equipments partially represented in the two storey annex, there are also security post, lockers and sport facilities there. Heating system is on each floor, there is also common ventilation system in the building. There are no elevators.</p> <p>The property is located on a land plot with a total area of 2,293 square meters in accordance with Land Lease Agreement # M-01-001479.</p> <p>The property is held for development. The development is anticipated to commence in the third quarter of 2007 and to be completed in the third quarter of 2008 to include a renovation of the existing structure to provide office areas of Class A-B together with underground car parking with 54(25) spaces.</p> <p>Total outstanding development costs are estimated as circa US\$7,130,000.</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	US\$1,550,000 upon completion	<p>US\$2,970,000</p> <p>US\$2,970,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$16,290,000)</p>
No. 40 Zorge str., 3 Moscow, Russia	<p>The property comprises a standard building constructed in the 1970's, arranged over four floors and basement facility providing a gross area of 2,873.00 square metres. The existing use is as a telecommunications central exchange.</p> <p>The land area comprises 5,025sqm and is held on a 15 year land lease from Moscow City Government from 11th April 1995 subject to standard Statutory annual rent review and extension rights. The building is held freehold.</p> <p>The property is held for development. Planning permission approvals are in the process of being applied for.</p> <p>The development is anticipated to commence in 4Q 2006 and to complete in 1Q 2008 to provide 18,443 square metres of Class B office accommodation. The project is currently under development so the total area of the property could be changed, the number of slots is under approval.</p> <p>Total outstanding development costs are estimated as US\$16,900,000.</p>	<p>The property is not subject to any tenancies.</p> <p>The property is partially occupied by the Company for the purposes of the business. It is assumed that the company will not occupy any area after development in addition to the 300sqm required for the telephone exchange as outlined.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	US\$4,800,000 upon completion	<p>US\$4,000,000</p> <p>US\$2,000,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$40,000,000)</p>

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No. 41 1-st Krasnoselsky lane 15/17 Moscow, Russia	<p>The property comprises a standard building constructed in 1968, arranged over four floors and basement facility providing a gross area of 3,241.4 square meters. The existing use is as a telecommunications central exchange. The second, third and fourth floors are used for exchange equipment. In addition part of the first floor is used for exchange equipment, together with a security post. There is a heating system is on each floor and there is also common ventilation system in the building. There are no lifts.</p> <p>There is also a small, brick one story building near the MGTS property on the same land plot, which is currently leased out.</p> <p>The property is located on a land plot with a total area of 3,123 square meters of land in accordance with Land Lease Agreement M-01-004520.</p> <p>The property is held for development. The development is anticipated to commence in the third quarter of 2006 and to be completed in the third quarter of 2008 to include a renovation of the existing structure to provide office areas of Class B+ or A- together with underground car parking with 106 spaces.</p> <p>Total outstanding development costs are estimated as circa US\$12,640,000.</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	\$2,420,000 upon completion	<p>US\$1,260,000</p> <p>US\$1,260,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$25,500,000)</p>
No. 43 Marshala Zhukova str., 52 Moscow, Russia	<p>The property comprises a standard building constructed in the 1962's, arranged over 2 floors above ground and 1 basement level, providing a gross area of 1793.3 square metres. The existing use is as a telecommunications central exchange with the ground floor used as offices and technical facilities.</p> <p>The land area comprises 1,816sqm and is held on a 15 year land lease from Moscow City Government from 30th November 1994 subject to standard Statutory annual rent review and extension rights. The building is held freehold.</p> <p>The property is held for development. Planning permission approvals are in the process of being applied for.</p> <p>The development is anticipated to commence in the first quarter of 2007 and to be completed by the second quarter of 2008 to provide a total area of 10,442 square metres of office space in a Class B Business Centre.</p> <p>Total outstanding development costs are estimated as US\$9,390,000.</p>	<p>The property is not subject to any tenancies.</p> <p>The property is partially occupied by the Company for the purposes of the business. It is assumed that the company will not occupy any area after development in addition to the 300sqm required for the telephone exchange as outlined.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	US\$2,760,000 upon completion	<p>US\$3,810,000</p> <p>US\$3,810,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$23,000,000)</p>

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No. 44 Nagatinskaya str., 34 Moscow, Russia	<p>The property comprises a standard building constructed in the 1968's, arranged over four floors above ground, providing a gross area of 3,188.4 sqm. The existing use is as a telecommunications central exchange.</p> <p>The land area comprises 3,634sqm and is held on a 10 year land lease from Moscow City Government from 07th April 1995 subject to standard Statutory annual rent review and extension rights. The building is held freehold.</p> <p>The property is held for development. Planning permission approvals are in the process of being applied for.</p> <p>The development is anticipated to commence in the fourth quarter of 2006 and to be completed in the first quarter of 2008. This projected timescale seems to be ambitious as the redevelopment proposals are for a new building to provide a total area of 11,100 square metres of office space in a Class B Business Centre.</p> <p>Total outstanding development costs are estimated as US\$8,683,000.</p>	<p>The property is not subject to any tenancies.</p> <p>The property is partially occupied by the Company for the purposes of the business. It is assumed that the company will not occupy any area after development in addition to the 300sqm required for the telephone exchange as outlined.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	US\$3,340,000 upon completion	<p>US\$4,980,000</p> <p>US\$2,490,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$28,000,000)</p>
No. 45 Nagatinskaya str., 4g Moscow, Russia	<p>The property comprises a standard building constructed in 1967, arranged over four floors above ground, providing a gross area of 3,357.9 sqm. The existing use is as a telecommunications central exchange.</p> <p>The land area comprises 3,328sqm and is held on a 10 year land lease from Moscow City Government from 06th April 1995 subject to standard Statutory annual rent review and extension rights. The building is held freehold.</p> <p>The property is held for development. Planning permission approvals are in the process of being applied for.</p> <p>The development is anticipated to commence in the fourth quarter of 2006 and to be completed in the first quarter of 2008 to provide a total area of 17,650 square metres of office space in Class B Business Centre.</p> <p>Total outstanding development costs are estimated as US\$18,344,000.</p>	<p>The property is not subject to any tenancies.</p> <p>The property is partially occupied by the Company for the purposes of the business. It is assumed that the company will not occupy any area after development in addition to the 300sqm required for the telephone exchange.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	US\$5,300,000 upon completion	<p>US\$7,520,000</p> <p>US\$7,520,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$45,000,000)</p>

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No. 47 Oktiabrskaya str, 103 Moscow, Russia	<p>The property comprises a standard building constructed in the 1970's, arranged over four floors and basement facility providing a gross area of 3,005.30 square metres. The existing use is as a telecommunications central exchange.</p> <p>The land area comprises 4,000sqm and is held on a 10 year land lease from Moscow City Government from 28th August 1995 subject to standard Statutory annual rent review and extension rights. The building is held freehold.</p> <p>The property is held for development. Planning permission approvals are in the process of being applied for.</p> <p>The development is anticipate to commence in the fourth quarter of 2006 and to be completed in the first quarter of 2008 to include a renovation and extension of the existing structure to provide 19,271 square metres of Class B office accommodation. The project is currently under development so the total area of the development is subject to revision.</p> <p>Total outstanding development costs are estimated as US\$21,820,000</p>	<p>The property is not subject to any tenancies.</p> <p>The property is partially occupied by the Company for the purposes of the business. It is assumed that the company will not occupy any area after development in addition to the 300sqm required for the telephone exchange as outlined.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	US\$6,500,000 upon completion	<p>US\$12,880,000</p> <p>US\$12,880,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$59,000,000)</p>
No. 49 Rochdelskaya str., 22 Moscow, Russia	<p>The property is intended for construction of the Class A office building with total area of approximately 14,150 square metres consisting primarily from office premises. According to the preliminary business plan, the breakdown of space in the centre is as follows; about 5,390 square metres of gross office space; 350 square metres for restaurant area, 640 square metres of gross retail space, apartments containing 630 square metres and 6,930 square metres are intended for underground part of 130 parking spaces.</p> <p>The land plot—2,915 square metres according to the Long-term Lease Agreement with Moscow Land Committee #M-01-020515 dated 31.01.2002 Currently the project is on the stage of transferal the trees to another territory of the city</p> <p>Total outstanding development costs are estimated as US\$17,432,000.</p>	n/a		US\$4,180,000 upon completion	<p>US\$12,600,000</p> <p>US\$6,300,000</p> <p>for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$46,327,000)</p>

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No. 51 B. Cherkizovskaya str., 4a Moscow, Russia	<p>The property comprises a standard exchange building constructed in 1966, arranged over four floors plus basement providing a gross area of 3,205.9 square meters. The existing use is as a telecommunications central exchange. The second, third and fourth floors are used for exchange equipment. The first floor is partially used for exchange equipment, together with technical space and a security post. There is a heating system is on each floor and there is also a common ventilation system in the building. There are no lifts.</p> <p>There is also a small, brick one story building near MGTS property on the same land plot, used as two garages a technical space, payphones section and storage.</p> <p>The property is located on the land plot with a total area of 3,062 square meters in accordance with Land Lease Agreement # M-03-001673</p> <p>The property is held for development. The development is anticipated to commence in the third quarter of 2007 and to be completed in the forth quarter of 2007 to include a renovation of the existing structure to provide office areas of Class B together with underground car parking with 25(95) spaces.</p> <p>Total outstanding development costs are estimated as circa US\$7,350,000.</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	US\$1,700,000 upon completion	<p>US\$4,050,000</p> <p>US\$4,050,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$16,900,000)</p>
No. 54 Vavilova str., 68 Moscow, Russia	<p>The property comprises a standard building constructed in 1965, arranged over four floors and basement facility providing a gross area of 3,061 square meters. The existing use is as a telecommunications central exchange. The second, third and fourth floors are used for call equipments. The technical space and security are occupied on the first floor. Heating system is on each floor, there is also common ventilation system in the building. There are no elevators in the building.</p> <p>There is also a small, brick one story building near MGTS property on the same territory, where the line service room is situated.</p> <p>The property is located on a land plot with a total area of 3,061 square meters in accordance with Land Lease Agreement M-06-001556.</p> <p>The property is held for development. The development is anticipated to commence in the first quarter of 2007 and to be completed in the fourth quarter of 2007 to include a renovation of the existing structure to provide office areas of Class B together with underground car parking with 25(95) spaces.</p> <p>Total outstanding development costs are estimated as circa US\$6,730,000.</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	US\$1,800,000 upon completion	<p>US\$6,370,000</p> <p>US\$6,370,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$18,300,000)</p>

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No. 55 Kastanaevskaya str., 34 Moscow, Russia	<p>The property comprises a standard building constructed in 1963, arranged over four floors and basement facility providing a gross area of 2,505 square meters. The existing use is as a telecommunications central exchange. There is exchange equipment on each floor. There is a security post located on the first floor of the building. A heating system is provided on each floor and there is a common ventilation system in the building. There are no lifts.</p> <p>There is also a small, one story building near the main MGTS property on the same land plot, which is used for the storage.</p> <p>The property is located on a land plot with a total area of 1,956 square meters in accordance with Land Lease Agreement M-07-001506</p> <p>The property is held for development. The development is anticipated to commence in the third quarter of 2007 and to be completed in the fourth quarter of 2008 to include a renovation of the existing structure to provide office areas of Class B together with underground car parking with 25(68) spaces.</p> <p>Total outstanding development costs are estimated as circa US\$5,040,000.</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	US\$ 1,320,000 upon completion	<p>US\$4,260,000</p> <p>US\$4,260,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$13,000,000)</p>
No. 56 Kamelia Sochi, Russia	<p>The property comprises two non-operating hotel buildings "Intourist" and "Kameliya" constructed in 1950-1960. Hotel "Kameliya" represents 13 floors, ground floor, 2 basements and the Restaurant. The building was constructed using high quality materials but in view of moral and physical deterioration can not be reconstructed. Hotel "Intourist" was burnt 2 years ago and now is subject to demolition. Park zone and the beach are unmanaged. The building improvements have all necessary communications but with a view to economy of the energy they are have not been heated for 2 years.</p>	n/a	n/a	n/a	<p>US\$3,180,000</p> <p>US\$3,180,000 for the interest held by the Company according to information provided to us</p>

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No. 57 Leninsky pr., 90/2 Moscow, Russia	<p>The property comprises land plot for the construction of a Hotel-Retail-Business centre extending to a total of 3.8 ha included in two separate titles of 2.5ha and 1.3ha respectively</p> <p>The property is held Freehold.</p> <p>The rights for 10 year lease for this land plot Agreement with Moscow Land Committee signed on February, 13th, 2003 including consent to develop a gross above ground area of 195,000 square metres.</p> <p>The property is held for development. According to the concept the totalgross area of the complex will be 390,000 of square metres including: Ground part—300,000 square metres. Including Hotel area—40,000 square metres Retail area—45,000 square metres Office area—202,500 square metres Residential area—12,500 square metres Underground—90,000 square metres— parking for 2,570 cars the total development costs for the site (including VAT) have been assessed as circa US\$505 million.</p> <p>The development is anticipated to commence in Q4 2006 and finish at 4Q2008.</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	US\$113,230,000 upon completion	<p>US\$206,730,000</p> <p>US\$103,365,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$1,258,122,000)</p>
No. 58 Leninsky pr., 45/2 Moscow, Russia	<p>The property comprises a standard building constructed in 1966, arranged over four floors and a basement providing a gross area of 3,009.3 square meters. The existing use is as a telecommunications central exchange. The second, third and fourth floors are used for exchange equipment. Technical space and security are located on the first floor. There is a heating system on each floor and there is a common ventilation system in the building. There are no lifts.</p> <p>There is also a small, brick one story building near the main MGTS property and on the same land plot, where the line service room is situated.</p> <p>The property is located on the land plot with a total area of 3,449 square meters of land in accordance with Land Lease Agreement M-06-001585.</p> <p>The property is held for development. The development is anticipated to commence in the fourth quarter of 2006 and to be completed in the third quarter of 2008 to include a renovation of the existing structure to provide office areas together with underground car parking with 119 spaces.</p> <p>Total outstanding development costs are estimated as circa US\$16,300,000.</p>	<p>The property is not subject to any tenancies.</p> <p>There are no other contractual arrangements disclosed that effect the property.</p>	US\$0	US\$3,100,000 upon completion	<p>US\$2,500,000</p> <p>US\$2,500,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$32,600,000)</p>

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
No. 61 Bolshaya Sadovaya st., 5, bld. 1-2 (Office- Hotel complex Pekin) Moscow, Russia	<p>The property comprises 4* hotel, class A office complex, retail and entertainment centre. Total area of the building is 22,000 sq.m.</p> <p>Ownership for the buildings located in Bolshaya Sadovaya st., 5, bld 1-2 was registered in the Moscow Property Committee with identification No. 018309 on 18 august 2000 according to the Moscow State Registration Certificate. The building is owed by OJSC GOK “Pekin”.</p> <p>There is the rights for 5 year lease for this land plot of 17,300 sqm. Building is in a freehold.</p> <p>The property is held for development. According to the concept the hotel will be refurbished to meet the requirements of a 4* hotel. The Office part will consist of approximately 31,000 square metres of office Class A premises. The complex will also have circa 11,000 square metres of high quality retail premises. These are all gross areas, and in the analysis below have been adjusted using standard loss factors in order to assess the rentable areas for each different use.</p> <p>Total outstanding development costs are estimated as US\$169,105,000.</p>	The property is not subject to any tenancies.	n/a	US\$65,042,000 upon completion	<p>US\$144,360,000</p> <p>for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$813,023,000)</p>
No. 62 Povarskaya str., 8 Moscow, Russia	<p>Currently the property represents the complex of mixed use (residential/office/SFR) buildings, which are currently in state of emergency. The land plot is approximately 0.82 hectares.</p> <p>The Company plans to develop a class A Office-Administrative complex to replace the existing buildings. The projected complex will comprise 25,383 square meters above ground and 24,949 square meters underground.</p> <p>The above ground area of the projected development will be split 60/40, initially, between the developers and the City of Moscow. The Developers will be obliged to construct a 5,100 square metres building for a DPS station, and will finance the purchase of replacement residential premises for the existing inhabitants which will be dispossessed from the subject property. These measures, it is understood, will be considered as the share of the Moscow City Government and therefore, according to information supplied by the Company, upon completion the complex will be fully owned by developers.</p> <p>The underground area is projected to be split 80/20 between the developers and the City of Moscow.</p> <p>Total outstanding development costs are estimated as US\$60,000,000.</p>	n/a	n/a	US\$11,025,000 upon completion	<p>US\$12,410,000</p> <p>US\$6,205,000 for the interest held by the Company according to information provided to us (Assuming built and fully let on market terms US\$122,500,000)</p>

PROPERTIES ACQUIRED AFTER EFFECTIVE DATE OF VALUATION

In accordance with the information supplied to us by the Company we list below properties that have been acquired, or interests that have changed, after the effective date. For these properties only there is a different valuation date—as outlined below.

The Company took up an additional share interest in the amount of 19% in the Kuntsevo-Project according to the Sales-Purchase Agreement dated on August, 11 2006 between RemStroyTrest-701 JSC, and Mamontov Alexander Leontievich. Currently the agreement on transfer of the share interests from RemStroyTrest-701 JSC to the Company is in the process of formalisation. We assume that the above mentioned documents will be signed within a reasonable period. This is a key assumption and in any other event the value will be severely affected.

In accordance with a Sale-purchase agreement from August, 14 2006 the Company acquired the ninety nine per-cent share interests in the Chartered capital of Terra Ltd, and consequently obtained possession for the land plot with a total area of 38.2 ha, located in Solnechnogorsky administrative district, Moscow, Russia.

The details of the above mentioned project are presented below.

Property ID: Property Address:	Description, Age and Tenure:	Terms of Existing Tenancies:	Net Annual Rent:	Estimated Net Annual Rent:	Market Value:
TERRA	The property comprises a leasehold land plot with a total area of 38.2 hectares which is represented by forest (37 hectares), morass (0.7 hectares) and other lands (0.5 hectares).		US\$0	n/a	US\$5,150,000
Solnechnogorsky administrative district, Moscow, Russia	The property is located in North-Western Direction from Moscow at Piatninskoe highway in approximately 10-15 kilometres distance from MKAD. It is located close to Sanatorium “Energy” and children’s campus “Energy”. The property is surrounded mainly by cottages and rustic homes.				US\$5,150,000 for the 100% share interest held by the Company according to information provided to us

APPENDIX TWO
STANDARD TERMS AND CONDITIONS

1. PRELIMINARY

1.1 These general terms and conditions (the “Terms of Business”) shall apply to all forms of professional services, other than agency services (to which separate terms will apply), provided by Cushman & Wakefield Stiles & Riabokobylko (“C&W”, “we”, “us” or “the Firm”) to the client to whom the Proposal is sent (“you”). They shall apply separately to each service provided to you.

1.2 The Terms of Business are to be read in conjunction with the Proposal sent by us to you (the “Proposal”). In the event of any ambiguity or conflict between the Proposal and these Terms of Business, the provisions in the Proposal shall prevail. These Terms of Business and the Proposal may only be varied in writing by agreement between the parties.

The Terms outlined in paragraph 1.2 above will be incorporated into a formal contract between the Parties. The contract will have precedence over all other documents.

2. PERFORMANCE OF THE SERVICES

2.1 We undertake to use all reasonable skill and care in providing the services and advice described in the instruction given by you (the “Services”). We will inform you if it becomes apparent that the Services need to be varied or external third party advice is required. Any variation is to be confirmed in writing.

2.2 We may need to appoint third party providers to perform all or part of the Services and we shall agree this with you in advance.

3. BASIS OF FEES

3.1 The basis of our fees for our Services are set out in the Proposal.

3.2 When applicable, VAT shall be payable by you in addition to any fees or disbursements invoiced at the applicable rate.

3.3 You shall pay our fees in accordance with the payment schedule represented in the Proposal. Payment is due within 10 days of the invoice date.

3.4 Where valuations are undertaken for a lender for loan security purposes and it is agreed that a borrower will pay our fee, you shall remain primarily liable to pay our fee should such borrower fail to meet its liabilities to us in full. Payment of our fees is not conditional upon the loan being drawn down or any of the conditions of the loan being met.

3.5 If you do not dispute with us an invoice or any part thereof within 10 days of the date of such invoice, you shall be deemed to have accepted the invoice in its entirety.

3.6 If we are required by you to undertake additional work in relation to an instruction, you shall pay additional fees based upon our usual rates. We will notify you of the amount of such additional fees.

3.7 Where there is a change to the stated purpose for which our valuation is being commissioned and in our sole opinion we deem this to result in an increase in our liability (for example a valuation for annual accounts being used for loan security purposes), we reserve the right to charge an additional fee in accordance with clause 12.

3.8 In the event that you withdraw our instructions prior to completion of a valuation, you shall be liable to pay us for a fair and reasonable proportion of our fees and any agreed disbursements. If we have sent you a draft valuation report, such fees shall be subject to a minimum of 80% of the fee originally agreed between us.

3.9 We will advise you in advance if it is necessary or convenient to instruct a third party to provide advice or to act as an expert or arbitrator and provide an estimate of the likely cost. If you approve, either verbally or in writing, that the third party be instructed, we will instruct the party as agent on your behalf and request that all the third party’s invoices be addressed to you care of us. If we are requested by you to advance payment of the third party invoices, you shall be obliged to reimburse the advance payment made and pay a handling charge.

Associated/Related Entities of the Client

3.10 Where we are instructed to provide Services to one of your subsidiaries or associate/related entities or should you subsequently request that another entity be substituted for you at a later stage and we are unable to seek or obtain payment of any outstanding monies for whatever reason, you shall remain primarily liable to pay those outstanding monies if the subsidiary, associate/related or other entity does not meet its liabilities in relation to the Services.

4. DISBURSEMENTS

4.1 You shall reimburse disbursements incurred in the provision of the Services quarterly in arrears from the date they were incurred in accordance with terms in the proposal. These include, for example, maps, plans, research, photography, copying of documents or plans, messenger delivery, costs of obtaining external information on companies, properties, demographic or other similar information, any reproduction, copying or other royalties incurred, additional bound copy reports, costs of external information/references obtained and key cutting, travel and subsistence expenses at their actual cost and car mileage at the standard AA scales.

5. INFORMATION RECEIVED FROM THE CLIENT

5.1 We will take all reasonable steps to ensure property information is accurate where we are responsible for its preparation. Where you provide us with any information on a property that is necessary or convenient to enable us to provide the Services properly, you are aware that we will rely on the accuracy, completeness and consistency of any information supplied by you or on your behalf and, unless specifically instructed otherwise in writing, we will not carry out any investigation to verify such information. We accept no liability for any inaccuracy or omission contained in information disclosed by you or on your behalf, whether prepared directly by you or by a third party, and whether or not supplied directly to us by that third party and you shall indemnify us should any such liability arise. If our valuation is required for the purpose of purchase or loan security, you accept that full investigation of the legal title and any leases is the responsibility of your lawyers.

5.2 Advice Assumptions

Unless otherwise advised by you in writing, we will provide the Services in relation to any property on the assumption that:

- (i) information provided as to the extent of and ownership of the property is complete and correct and that there are no encumbrances or unduly onerous or unusual easements, restrictions, outgoings or conditions attaching to the property save as specifically notified to us;
- (ii) there are no environmental matters (including but not limited to actual or potential land, air or water contamination, or by asbestos or any other harmful or hazardous substance) that would affect the property, any development or any existing buildings on the property in respect of which the Services are provided or any adjoining property, and that we shall not be responsible for any investigations into the existence of the same and that you are responsible for making such investigations;
- (iii) the property and any existing buildings are free from any defect whatsoever;
- (iv) all the building services (such as lifts, electrical, gas, plumbing, heating, drainage and air conditioning installations and security systems) and property services (such as incoming mains, waste, drains, utility supplies, etc) are in good working order without any defect whatsoever;
- (v) any building, the building services and the property services comply with all applicable current regulations (including fire and health and safety regulations);
- (vi) the property and any existing building comply with all planning and building regulation, have the benefit of appropriate planning consent or other statutory authorisation for the current use and no adverse planning conditions or restrictions apply (which includes, but is not limited to, threat of or actual compulsory purchase order);
- (vii) appropriate insurance cover is, and will continue to be, available on commercially acceptable terms for any building incorporating types of construction or materials which may pose an

increased fire or health and safety risk, or where there may be an increased risk of terrorism, flooding or a rising water table;

- (viii) items of plant and machinery that usually comprise part of the property on an assumed sale, are included in the property but items of plant and machinery that are associated with the process being carried on in the property or tenants trade fixtures and fittings are excluded from the property; and
- (ix) all buildings have been constructed having appropriate regard to existing ground conditions or that these would have no unusual effect on building costs, property values or viability of any development or existing buildings.

5.3 Where comparable evidence information is included in our report, this information is often based upon our oral enquiries and its accuracy cannot always be assured, or may be subject to undertakings as to confidentiality. However, such information would only be referred to where we had reason to believe its general accuracy or where it was in accordance with expectation. In addition, we have not inspected comparable properties.

6. STRUCTURE

6.1 We will not carry out a structural survey of any property nor will we test services. Further, no inspection will be made of the woodwork and other parts of the structures which are covered, unexposed or inaccessible. In the absence of information to the contrary, the valuation will be on the basis that the property is free from defect. However, the value will reflect the apparent general state of repair of the property noted during inspection, but we do not give any warranty as to the condition of the structure, foundations, soil and services. Our report should not be taken or interpreted as giving any opinion or warranty as to the structural condition or state of repair of the property, nor should such an opinion be implied.

6.2 Measurements

- (i) Our standard practice in Russia is that all measurements are to be provided by the Client from Property registration documentation. We will not carry out any physical measurements unless you specifically instructed us to do so.

7. CONFLICTS OF INTEREST

7.1 We have conflict management procedures designed to prevent us acting for one client in a matter where there is or could be a conflict with the interest of another client for whom we are acting. If you are aware or become aware of a possible conflict of this type, please raise it immediately with us. If a conflict of this nature arises, then we will decide, taking account of legal constraints, relevant regulatory body rules and your and the other client's interests and wishes, whether we can continue to act for both parties (eg through the use of separate teams with appropriate Chinese Walls), for one only or for neither. Where we do not believe that any potential or actual conflict of interest can be managed appropriately, we will inform you and consult with you as soon as reasonably practicable. Should you have any queries on this, you should contact your client partner.

8. MANAGEMENT OF THE PROPERTY

8.1 We shall not be responsible for the management of the property nor have any other responsibility (such as maintenance or repair) in relation to the property. We shall not be liable for any damage that may occur while the property is unoccupied. The property shall be your sole responsibility. You are aware that while a property is unoccupied, the property is likely to suffer from adverse weather conditions and frost damage may occur to water and heating systems and sanitary appliances. You are strongly recommended to take all necessary actions to protect the property from such risks and to ensure that adequate insurance cover is in force.

9. APPRAISAL EXCLUSIONS

Delay

9.1 Where matters beyond the control of ourselves cause delay to the performance of the services we will notify the client as soon as we become aware of the situation. The client agrees that we will not be held responsible for such delay.

Basis of Valuation

9.2 Unless otherwise requested the valuation will be prepared in accordance with Russian Valuation Standards and rules and the Appraisal and Valuation Standards published by the RICS (“The Red Book”) and will be prepared by Asset Valuers as defined therein. In case of any discrepancies between these standards the Russian Valuation Standards and rules will have precedence.

9.3 The valuation of any property held as an investment or surplus to requirements will be on the basis of Market Value (as defined in paragraph 21 hereof). Any properties primarily occupied by the owner of those properties or their subsidiaries will be valued on the basis of Existing Use Value (as defined in paragraph 21 hereof).

9.4 Any property which is classified as “specialised” or which has been subject to specialist adaptation works may need to be valued on the basis of Depreciated Replacement Cost (as defined in paragraph 21 hereof). This value will be caveated as being subject to the directors of the owning company being satisfied that there is adequate potential profitability of the business compared with the value of the total assets employed.

9.5 When assessing either Existing Use Value or Market Value for balance sheet purposes in accordance with International Accounting Standards, we will not include directly attributable acquisition or disposal costs in our valuation. Where asked to reflect costs by the client (as required under FRS15), these will be stated separately.

Tenure and Tenancies

9.6 We will not inspect title deeds and we will therefore rely on the information supplied as being correct and complete. In the absence of information to the contrary, we will assume the absence of unusually onerous restrictions, covenants or other encumbrances and that the property has a good and marketable title. Where supplied with legal documentation, we will consider it but we will not take responsibility for the legal interpretation of it.

9.7 You should confirm to us in writing if you require us to read leases and if so, provide all the relevant documentation within a reasonable time for consideration bearing in mind the date for receipt of our report. You should not rely upon our interpretation of the leases without first obtaining the advice of your lawyers.

Covenant

9.8 Our valuation will take into account potential purchasers’ likely opinion of the financial strength of tenants. However, we will not undertake any detailed investigations on the covenant strength of the tenants. Unless informed to the contrary by you, we will assume that there are no significant arrears and that the tenants are able to meet their obligations under their leases or agreements.

9.9 We will not make any allowance in our Services for the existence of any mortgage or other financial encumbrance on or over the property nor take account of any leases between subsidiaries.

9.10 Any appraisal figures provided will be exclusive of VAT.

9.11 In instances where we are instructed to provide an indication of current reinstatement costs for fire insurance purposes, this is given solely as a guide without warranty. Formal estimates for insurance purposes can only be given by a quantity surveyor or other person with sufficient current experience of replacement costs.

10. PLANNING REGULATIONS

10.1 Unless specifically instructed in writing to make formal searches with the relevant local planning authorities, we shall rely in the provision of our Services on the information provided informally by the relevant planning authority or its officers. We recommend that your lawyers be instructed to confirm the planning position relating to the property and review our comments on planning in the light of their findings.

10.2 Where we undertake value appraisals, we may consider the possibility of alternative uses being permitted. Unless otherwise notified by you in writing, we shall assume that the property and any existing buildings comply with all planning and building regulation, existing uses have the benefit of appropriate planning consent or other statutory authorisation, and that no adverse planning conditions or restrictions apply.

11. TERMINATION BY NOTICE

11.1 Unless a fixed period has been agreed, either party may terminate the instruction by giving 14 days' notice in writing to the other party.

11.2 In the event of termination by notice, you shall be obliged to pay forthwith all the fees accrued in relation to the Services and work performed up to the date of termination (and any agreed abort fee) (the "Termination Fees") plus any expenses or disbursements incurred by us or to which we are committed at the date of termination.

12. PROFESSIONAL LIABILITY

12.1 Subject to the provisions in these Terms of Business and the Letter, our total aggregate liability (including that of our partners and employees) to you in contract, tort (including negligence or breach of statutory duty), misrepresentation, restitution or otherwise, arising in connection with the performance or contemplated performance of the Services shall be limited to an aggregate sum not exceeding twenty times the fee paid for each instruction accepted. We shall not be liable to you for any pure economic loss, loss of profit, loss of business, depletion of goodwill, in each case whether direct, indirect or consequential, or any claims for consequential compensation whatsoever (howsoever caused) which arise out of or in connection with the Services.

12.2 For the avoidance of doubt, our partners and employees shall have no liability in respect of their private assets.

12.3 Nothing in these Terms of Business excludes or limits our liability for: (i) death or personal injury caused by our negligence; (ii) any matter which it would be illegal for us to exclude or attempt to exclude our liability; or (iii) fraud or fraudulent misrepresentation.

12.4 Where a third party has contributed to the losses, damages, costs, claims or expenses, we shall not be liable to make any contribution in respect of the liability of such third party.

12.5 Save in respect of third parties directly instructed by us and not on your behalf, we shall not be liable for the services or products provided by other third parties, nor shall we be required to inspect or supervise such third parties, irrespective of the third party services or products being incidental to or necessary for the provision of our Services to you.

12.6 We shall be released from our obligations to the extent that performance thereof is delayed, hindered or prevented by any circumstances beyond our reasonable control (examples being a strike, act of God or act of terrorism). On becoming aware of any circumstance which gives rise, or which is likely to give rise, to any failure or delay in the performance of our obligations, we will notify you by the most expeditious method then available.

12.7 To cover any liability that might be incurred by us, we confirm that we will maintain professional indemnity insurance, so long as such insurance is available at commercially acceptable rates and terms, with insurers of good standing and repute of up to \$1 million on an each and every claim basis in Russia. Cushman & Wakefield Healey & Baker additionally maintains insurance on the same basis of not less than £10 million on an each and every claim basis.

12.8 Our pricing structure has been established by reference to these limitations on our liability and our level of professional indemnity insurance in respect of the Services we provide. If you feel that it is necessary to discuss with us a variation in these levels, then please raise the issue with your client

partner who will be able to let you have proposals for a revised pricing structure to reflect the agreed level of our liability and/or professional indemnity cover.

12.9 Responsibility for our valuation extends only to the party(ies) to whom it is addressed. However in the event of us being asked by you to readdress our report to another party or other parties or permit reliance upon it by another party or other parties, we will give consideration to doing so, to named parties, subject to the following minimum fees:—

	First Extended Party	Second & Subsequent Extended Parties
For the first \$1m of reported value	0.075%	0.025% per party
Thereafter	0.035%	0.015% per party

These fees are exclusive of VAT & expenses (including the cost of readdressing the report) and are subject to a minimum fee of \$1000. Should additional work be involved, over and above that undertaken to provide the initial report, we may make a further charge although we will agree this with you before commencing the work.

13. QUALITY OF SERVICE

13.1 Whilst we seek to provide high quality Services, if a client has cause for complaint we have standard complaints procedures, a copy of which is available on request. This is in accordance with requirements of the Royal Institution of Chartered Surveyors.

14. QUALITY CONTROL

14.1 In circumstances where a valuation, although provided for a client, may also be of use to third parties, for instance the shareholders in a company (otherwise defined as a “Regulated Purpose Valuation” by the RICS), the RICS requires us to state our policy on the rotation of the surveyor who prepares the valuation and the quality control procedures that are in place.

14.2 Irrespective of the purpose of the valuation, we will select the most appropriate surveyor for the valuation having regard to his/her expertise and the possible perception that independence and objectivity could be compromised where a valuer has held the responsibility for a particular client for a number of years. This may result in us rotating the surveyor responsible for repeat valuations for the same client although we will not do so without prior discussion with the client.

14.3 All our valuation reports are signed by a Board Member of the Firm whose responsibility it is to ensure that all relevant quality control procedures have been complied with. In particular for valuations of properties with an individual value of \$30m or over, the valuer is required to present and explain his methodology to another member of the Valuation Advisory Team.

14.4 Where we are undertaking a Regulated Purpose Valuation (see 14.1 above) we are required by the RICS to state all of the following in our report:

14.4.1 The length of time the valuer continuously has been the signatory to valuations provided to you for the same purpose as the report, together with the length of time we have continuously been carrying out that valuation instruction for you;

14.4.2 The extent and duration of the relationship between you and us;

14.4.3 In relation to our preceding financial year the proportion of the total fees, if any, payable by you to our total fee income expressed as one of the following:

less than 5%; or

if more than 5%, an indication of the proportion within a range of 5 percentage points;

14.4.4 Where, since the end of the last financial year, it is anticipated that there will be a material increase in the proportion of the fees payable, or likely to be payable, we shall include a further statement to that effect in addition to 14.4.3 above.

15. DATA PROTECTION

15.1 We (including any of our international partnerships, group companies and affiliated organisations) are a data controller of all personal data collected during the provision of the agency services. We shall use such personal data and information we obtain from other sources for providing the agency services, for administration and customer services, for marketing and to analyse your preferences. We may keep such personal data for a reasonable period for these purposes. We may need to share personal data with our service providers and agents for these purposes. We may disclose personal data in order to comply with a legal or regulatory obligation and you may request, in writing and upon payment of a fee, a copy of the details held about you by us.

15.2 To help us to make credit decisions about you, to prevent fraud, to check identity and to prevent money laundering, we may search the files of credit reference agencies and we may also disclose details of how you conduct your account to such agencies.

15.3 We may share personal data within our international partnerships, group companies and affiliated organisations and with our business partners for marketing purposes, which may be to countries or jurisdictions which do not provide the same level of data protection as the country in which you are based, or we may send you and your employees information about other organisations' goods and services. We or any business partners may contact you and your employees, directly or via our agents, by mail, telephone, fax, email, SMS or other electronic messaging service with offers of goods and services or information that may be of interest. By providing us with your or your employees' personal data (whether that data is deemed sensitive or not) including fax numbers, telephone numbers or email addresses, you and your employees consent to being contacted by these methods for these purposes.

16. MONEY LAUNDERING REGULATIONS

16.1 We have regard to UK legislation, including the Proceeds of Crime Act 2002, Money Laundering Regulations 2003 and related guidance as updated from time to time, which has imposed on us obligations for mandatory reporting, record keeping and identification procedures. We may be required to verify certain particulars of our clients and may need to ask you to assist us in complying with such requirements. Where such information is requested, you will provide such information promptly to enable us to proceed to provide our Services. We shall not be liable to you or any other parties for any delay in the performance or any failure to perform the Services which may be caused by our duty to comply with such requirements.

17. ELECTRONIC COMMUNICATIONS

17.1 We may communicate with each other by electronic mail, sometimes attaching electronic data. By consenting to this method of communication, we and you accept the inherent risks (including the security risks of interception of, or unauthorised access to, such communications, the risks of corruption of such communications and the risks of viruses or other harmful devices). In the event of a dispute, neither of us will challenge the legal evidential standing of an electronic document and our system shall be deemed to be the definitive record of electronic communications and documentation.

18. CONFIDENTIALITY AND INTELLECTUAL PROPERTY

18.1 We owe our clients a duty of confidentiality. You agree, however, that we may, when required by our insurers or other advisers, provide details to them of any engagement on which we have acted for you, and that we may also disclose confidential information relating to your affairs if required to do so for legal, regulatory or insurance purposes only.

18.2 Both parties agree never to disclose sensitive details of transactions or our advice without the other's consent. Unless we are expressly bound by a duty of confidentiality which otherwise overrides this, both parties shall be entitled to mention to third parties (e.g. in the course of presentations, speeches or pitches) and/or publish (e.g. in brochures, marketing or other written material) that we provide our services to you.

18.3 We shall provide the Services to you only for your sole use and for the stated purpose. We shall not be liable to any third party in respect of our Services. You shall not mention nor refer to our advice, in whole or in part, to any third party orally or in annual accounts or other document, circular or statement without our prior written approval. The giving of an approval shall be at our sole discretion.

18.4 We will not approve any mention of our Services unless it contains sufficient reference to all the special assumptions and/or limitations (if any) to which our Services are subject. For the avoidance of doubt our approval is required whether or not we are referred to by name and whether or not our advice is combined with others.

18.5 We may make the approval of any mention of our Services, or re-address to third parties our Services, subject to the payment of an additional fee to cover additional work and professional liability.

18.6 All intellectual property rights (including copyrights) in the documents, materials, records, data and information in any form developed or provided to you by us or otherwise generated in the provision of our Services shall belong to us solely.

19. THIRD PARTIES RIGHTS AND ASSIGNMENT

19.1 No term of the Proposal or these Terms of Business is intended to confer a benefit on or to be enforceable by any person who is not a party to the same.

19.2. We shall be entitled to assign or transfer this contract and any rights and obligations arising from it to any party which comprises of substantially the whole of our business, including any limited liability partnership, by giving appropriate notice.

19.3 Subject to clause 18.2 above, neither party shall be entitled to assign this contract or any rights and obligations arising from it without the prior written consent of the other, such consent not to be unreasonably withheld.

20. GENERAL

20.1 If any provision of the Terms of Business is found by any court, tribunal or administrative body of competent jurisdiction to be wholly or partly illegal, invalid, void, voidable, unenforceable or unreasonable it shall to the extent of such illegality, invalidity, voidness, voidability, unenforceability or unreasonableness be deemed severable and the remaining provisions of the Terms of Business and the remainder of such provision shall continue in full force and effect.

20.2 Failure or delay by us in enforcing or partially enforcing any provision of these Terms of Business shall not be construed as a waiver of any of our rights under these Terms of Business.

20.3 The Proposal and these Terms of Business shall be governed by and be construed in accordance with Russian law.

21. BASES OF VALUATION

Our valuation advice will be prepared in accordance with one or more of the following bases of valuation as defined in the Practice Statements of the Red Book ("PS"), as appropriate:

21.1 Market Value

PS 3.2 defines Market Value as:

"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

21.1.1 Trading Related Valuations

Where appropriate, such properties will be valued on the basis of Market Value as a fully equipped operational entity, having regard to trading potential.

Where we are instructed to value an operational property having regard to its trading potential (such as self storage properties, hotels and marinas), we will take account of any trading information provided to us. The valuations will be based on our opinion as to future trading potential and the level of turnover and net operating income likely to be achieved.

The valuations will be made on the basis that the properties will be sold as a whole including all fixtures, fittings, stock and goodwill. The new owner would normally engage the existing staff and the new management would expect to take over the benefit of existing and future bookings or occupational agreements which may be an important feature of the continuing operation, together with all existing statutory consents plus all operational permits and licences.

Unless made clear to the contrary in our report, the valuations will reflect our opinion that all goodwill for the properties is tied to the land and buildings and does not represent personal goodwill to the operator.

Our valuations will be based on the information which either the operator has supplied to us or which we have obtained from our enquiries (including full detailed trading information in relation to each trading property). We will rely on this being correct and complete and on there being no undisclosed matters which would affect our valuation.

21.2 Depreciated Replacement Cost

PS 3 Appendix 3.1 states that Depreciated Replacement Cost (DRC) is recognised as an acceptable method of estimating Market Value where more reliable methods, such as market comparison or an income (profits test), cannot be applied. The valuer must be satisfied that it is not practicable to prepare a valuation by any other method before relying solely on depreciated replacement cost.

DRC is based on an estimate of the value of the land, plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization.

21.3 Market Rent

PS 3.4 defines Market Rent as:

“The estimated amount for which a property, or space within a property, should lease (let) on the date of valuation between a willing lessor and a willing lessee on appropriate lease terms in an arms length transaction after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion.”

21.4 Existing Use Value

PS 1.3 defines Existing Use Value as:

“The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms length transaction, after proper marketing wherein the parties had acted knowledgeably, prudently, and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause it's Market Value to differ from that needed to replace the remaining service potential at least cost.”

APPENDIX THREE

OFFICE CLASSIFICATION STANDARDS

The group, consisting of Cushman & Wakefield Stiles & Riabokobylko, Colliers International, Jones Lang LaSalle, Noble Gibbons/CB Richard Ellis has been coordinating some of their data collection activities since autumn 2002 to provide consistent information to investors, developers, occupiers and press.

In order to provide accurate and consistent information, MRF has produced a set of definitions based on geographic division, terminology and building classification. The main aim of the new agreement was to establish consistent terminology and technique for classifying modern office space in Moscow into A and B class buildings.

The office classification is represented below.

Class A office building: should meet or exceed a minimum of 16 out of 20 of the following standard specifications:

1. A high quality standard finish with comprehensive technical services, including BMS (Building Management System);
2. Professional property management;
3. Building situated in a good location within its submarket with good access;
4. An Air Conditioning system that provides heating, cooling and humidification to control the internal environment to meet European HVAC standards;
5. Suspended ceilings;
6. Floor to ceiling height with suspended ceilings average 2.7 m;
7. Open efficient floor plates (column structure construction);
8. Either three compartment trunking for telephones, electricity and computer cable or raised floors (or possibility to install them)
9. High quality modern windows, rational window spacing;
10. Modern high speed lifts, maximum waiting time of about 30 seconds;
11. Underground parking;
12. Quality materials used in fitout of common areas;
13. Parking ratio of 1 space per 100 m² of rentable building area (both surface and underground);
14. Loss factor not exceeding 12%;
15. High quality telecom providers;
16. Dual city power supply with automatic change-over or a Generator power supply system back-up; (power supply should be minimum 50 W/m² of usable area for tenants small power + an additional 20 W/m² for ceiling lighting;
17. Load bearing capacity: 400-450 kg per 1 m²;
18. Modern security system and access control;
19. Staff cafeteria and other amenities;
20. Floor depth 18 to 20 m from window to window.

Class B office building: should meet or exceed a minimum of 10 of 20 above mentioned points.

Class C office building: should meet or exceed no more than 8 out of 20 above mentioned points.

SISTEMA-HALS JSC
35/4 Bolshaya Tatarskaya Street
Moscow 115184
Russian Federation

LEGAL ADVISORS TO THE ISSUER

As to United States law
Latham & Watkins LLP
Ulitsa Gasheka, 7
Ducat Place II
Moscow 123056
Russian Federation

As to English law
Latham & Watkins
99 Bishopsgate
London EC2M 3XF
United Kingdom

As to Russian law
Liniya Prava
Gorky Park Tower
15a Leninskiy Prospect
Moscow 119071
Russian Federation

LEGAL ADVISORS TO THE UNDERWRITERS

As to English and United States law
Linklaters
One Silk Street
London EC2Y 8HQ
United Kingdom

As to Russian law
Linklaters CIS
Paveletskaya Square 2
Building 2
Moscow 115054
Russian Federation

INDEPENDENT AUDITORS

ZAO Deloitte & Touche CIS
Business Center “Mokhovaya”
4/7 Vozdvizhenka Street, Bldg. 2
Moscow 125009
Russian Federation

DEPOSITARY

The Bank of New York
101 Barclay Street
New York, New York 10286
United States

SISTEMAHALS
DEVELOPMENT COMPANY

