OJSC LSR Group

Consolidated Financial Statements for the year ended 31 December 2007

Contents

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Independent Auditors' Report

Board of Directors of OJSC LSR Group

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OJSC LSR Group (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2007, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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30 April 2008

	Note	2007 '000 RUR	2006 '000 RUR	2007 '000 USD	2006 '000 USD
Revenue		35,837,606	21,110,751	1,402,558	776,553
Cost of sales		(23,861,326)	(13,796,464)	(933,849)	(507,498)
Gross profit		11,976,280	7,314,287	468,709	269,055
Distribution expenses		(1,753,754)	(1,702,328)	(68,636)	(62,620)
Administrative expenses	10	(3,842,807)	(3,051,103)	(150,394)	(112,234)
Change in fair value of investment property	17/18	8,036,691	130,106	314,528	4,786
Other expenses	11	(36,636)	(56,159)	(1,433)	(2,066)
Results from operating activities		14,379,774	2,634,803	562,774	96,921
Financial income	13	870,453	213,796	34,066	7,864
Financial expenses	13	(2,759,231)	(1,089,615)	(107,986)	(40,081)
Profit before income tax		12,490,996	1,758,984	488,854	64,704
Income tax expense	14	(3,311,197)	(658,039)	(129,589)	(24,206)
Profit for the year		9,179,799	1,100,945	359,265	40,498
Attributable to:					
Shareholders of the Company		8,885,424	984,514	347,744	36,215
Minority interest		294,375	116,431	11,521	4,283
		9,179,799	1,100,945	359,265	40,498
Basic and diluted earnings per share	25				
Ordinary shares		101.81 RUR	11.28 RUR	3.98 USD	0.42 USD

These consolidated financial statements were approved by management on 30 April 2008 and were signed on its behalf by:

I.M. Levit
Chief Executive Officer

E.V. Tumanova
Chief Financial Officer

The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 15 to 100.

	Note	2007 '000 RUR	2006 '000 RUR	2007 '000 USD	2006 '000 USD
ASSETS					
Non-current assets					
Property, plant and equipment	15	17,820,781	10,621,122	726,010	403,368
Investment property under development	17	20,738,335	496,852	844,869	18,869
Investment property	18	2,040,056	1,046,666	83,111	39,750
Intangible assets	16	1,229,853	575,903	50,104	21,872
Other investments	19	45,768	327,088	1,865	12,422
Deferred tax assets	20	1,295,524	337,162	52,779	12,805
Trade and other receivables	22	1,358,625	101,493	55,350	3,854
		44,528,942	13,506,286	1,814,088	512,940
Current assets					
Other investments	19	296,614	800,439	12,084	30,399
Inventories	21	32,981,623	16,354,765	1,343,655	621,120
Income tax receivable		160,166	58,412	6,525	2,218
Trade and other receivables	22	9,048,792	6,342,272	368,643	240,866
Cash and cash equivalents	23	8,708,473	1,608,222	354,779	61,077
Assets classified as held for sale	8	28,309	70,933	1,153	2,694
		51,223,977	25,235,043	2,086,839	958,374
Total assets		95,752,919	38,741,329	3,900,927	1,471,314

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 15 to 100.

	Note	2007 '000 RUR	2006 '000 RUR	2007 '000 USD	2006 '000 USD
EQUITY AND LIABILITIES					
Equity	24				
Share capital		30,106	30,106	1,078	1,078
Restitutable Shares Reserve		14,564,829	-	570,017	-
Additional paid in capital		16,428,655	2,145,697	636,495	77,510
Foreign currency translation reserve		30,607	-	83,631	8,785
Retained earnings		11,408,060	2,522,636	440,581	91,639
Total equity attributable to shareholders of the Company		42,462,257	4,698,439	1,731,802	179,012
Minority interest		514,395	441,248	19,045	16,182
Total equity		42,976,652	5,139,687	1,750,847	195,194
Non-current liabilities					
Loans and borrowings	26	13,347,929	8,721,215	543,788	331,213
Deferred tax liabilities	20	6,677,755	939,735	272,048	35,689
Trade and other payables	28	9,111,903	12,954	371,214	492
Provisions	27	7,565	-	308	-
		29,145,152	9,673,904	1,187,358	367,394
Current liabilities					
Bank overdraft		60,163	25,944	2,451	985
Loans and borrowings	26	10,743,375	5,730,721	437,680	217,641
Income tax payable		342,324	81,733	13,946	3,104
Trade and other payables	28	11,785,272	17,848,371	480,127	677,844
Provisions	27	689,878	213,040	28,105	8,091
Liabilities classified as held for sale	8	10,103	27,929	412	1,061
		23,631,115	23,927,738	962,721	908,726
Total liabilities		52,776,267	33,601,642	2,150,079	1,276,120
Total equity and liabilities		95,752,919	38,741,329	3,900,926	1,471,314
Total equity and liabilities		95,752,919	38,741,329	3,900,926	1,471,314

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 15 to 100.

	12 months ended 31 December			
	2007	**2006**	**2007**	**2006**
	'000 RUR	**'000 RUR**	**'000 USD**	**'000 USD**
OPERATING ACTIVITIES				
Net Profit for the period	9,179,799	1,100,945	359,265	40,498
Adjustments for:				
Depreciation and amortisation	1,559,920	1,120,731	61,050	41,227
(Gain) / Loss on disposal of property, plant and equipment	(24,865)	94,332	(973)	3,470
Change in fair value of investment property	(8,036,691)	(130,106)	(314,528)	(4,786)
Net finance expense	1,888,778	945,754	73,920	34,789
Income tax expense	3,311,197	658,039	129,589	24,206
Operating profit before changes in working capital and provisions	**7,878,138**	**3,789,695**	**308,323**	**139,404**
Increase in inventories	(12,269,035)	(4,213,754)	(480,167)	(155,002)
Increase in trade and other receivables	(3,937,772)	(1,709,160)	(154,111)	(62,871)
Increase in trade and other payables	2,553,955	4,404,448	99,953	162,016
Increase in provisions	484,403	113,436	18,958	4,173
Cash flows from operations before income taxes and interest paid	**(5,290,311)**	**2,384,665**	**(207,044)**	**87,720**
Income taxes paid	(1,466,216)	(770,924)	(57,383)	(28,358)
Interest paid	(1,799,113)	(1,056,365)	(70,411)	(38,858)
Cash flows (utilised by) / from operating activities	**(8,555,640)**	**557,376**	**(334,838)**	**20,504**

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 15 to 100.

	12 months ended 31 December			
	2007	2006	2007	2006
	'000 RUR	'000 RUR	'000 USD	'000 USD
INVESTING ACTIVITIES				
Proceeds from disposal of non-current assets	224,681	388,641	8,793	14,296
Interest received	66,766	43,253	2,613	1,591
Dividends received	-	73,512	-	2,704
Acquisition of property, plant and equipment	(4,909,523)	(1,886,871)	(192,142)	(69,408)
Acquisition of intangible assets	(15,563)	-	(609)	-
Acquisition of investment property under development	(702,647)	(218,368)	(27,499)	(8,033)
Loans given	(1,429,070)	(337,433)	(55,930)	(12,412)
Loans repaid	1,680,903	-	65,785	-
Disposal of discontinued operations net of cash disposed of	-	(14,187)	-	(522)
Disposal of subsidiaries net of cash disposed of	169,872	31,955	6,648	1,175
Acquisition of subsidiaries, net of cash acquired	(1,153,019)	(3,927,535)	(45,125)	(144,473)
Acquisition of minority interest	(218,676)	(34,285)	(8,557)	(1,261)
Disposal of minority holdings in subsidiaries	47,367	-	1,854	-
Purchase of other investments		(155,269)		(5,712)
Cash flows utilised by investing activities	**(6,238,909)**	**(6,036,587)**	**(244,169)**	**(222,055)**
FINANCING ACTIVITIES				
Proceeds from borrowings	28,110,210	21,621,324	1,100,135	795,334
Repayment of borrowings	(19,421,986)	(14,985,220)	(760,109)	(551,227)
Proceeds from the sale of restitutable shares	14,530,883	-	568,688	-
Contribution in cash from shareholder	-	226,663	-	8,338
Payment of finance lease liabilities	(1,256,418)	(567,856)	(49,171)	(20,888)
Cash flows from financing activities	**21,962,689**	**6,294,911**	**859,543**	**231,557**

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 15 to 100.

Net increase in cash and cash equivalents	7,168,140	815,700	280,536	30,006
Cash and cash equivalents at beginning of period	**1,582,278**	**766,578**	**60,092**	**26,633**
Effect of exchange rate fluctuations on cash and cash equivalents	(102,108)	-	11,700	3,453
Cash and cash equivalents at end of period (note 23)	**8,648,310**	**1,582,278**	**352,328**	**60,092**

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 15 to 100.

’000 RUR	Attributable to shareholders of the Company					Minority interest	Total equity
	Share capital	Restitutable Shares Reserve	Additional paid in capital	Retained earnings	Total		
Balance at 1 January 2006 (Restated)	**30,106**		**990,919**	**1,538,122**	**2,559,147**	**455,858**	**3,015,005**
Profit for the year	-	-	-	984,514	984,514	116,431	1,100,945
Total recognised income and expense for the year	-	-	-	-	984,514	116,431	1,100,945
Excess of book values of net assets acquired for entities under common control over consideration paid	-	-	474,463	-	474,463	220,726	695,189
Excess of minority interest acquired for entities under common control over consideration paid	-	-	263,994	-	263,994	(298,279)	(34,285)
Excess of book values of net assets sold for entities under common control over consideration received	-	-	(234,370)	-	(234,370)	(53,488)	(287,858)
Excess of consideration received for entities under common control over book values of net assets sold	-	-	23,735	-	23,735	-	23,735
Excess of consideration received for entities under common control over book values of net assets sold from discontinued operations	-	-	333,714	-	333,714	-	333,714
Shareholder contributions	-	-	293,242	-	293,242	-	293,242
Balance at 31 December 2006	**30,106**	**-**	**2,145,697**	**2,522,636**	**4,698,439**	**441,248**	**5,139,687**
Profit for the year	-	-	-	8,885,424	8,885,424	294,375	9,179,799
Foreign exchange translation differences	-	-	-	30,607	30,607	-	30,607
Total recognised income and expense for the year	-	-	-	8,916,031	8,916,031	294,375	9,210,406
Excess of book values of net assets acquired for entities under common control over consideration paid	-	-	5,615,861	-	5,615,861	93,321	5,709,182

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 15 to 100.

Excess of minority interest acquired for entities under common control over consideration paid	-	-	8,992,107	-	8,992,107	(610,440)	8,381,667
Excess of consideration paid over minority interest acquired for entities under common control	-	-	(74,482)	-	(74,482)	-	(74,482)
Excess of consideration received over minority interest sold for entities under common control	-	-	4,821	-	4,821	296,166	300,987
Excess of minority interest sold over consideration received for entities under common control	-	-	(255,909)	-	(255,909)	-	(255,909)
Excess of book values of net assets sold for entities under common control over consideration received	-	-	(14)	-	(14)	275	(289)
Excess of consideration received for entities under common control over book values of net assets sold	-	-	574	-	574	-	574
Restitutable Shares Reserve	-	14,564,829	-	-	14,564,829	-	14,564,829
Balance at 31 December 2007	**30,106**	**14,564,829**	**16,428,655**	**11,438,667**	**42,462,257**	**514,395**	**42,976,652**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 15 to 100.

’000 USD	Attributable to shareholders of the Company						Minority interest	Total equity
	Share capital	Restitutable Shares Reserve	Additional paid in capital	Foreign currency translation reserve	Retained earnings	Total		
Balance at 1 January 2006 (Restated)	1,078	-	35,032	(3,503)	55,424	88,031	16,721	104,752
Profit for the year	-	-	-	-	36,215	36,215	4,283	40,498
Foreign exchange translation differences	-	-	-	12,288	-	12,288	-	12,288
Total recognised income and expense for the year	-	-	-	-	-	48,503	4,283	52,786
Excess of book values of net assets acquired for entities under common control over consideration paid	-	-	17,453	-	-	17,453	8,119	25,572
Excess of minority interest acquired for entities under common control over consideration paid	-	-	9,711	-	-	9,711	(10,973)	(1,262)
Excess of book values of net assets sold for entities under common control over consideration received	-	-	(8,621)	-	-	(8,621)	(1,968)	(10,589)
Excess of consideration received for entities under common control over book values of net assets sold	-	-	873	-	-	873	-	873
Excess of consideration received for entities under common control over book values of net assets sold from discontinued operations	-	-	12,276	-	-	12,276	-	12,276
Shareholder contributions	-	-	10,786	-	-	10,786	-	10,786
Balance at 31 December 2006	**1,078**	**-**	**77,510**	**8,785**	**91,639**	**179,012**	**16,182**	**195,194**
Profit for the year	-	-	-	-	347,744	347,744	11,521	359,265

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 15 to 100.

Foreign exchange translation differences	-	-	-	74,846	1,198	76,044	-	76,044
Total recognised income and expense for the year	-	-	-	74,846	348,942	423,788	11,521	4335,309
Excess of book values of net assets acquired for entities under common control over consideration paid	-	-	219,785	-	-	219,785	3,652	223,437
Excess of minority interest acquired for entities under common control over consideration paid	-	-	351,920	-	-	351,920	(23,890)	328,030
Excess of consideration paid over minority interest acquired for entities under common control	-	-	(2,915)	-	-	(2,915)	-	(2,915)
Excess of consideration received over minority holdings in subsidiaries sold for entities under common control	-	-	189	-	-	189	11,591	11,780
Excess of minority interest sold over consideration received for entities under common control	-	-	(10,015)	-	-	(10,015)	-	(10,015)
Excess of book values of net assets sold for entities under common control over consideration received	-	-	(1)	-	-	(1)	(11)	(12)
Excess of consideration received for entities under common control over book values of net assets sold	-	-	22	-	-	22	-	22
Restitutable Shares Reserve	-	570,017	-	-	-	570,017	-	570,017
Balance at 31 December 2007	**1,078**	**570,017**	**636,495**	**83,631**	**440,581**	**1,731,802**	**19,045**	**1,750,847**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 15 to 100.

1 Background

(a) Organisation and operations

OJSC LSR Group (the “Company”) and its subsidiaries (together referred to as the “Group”) comprise Russian limited liability and open and closed joint stock companies as defined in the Civil Code of the Russian Federation , and companies located in other countries.

The Company’s registered office is at 36, Kazanskaya Ulitsa, St. Petersburg, 190031, Russia.

The Group’s principal activities comprise the construction of buildings in St. Petersburg, Moscow and Munich, the production of construction materials at plants located in St. Petersburg, and Leningradskaya Oblast in Russia, and in Latvia and Estonia, the extraction and processing of aggregates in different areas of Leningradskaya Oblast, and the hire of construction equipment. These products and services are sold mainly in Russia.

The Group’s significant subsidiaries are detailed in note 34.

The Group is controlled (72.90%) by a single individual, Mr. Molchanov, who has the power to direct the transactions of the Group at his own discretion and for his own benefit. He also has a number of other business interests outside of the Group. In November 2007 the Group completed its public offering of 10,643,718 ordinary shares at USD 72.50 each and placed global depository receipts (“GDR`s”) on the London Stock Exchange as well as shares on the Not-for-Profit Partnership Stock Exchange “Russian Trading System” and Closed Joint Stock Company “Moscow Interbank Currency Exchange”. Related party transactions are detailed in note 33.

(b) Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

These consolidated IFRS financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that investment properties, the land components of investment properties under development and financial investments classified as available-for-sale are stated at fair value; property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs; and the carrying amounts of assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian

Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUR"), which is the Group's functional currency and the currency in which these financial statements are presented. These consolidated financial statements are also presented in United States Dollars ("USD") since management believes that this currency is useful for the users of the consolidated financial statements. All financial information presented has been rounded to the nearest thousand, except if otherwise indicated. The RUR is not a readily convertible currency outside the Russian Federation and, accordingly, any conversion of RUR to USD should not be construed as a representation that the RUR amounts have been, could be, or will be in the future, convertible into USD at the exchange rate disclosed, or at any other exchange rate.

(d) Use of estimates and judgments

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the following notes:

- Note 15 – deemed cost of property plant and equipment;
- Notes 17 and 18 – determination of Fair Values of investment properties and the land components of investment properties under development;
- Note 27 – warranty provision, provision for site restoration and environment restoration; and
- Note 31 – contingencies.

3 Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are described in note 3(a) to 3(u). These accounting policies have been consistently applied except for the following changes in accounting policy, which had a material impact on the Group's financial position or result of operations:

Changes in classification

Some comparatives have been adjusted to conform to the current year's presentations and additional information available.

During the year the Group modified the classification of its current assets in the balance sheet. Comparatives were reclassified for consistency, which resulted in lease incentives for the amount of RUR 2,404,477 thousand/ USD 91,317 thousand being reclassified from trade and other receivables to inventory. According to the management view this classification better reflects the economic substance of these assets.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are enterprises controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The accounting policies of subsidiaries have been changed to align them with the policies adopted by the Group.

(ii) Special purpose entities

The Group has established a number of special purpose entities ("SPE"s) for trading and investment purposes. The Group does not have any direct or indirect shareholdings in these entities. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. SPEs controlled by the Group were established under terms that impose strict limitations on the decision-making powers of the SPEs' management and that result in the Group receiving all of the benefits related to the SPEs' operations and net assets, being exposed to risk incidental to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPE or its assets.

(iii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Company are accounted for at the date of transfer of shares to the Group. The assets and liabilities acquired are recognised at their deemed cost, determined by the independent appraiser. Any difference between the book value of net assets acquired and consideration paid is recognised as a contribution from, or distribution to, shareholders.

(iv) Disposals to entities under common control

Disposals of controlling interests in entities to the same controlling shareholder that controls the Company are accounted for at the date of transfer of shares from the Group. The assets and liabilities sold are derecognised at their book values as recognised in the individual financial statements of the Group. Any difference between the book value of net assets sold and consideration received is recognised as a contribution from, or a distribution to, shareholders.

(v) Acquisitions and disposals of minority interests

Any difference between the consideration paid to acquire a minority interest, and the carrying amount of that minority interest, is recognised as a contribution from or a distribution to shareholders.

Any difference between the consideration received upon disposal of a minority portion of the Group's interest in a subsidiary, and the carrying amount of that portion of the Group's interest in the subsidiary including attributable goodwill, is recognised as a distribution to, or a contribution from, shareholders.

(vi) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in the income statement.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to RUR at exchange rates at the reporting date. The income and expenses of foreign operations are translated to RUR at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in equity. Since 1 January 2005, the Group's date of transition to IFRSs, such differences have been recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to the income statement.

(iii) Translation to presentation currency

The assets and liabilities of Group enterprises are translated to USD at exchange rates at the reporting date. Income and expenses are translated to USD at rates approximating exchange rates at the dates of the transactions. Translation differences are recognised directly in equity in the foreign currency translation reserve.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group’s contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group’s obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Available-for-sale financial assets

The Group’s investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

Loans and receivables

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(d) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity.

Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit of the transaction is transferred to/from retained earnings.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2005, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs, related to the acquisition or construction of qualifying assets are expensed in the income statement as incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposals of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item and are recognised within “other income’ or “other expenses” in the income statement.

(ii) Reclassification to investment property

Property that is being constructed for future use as investment property is accounted for as property, plant and equipment until construction or development is complete, at which time it is remeasured to fair value and reclassified as investment property. Any gain or loss arising on remeasurement is recognised in the income statement.

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain or loss on remeasurement is recognised in the income statement.

(iii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iv) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings 20 to 50 years
- Machinery and equipment 5 to 29 years
- Transportation equipment 8 to 20 years
- Other fixed assets 5 to 20 years.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(f) Intangible assets

(i) Goodwill and negative goodwill

Goodwill or negative goodwill arises on the acquisition of subsidiaries, associates and joint ventures.

Acquisitions prior to 1 January 2005

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2005. The Group did not prepare consolidated financial statements under Russian GAAP. In respect of acquisitions prior to 1 January 2005, goodwill therefore represents the difference between the Company's interest in a subsidiary's net identifiable assets on the date of transition and the cost of that interest.

Acquisitions on or after 1 January 2005

For acquisitions on or after 1 January 2005, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Any negative goodwill is recognised immediately in the income statement.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses. Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the income statement when incurred.

(iv) Amortisation

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet. Properties acquired for development and held under "lease incentives" terms are carried within inventory or investment property under development on a payment basis.

(h) Investment property under development

Investment property under development consists of plots of land, wholly or partly owned by the Group or leased to the Group, on which commercial properties are being, or will be, built. These properties will be leased to third parties on completion.

Investment property under development consists of two components: land and buildings. Land is measured at fair value with any change therein recognised in profit or loss. Buildings that are being constructed for future use as investment property are accounted for in the same way as property, plant and equipment until construction or development is complete, at which time they are remeasured to fair value and reclassified as investment property along with related land component. Any gain or loss arising on remeasurement is recognised in profit or loss.

In the absence of current prices in an active market, the fair values are established by considering the aggregate of the estimated cash flows expected to be received from renting out the property less the estimated costs to complete the individual projects to the stage where they could be marketed. A yield that reflects the specific risks inherent in the net cash flows is applied to the net annual cash flows to arrive at the property valuation.

(i) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. In the case when investment property forms part of a larger property unit, it is distinguished on the basis of the area which it occupies in the total area of the property unit. Investment property is measured at fair value with any change therein recognised in the income statement. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(j) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(k) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

(ii) Reversal of impairment

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(iii) Non-financial assets

The carrying amounts of the Group’s non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in income statement. Gains are not recognised in excess of any cumulative impairment loss.

(m) Employee benefits

Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an expense in the income statement when they are due.

(n) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Site restoration

In accordance with the Group's environmental policy and applicable statutory requirements, provision is made for site restoration of the land being quarried. The related expense is recognised in the income statement as quarrying is carried out.

(ii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(o) Revenues

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. Revenue from the sale of flats is recognised when the buyer occupies of the property, following certification by the competent Authorities.

(ii) Services

Revenue from services, rendered by the "Construction" segment, is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

Revenue from services, rendered by the "Construction services" segment is recognised in the income statement when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably.

(iii) Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract. The stage of completion is assessed as the proportion that contract costs incurred for work performed to date bear to estimated total contract costs. An expected loss on a contract is recognised immediately in the income statement.

(iv) Rental income

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(p) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in the income statement as incurred.

(q) Financial income and expenses

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established.

Financial expenses comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognised on financial assets. All borrowing costs are recognised in the income statement using the effective interest method, except for borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

Foreign currency gains and losses are reported on a net basis.

(r) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(s) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), that is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

(u) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2007, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective. Of these pronouncements, potentially the following will have an impact on the Group's operations. Except as stated below, the Group has not yet analysed the likely impact of these new or revised Standards and Interpretations on its financial position or performance.

- IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting.
  IFRS 8 *Operating Segments*, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 6 Segment Reporting). Under the management approach, the Group will represent segment information in respect of Development, Commercial Real Estate, Building Materials, Aggregates, Construction and Construction Services, therefore there will be no change to the current business segments.

- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised IAS 23 to qualifying assets for which capitalization of borrowing costs commences on or after the effective date.

- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*, which requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Group's 2008 financial statements, with retrospective application required. It is not expected to have any material effect on the consolidated financial statements.
- IFRIC 12 *Service Concession Arrangements*, provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Group's 2008 financial statements, is not expected to have any effect on the consolidated financial statements.
- IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements, is not expected to have any effect on the consolidated financial statements..
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Group's 2008 financial statements, with retrospective application required.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged 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 market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

(b) Investment property and investment property under development

The fair value of the investment property and the land component of the investment property under development is based on valuations, performed by independent valuers, who hold recognized and relevant professional qualifications and who have recent experience in the location and category of the investment property being valued. The valuations are based primarily on comparable rents, yields and sales prices from recent market transactions on an arm's lengths basis, using the

Residual Value technique, supported by Discounted Cash Flow analysis, undertaken according to the requirements of the United Kingdom's Royal Institution of Chartered Surveyors Appraisal and Valuation Manual.

(c) Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(d) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(e) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(f) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established an Audit Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, have less of an influence on credit risk. There are no single customers which generate more than 10% of the Group's revenue. However, geographically there is no concentration of credit risk. .

More than 85% of the Group's customers have been transacting with the Group for over four years, and losses have occurred infrequently. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group does not have a unified policy for management of credit risk in place. Due to significant differences in operations at different business units and in related credit risks specific credit policies are developed at the level of operational segments. All companies which operate in the development segment make sales on advance payment condition. All companies involved in the extraction and production of building materials have in place credit control procedures which require them to cancel despatching goods in case of the absence of a signed contract, previous fail to pay or previous violations of contract conditions.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. In accordance with the Group's accounting policy all overdue receivables are considered to be fully impaired.

(ii) Investments

The Group does not invest any of its assets in traded securities. It limits its exposure to credit risk by only investing in securities and only with counterparties that are known to them and that have an appropriate reputation in the market. Management does not expect any counterparty to fail to meet its obligations.

(iii) Guarantees

The Group's policy is to provide financial guarantees only to its own subsidiaries. At 31 December 2007 no guarantees were outstanding (2006: none).

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses cash flow budgets which are prepared for each year, month and week to forecast potential liquidity deficit and identify sources of covering that deficit. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains secured and unsecured short term credit facilities of RUR 4,610,313 thousand / USD 187,182 thousand from Russian and Estonian Banks. Interest would be payable at the rate of 6.24% to 11.8%.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Generally the Group does not apply hedge accounting in order to manage volatility in profit or loss.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in the currencies other than the respective functional currencies of Group entities, primarily the Russian Rouble (RUR), but also Euro (EUR) and Estonian Crone (EEK). The currencies in which these transactions primarily are denominated are the Euro and USD.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily RUR, but also EUR, USD and EEK. This provides an economic hedge and no derivatives are entered into.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by as far as possible, matching assets with liabilities.

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, management strive to ensure that the variable interest rate credit amount should not exceed 20% of total debt since it is subject to greater macroeconomics risks.

(iii) Other market price risk

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements; such contracts are not settled net.

(e) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. It was specifically agreed that the Group does not intend to pay dividends on its ordinary shares until 2011 at the earliest.

From time to time the Company may purchase its own shares on the market; the timing of these purchases depends on market prices. Buy and sell decisions are made on a specific transaction basis by the Board of Directors; the Group does not have a defined share buy-back plan.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

6 Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

(a) Business segments

The Group comprises the following main business segments:

Development. Development companies specialize in the construction of residential buildings of different standards of comfort and implementation of country house projects.

Commercial real estate. Commercial real estate companies own and operate business centres.

Building materials. The building materials production companies are engaged in the production of brick, concrete and ferroconcrete items, ready-mix concrete, aerated concrete blocks, and window blocks and doors.

Aggregates. Aggregates companies are engaged in crushed stone production, sand quarrying and sea sand quarrying.

Construction. Construction companies specialize in large panel residential buildings development and pile driving.

Construction services. Construction services companies specialize in renting of tower cranes and transportation of construction materials.

(b) Geographical segments

The operations of the Group are conducted and managed primarily in St. Petersburg and in Moscow, where the production facilities and sales offices of the Group are located. The Group also has operations in Germany, Latvia and Estonia, the volume of which is not significant to total operations of the Group. Accordingly, no geographical segmental information is presented.

(i) Business segments

2007 **'000 RUR**	**Development**	**Commercial real estate**	**Building materials**	**Aggregates**	**Construction**	**Construction services**	**Other entities**	**Eliminations**	**Consolidated**
Revenue from external customers	9,814,751	83,055	15,493,280	4,530,520	4,887,946	1,012,617	15,437	-	35,837,606
Inter-segment revenue	357,124	10,433	980,806	992,473	1,489,236	488,477	-	(4,318,549)	-
Total segment revenue	10,171,875	93,488	16,474,086	5,522,993	6,377,182	1,501,094	15,437	(4,318,549)	35,837,606
Segment result	9,284,936	1,209.581	2,768,586	1,586,712	778,449	300,694	-	(622,519)	15,306,421
Unallocated expenses									(926,647)
Financial income									870,453
Financial expenses									(2,759,231)
Income tax expense									(3,311,197)
Profit for the year									9,179,799
Depreciation/amortisation	20,608	328	549,297	413,709	240,631	192,124	136,969	-	1,553,666
Capital expenditure	233,965	3,763	3,103,435	1,295,098	756,080	904,741	225,412	(3,249)	6,519,245

2006 **'000 RUR**	**Development**	**Commercial real estate**	**Building materials**	**Aggregates**	**Construction**	**Construction services**	**Other entities**	**Eliminations**	**Consolidated**
Revenue from external customers	3,237,230	17,600	8,798,879	3,588,836	4,624,149	769,607	74,450	-	21,110,751
Inter-segment revenue	38,056	-	495,942	832,769	269,180	356,100	107,086	(2,099,133)	-
Total revenue	3,275,286	17,600	9,294,821	4,421,605	4,893,329	1,125,707	181,536	(2,099,133)	21,110,751
Segment result	382,608	3,931	810,952	957,236	512,750	273,566	50,984	170,288	3,162,315
Unallocated expenses									(527,512)
Financial income									213,796
Financial expenses									(1,089,615)
Income tax benefit									(658,039)
Profit for the year									1,100,945
Depreciation/amortisation	13,327	2,161	346,111	424,394	150,389	123,324	61,025	-	1,120,731
Capital expenditure	37,129	996	2,257,824	470,916	188,258	469,626	310,436	(770,329)	2,964,856

2007 **’000 USD**	**Development**	**Commercial real estate**	**Building materials**	**Aggregates**	**Construction**	**Construction services**	**Other entities**	**Eliminations**	**Consolidated**
Revenue from external customers	384,115	3,250	606,353	177,309	191,297	39,630	604	-	1,402,558
Inter-segment revenue	13,977	408	38,385	38,842	58,283	19,117	-	(169,012)	-
Total revenue	398,092	3,658	644,738	216,151	249,580	58,747	604	(169,012)	1,402,558
Segment result	363,380	47,339	108,352	62,098	30,466	11,768	-	(24,363)	599,040
Unallocated expenses									(36,266)
Financial income									34,066
Financial expenses									(107,986)
Income tax expense									(129,589)
Profit for the year									359,265
Depreciation/amortisation	807	13	21,498	16,191	9,417	7,519	5,360	-	60,805
Capital expenditure	9,157	147	121,458	50,686	29,590	35,408	8,822	(127)	255,141

2006 **’000 USD**	**Development**	**Commercial real estate**	**Building materials**	**Aggregates**	**Construction**	**Construction services**	**Other entities**	**Eliminations**	**Consolidated**
Revenue from external customers	119,081	647	323,664	132,014	170,098	28,310	2,739	-	776,553
Inter-segment revenue	1,400	-	18,243	30,633	9,902	13,099	3,939	(77,216)	-
Total revenue	120,481	647	341,907	162,647	180,000	41,409	6,678	(77,216)	776,553
Segment result	14,074	145	29,831	35,212	18,861	10,063	1,875	6,264	116,325
Unallocated expenses									(19,404)
Financial income									7,864
Financial expenses									(40,081)
Income tax (benefit)									(24,206)
Profit for the year									40,498
Depreciation/amortisation	490	79	12,732	15,611	5,532	4,536	2,247	-	41,227
Capital expenditure	1,366	37	83,053	17,323	6,925	17,275	11,419	(28,336)	109,062

2007 ’000 RUR	**Development**	**Commercial real estate**	**Building materials**	**Aggregates**	**Construction**	**Construction services**	**Other entities**	**Eliminations**	**Consolidated**
Segment assets	66,817,653	2,078,624	15,253,511	3,971,175	6,168,565	2,484,677	-	(12,952,343)	83,821,862
Unallocated assets									11,931,057
Total assets									95,752,919
Segment liabilities	27,199,819	46,839	5,361,272	477,226	2,202,169	1,074,145	-	(15,104,737)	21,256,733
Unallocated liabilities									45,953,650
Total liabilities									67,210,383

2006 ’000 RUR	**Development**	**Commercial real estate**	**Building materials**	**Aggregates**	**Construction**	**Construction services**	**Other entities**	**Eliminations**	**Consolidated**
Segment assets	21,192,562	919,231	8,355,970	2,721,488	2,830,815	1,430,804	629	(1,559,699)	35,891,800
Unallocated assets									2,849,529
Total assets									38,741,329
Segment liabilities	15,782,512	507,723	2,410,980	513,385	717,166	296,248	1,170	(1,498,995)	18,730,189
Unallocated liabilities									14,871,453
Total liabilities									33,601,642

2007 ’000 USD	**Development**	**Commercial real estate**	**Building materials**	**Aggregates**	**Construction**	**Construction services**	**Other entities**	**Eliminations**	**Consolidated**
Segment assets	2,722,118	84,682	621,420	161,784	251,304	101,225	-	(527,671)	3,414,862
Unallocated assets									486,065
Total assets									3,900,927
Segment liabilities	1,108,107	1,908	218,416	19,442	89,715	43,760	-	(615,359)	865,989
Unallocated liabilities									1,872,128
Total liabilities									2,738,117

2006 ’000 USD	**Development**	**Commercial real estate**	**Building materials**	**Aggregates**	**Construction**	**Construction services**	**Other entities**	**Eliminations**	**Consolidated**
Segment assets	804,849	34,910	317,342	103,356	107,508	54,339	24	(59,234)	1,363,094
Unallocated assets									108,220
Total assets									1,471,314
Segment liabilities	599,387	19,282	91,564	19,497	27,236	11,251	44	(56,929)	711,332
Unallocated liabilities									564,788
Total liabilities									1,276,120

7 Discontinued operation

In January 2006 the Group sold its entire roads construction business. This business was not a discontinued operation or classified as held for sale as at 31 December 2005 and the comparative income statement has been re-presented to show the discontinued operations separately from continuing operations. Management committed to a plan to sell this division early 2006 due to the strategic decision to place greater focus on the Group's key competencies, being the manufacture of building materials, development, aggregates and construction and construction services.

Results attributable to the discontinued operation were as follows:

	2005	
	'000 RUR	**'000 USD**
Results of discontinued operation		
Revenue	2,762,716	97,670
Cost of sales	(2,740,253)	(96,877)
Administrative expenses	(169,333)	(5,986)
Other income	5,054	179
Financial income	17,176	607
Financial expenses	(63,630)	(2,249)
Loss from operating activities	(188,270)	(6,656)
Income tax benefit	38,456	1,360
Loss from operating activities, net of income tax	(149,814)	(5,296)
Basic and diluted loss per share	(1.76) RUR	(0.06) USD
Cash flows from discontinued operation		
Net cash utilised by operating activities	(350,630)	(12,397)
Net cash utilised by investing activities	(166,006)	(5,870)
Net cash from financing activities	557,149	19,697
Net cash utilised by discontinued operation	40,513	1,430

	As at 31 December 2005	
	'000 RUR	**'000 USD**
Effect of disposal on the financial position of the Group		
Property, plant and equipment	480,164	17,663
Deferred tax asset	157,682	5,800
Inventories	487,951	17,949
Trade and other receivables	876,411	32,239
Cash and cash equivalents	48,254	1,775
Trade and other payables	(1,132,791)	(41,669)
Other liabilities	(1,217,318)	(44,780)
Net identifiable assets and liabilities	(299,647)	(11,023)
Difference between net assets disposed and consideration received recognised in net assets attributable to shareholders	333,714	12,276
Consideration received, satisfied in cash	34,067	1,253
Cash disposed of	(48,254)	(1,775)
Net cash outflow	(14,187)	(522)

8 Non-current assets held for sale

Two entities within a Group, both of which form part of the “Development” segment (note 6) are presented as a disposal group held for sale following the commitment of the Group’s management to plan to sell these entities representing non-core businesses of the Group. Efforts to sell the disposal Group have commenced, and the sale is expected to take place during 2008.

	As at 31 December 2007	
	'000 RUR	**'000 USD**
Assets classified as held for sale		
Property plant and equipment	7,945	324
Inventories	15,662	637
Financial assets	4,702	192
	28,309	1,153
Liabilities classified as held for sale		
Trade and other payables	(10,103)	(412)
	(10,103)	(412)

9 Acquisition and disposals of subsidiaries and minority interests

(a) Acquisition of subsidiaries

During 2007 the Group acquired a controlling interest, settled in cash, in ZAO Grad (January 2007) and ZAO GATP Block (September 2007) from companies controlled by the Company's ultimate controlling party and OOO Cement (September 2007), OAO Parkon (July 2007) and OAO Berezanskoe PPDO (January 2007) from third parties. The impact of acquiring the subsidiaries was to increase net profit for the year ended 31 December 2007 by RUR 66,278 thousand / USD 2,594 thousand. OOO Cement forms the main part of the values being acquired

During 2006 the Group acquired controlling stakes, settled in cash, in 30 entities, the principal ones of which being ZAO Galernaya (formerly OOO Galernaya), ZAO Severnaya Venecia, OOO BaltStroiKomplect, ZAO Ingeokom, OOO Zolotaya Kazanskaya, OAO MTO Arhproekt, OOO Velikan XXI and OOO LSR Invest, from companies controlled by the ultimate controlling party, and in OAO Zavod Zhelezobetonnich Izdeliy-6, Aeroc International AS, LSR Europe GmbH and OAO Zavod Electrik from unrelated parties. The impact of acquiring the subsidiaries was to increase net profit for the year ended 31 December 2006 by RUR 53,474 thousand / USD 1,967 thousand.

It has not been possible to determine the carrying amounts of the assets and liabilities of subsidiaries acquired from third parties on an IFRS basis immediately prior to the date of acquisition because the subsidiaries' financial statements were prepared in accordance with local accounting principles which are significantly different from IFRSs. For the same reason it has not been possible to determine the effect of these acquisitions had they taken place at the start of the financial year.

The acquisition of the subsidiaries from companies controlled by the Company's ultimate controlling party had the following effect on the Group's assets and liabilities at the date of acquisition:

	Recognised fair/book values on acquisition			
	2007		2006	
	’000 RUR	’000 USD	’000 RUR	’000 USD
Non-current assets				
Property, plant and equipment	1,164,820	45,587	1,053,581	38,755
Investment property under development	-	-	100,444	3,695
Investment property	-	-	916,560	33,715
Investments	810	32	42,405	1,560
Deferred income tax assets	-	-	10,327	379
Other non-current assets	-	-	133,086	4,895
Current assets				
Investments	-	-	100,287	3,689
Inventory	54	2	1,192,061	43,849
Trade and other receivables	15,007	587	4,374,920	160,933

	Recognised fair/book values on acquisition			
	2007		**2006**	
	’000 RUR	**’000 USD**	**’000 RUR**	**’000 USD**
Income tax receivable	368	14	7,597	280
Cash and cash equivalents	220	9	54,568	2,007
Assets classified as held for sale	-	-	70,764	2,603
Non-current liabilities				
Deferred tax liability	(271,943)	(10,643)	(177,254)	(6,520)
Loans and borrowings	-	-	(700)	(26)
Current liabilities				
Loans and borrowings	-	-	(295,325)	(10,863)
Provisions	-	-	(23,683)	(872)
Income tax payable	-	-	(6,123)	(225)
Liabilities classified as held for sale	-	-	(27,929)	(1,027)
Trade and other payables	(406)	(16)	(3,886,377)	(142,960)
Net identifiable assets, liabilities and contingent liabilities	908,930	35,572	3,639,209	133,867
Minority interest	-	-	(117,895)	(4,337)
Net identifiable assets, liabilities and contingent liabilities acquired	908,930	35,572	3,521,314	129,530
Difference between net assets acquired and consideration paid recognised in net assets attributable to shareholders	(896,620)	(35,091)	(474,463)	(17,453)
Consideration paid	12,310	482	3,046,851	112,077
Cash acquired	(220)	(9)	(54,568)	(2,007)
Net cash outflow	12,090	473	2,992,283	110,070

The acquisition of the subsidiaries from unrelated parties had the following effect on the Group's assets and liabilities at the date of acquisition:

	Recognised fair/book values on acquisition			
	2007		**2006**	
	'000 RUR	**'000 USD**	**'000 RUR**	**'000 USD**
Non-current assets				
Property, plant and equipment	874,136	34,211	790,044	29,061
Investments	3,089	121	-	-
Deferred income tax assets	3,357	131	43,099	1,582
Other non-current assets	-	-	407	15
Current assets				
Inventory	96,026	3,758	776,980	28,580
Trade and other receivables	189,874	7,431	189,448	6,974
Income tax receivable	-		6,528	240
Cash and cash equivalents	5,017	196	221,994	8,166
Non-current liabilities				
Deferred tax liability	(118,767)	(4,648)	(3,167)	(116)
Loans and borrowings	-	-	(471,023)	(17,327)
Current liabilities				
Bank overdrafts	-	-	(13,134)	(483)
Loans and borrowings	(402,079)	(15,736)	(326,902)	(12,025)
Income tax payable	-		(177)	(7)
Trade and other payables	(79,681)	(3,118)	(417,731)	(15,366)
Net identifiable assets, liabilities and contingent liabilities	570,972	22,346	796,366	29,293
Minority interest	(68,205)	(2,669)	(102,831)	(3,782)
Minority interest in OOO companies	-		(86,506)	(3,182)
Net identifiable assets, liabilities and contingent liabilities acquired	502,767	19,677	607,029	22,329
Goodwill on acquisitions	643,178	25,172	550,217	20,240
Consideration paid	1,145,945	44,848	1,157,246	42,569
Cash acquired	(5,017)	(196)	(221,994)	(8,166)
Net cash outflow	1,140,928	44,652	935,252	34,403

Goodwill on acquisitions represents the difference between the fair values of net assets acquired and considerations paid.

(b) Changes in minority interests

During the year ended 31 December 2007 the Group acquired an additional minority interest in a number of subsidiaries. The Group recognised a decrease in minority interest of RUR 532,265 thousand / USD 21,684 thousand. Contribution from shareholders of RUR 8,992,107 thousand / USD 351,920 thousand and distribution to shareholders of RUR 74,482 thousand / USD 3,034 thousand was recognised directly in equity.

During the year ended 31 December 2007 the Group disposed of minority holdings in a number of its subsidiaries. The Group recognised an increase in minority interest of RUR 298,455 thousand / USD 12,159 thousand. Contribution from shareholders of RUR 4,821 thousand / USD 189 thousand and distribution to shareholders of RUR 255,909 thousand / USD 10,015 thousand was recognised directly in equity.

(c) Disposal of subsidiaries

During the year ended 31 December 2007 the Group disposed of seven subsidiaries to companies controlled by the ultimate controlling party. The net gain on the disposal of RUR 560 thousand / USD 23 thousand was recognised in net assets attributable to shareholders and RUR 132,154 thousand / USD 5,384 thousand was recognised in the income statement.

During year ended 31 December 2006 the Group disposed of eight subsidiaries to companies controlled by the ultimate controlling party. The net loss on the disposal of RUR 210,635 thousand / USD 7,748 thousand was recognised in net assets attributable to shareholders. The Group also recognised income from the disposal of discontinued operations in the amount of RUR 333,714 thousand / USD 12,276 thousand.

The disposal of the subsidiaries had the following effect on the Group’s assets and liabilities at the date of disposal:

	Carrying amount at date of disposal			
	2007		2006	
	’000 RUR	’000 USD	’000 RUR	’000 USD
Non-current assets				
Property, plant and equipment	129,721	5,077	213,945	7,870
Intangible assets	(926)	(36)	52	2
Investments	-	-	200	7
Long-term investments	-	-	56,857	2,091
Deferred tax assets	262	10	-	-
Current assets				
Investments	-	-	835	31
Inventories	4,920	193	66,614	2,450
Trade and other receivables	745	29	294,068	10,817

	Carrying amount at date of disposal			
	2007		**2006**	
	’000 RUR	**’000 USD**	**’000 RUR**	**’000 USD**
Cash and cash equivalents	2,516	98	24,389	897
Non-current liabilities				
Deferred tax liability	(10,796)	(423)	(30,017)	(1,104)
Other non-current liabilities	(54)	(2)	(194)	(7)
Current liabilities				
Loans and borrowings	(87,632)	(3,430)	(22,849)	(840)
Bank overdrafts	-	-	(260)	(10)
Trade and other payables	(163)	(6)	(282,116)	(10,377)
Provisions	-	-	(55)	(2)
Income tax payable	-	-	(1,002)	(37)
Net identifiable assets and liabilities	38,593	1,510	320,467	11,788
Minority interest	545	21	(53,488)	(1,968)
Net identifiable assets, liabilities and contingent liabilities disposed	39,138	1,531	266,979	9,820
Excess of consideration received for entities under common control over book values of net assets sold	574	22	23,735	873
Excess of book values of net assets sold for entities under common control over consideration received	(14)	(1)	(234,370)	(8,621)
Gain on disposal recognised in income statement	132,154	5,172	-	-
Consideration received	171,852	6,724	56,344	2,072
Cash disposed of	(2,516)	(97)	(24,389)	(897)
Net cash inflow	169,336	6,627	31,955	1,175

10 Administrative expenses

	12 months ended 31 December			
	2007	**2006**	**2007**	**2006**
	’000 RUR	**’000 RUR**	**’000 USD**	**’000 USD**
Wages and salaries	1,956,187	1,264,334	76,558	46,508
Services	961,994	836,940	37,649	30,787
Materials	109,469	74,194	4,284	2,729
Depreciation and amortisation	75,261	36,120	2,945	1,329
Taxes other than profit tax	147,634	145,340	5,778	5,346
Social expenditure	220,470	314,973	8,628	11,586
Insurance	26,969	10,413	1,055	383
Other administrative expenses	344,823	368,789	13,497	13,566
	3,842,807	3,051,103	150,394	112,234

11 Other income and expenses

	12 months ended 31 December			
	2007	**2006**	**2007**	**2006**
	’000 RUR	**’000 RUR**	**’000 USD**	**’000 USD**
Other income:				
Gain on disposal of other assets	64,145	38,173	2,510	1,404
Other expenses:				
Loss on disposal of property, plant and equipment	(39,281)	(94,332)	(1,537)	(3,470)
Other expenses	(61,500)	-	(2,406)	-
	(100,781)	(94,332)	(3,943)	(3,470)
Net other expenses	(36,636)	(56,159)	(1,433)	(2,066)

12 Total personnel costs

	12 months ended 31 December			
	2007	**2006**	**2007**	**2006**
	'000 RUR	**'000 RUR**	**'000 USD**	**'000 USD**
Wages and salaries:				
Cost of sales	4,116,181	2,881,893	161,093	106,010
Administrative expenses	1,956,187	1,264,334	76,558	46,508
Distribution expenses	265,091	144,849	10,375	5,328
	6,337,459	4,291,076	248,026	157,846

13 Financial income and expenses

	12 months ended 31 December			
	2007	**2006**	**2007**	**2006**
	'000 RUR	**'000 RUR**	**'000 USD**	**'000 USD**
Financial income				
Foreign exchange gain	211,529	84,262	8,278	3,099
Interest income	66,766	43,253	2,613	1,591
Income from sale of available-for-sale investments	488,042	12,769	19,100	470
Dividend income	-	73,512	-	2,704
Other financial income	104,116		4,075	
	870,453	213,796	34,066	7,864
Financial expenses				
Interest expense	(2,036,280)	(1,062,238)	(79,693)	(39,074)
Foreign exchange loss	(104,730)	-	(4,099)	-
Loss from sale of available-for-sale investments	(323,885)	-	(12,676)	-
Impairment of financial assets	(2,540)	-	(99)	-
Minority interest in limited liability subsidiaries	(148,023)	(27,377)	(5,793)	(1,007)
Other financial expenses	(143,773)	-	(5,626)	-
	(2,759,231)	(1,089,615)	(107,986)	(40,081)

14 Income tax expense

	12 months ended 31 December			
	2007	**2006**	**2007**	**2006**
	’000 RUR	**’000 RUR**	**’000 USD**	**’000 USD**
Current tax expense				
Current year	1,640,523	791,028	64,204	29,098
Deferred tax expense				
Origination and reversal of temporary differences	1,670,674	(132,989)	65,385	(4,892)
Income tax expense	3,311,197	658,039	129,589	24,206

The Group’s applicable tax rate is the corporate income tax rate of 24% (2006: 24%).

Reconciliation of effective tax rate:

	2007		**2006**		**2007**		**2006**	
	’000 RUR	**%**	**’000 RUR**	**%**	**’000 USD**	**%**	**’000 USD**	**%**
Profit for the year	9,179,799		1,100,945		359,265		40,498	
Income tax expense	3,311,197	26	658,039	37	129,589	26	24,206	37
Profit before income tax	12,490,996		1,758,984		488,854		64,704	
Income tax at applicable tax rate	2,997,839		422,156		117,325		15,529	
Non-deductible and non-taxable items	313,358		235,883		12,264		8,677	
	3,311,197	26	658,039	37	129,589	26	24,206	37

15 Property, plant and equipment

’000 RUR	Land and buildings	Machinery and equipment	Transportation equipment	Other fixed assets	Assets under construction	Total
Cost/Deemed cost						
At 1 January 2006	3,373,713	2,759,520	1,398,398	1,038,329	531,180	9,101,140
Acquisitions through business combinations	1,473,116	371,798	10,608	18,923	58,787	1,933,232
Additions	326,566	917,170	788,258	78,310	854,552	2,964,856
Disposals	(95,770)	(166,724)	(117,231)	(65,134)	(140,122)	(584,981)
Business disposals	(267,078)	(168,213)	(377,005)	(39,188)	(25,675)	(877,159)
Transfers	258,512	546,731	29,383	(513,629)	(343,573)	(22,576)
Effect of movements in exchange rates	3,526	3,860	(27)	185	651	8,195
At 31 December 2006	5,072,585	4,264,142	1,732,384	517,796	935,800	12,522,707
At 1 January 2007	5,072,585	4,264,142	1,732,384	517,796	935,800	12,522,707
Acquisitions through business combinations	2,212,433	53,052	13,135	5,331	389,599	2,673,550
Additions	613,701	2,061,929	795,142	134,476	2,913,997	6,519,245
Disposals	(37,189)	(167,684)	(178,234)	(34,774)	(112,904)	(530,785)
Business disposals	(107,903)	(21,822)	-	(1,935)	-	(131,660)
Transfers and reclassifications	242,530	262,718	19,357	6,529	(531,134)	-
Effect of movements in exchange rates	13,853	15,379	138	653	25,380	55,403
At 31 December 2007	8,010,010	6,467,714	2,381,922	628,076	3,620,738	21,108,460
Depreciation and impairment losses						
At 1 January 2006	(234,495)	(294,589)	(295,366)	(155,224)	-	(979,674)
Depreciation charge	(236,050)	(550,243)	(233,483)	(100,713)	-	(1,120,489)
Acquisitions through business combinations	(53,510)	(22,374)	(6,919)	(6,804)		(89,607)
Disposals	9,604	46,906	21,588	23,910	-	102,008
Business disposals	45,049	29,689	101,650	6,662	-	183,050
Transfers	(1,502)	(61,006)	(6,008)	73,216	-	4,700
Effect of movements in exchange rates	(513)	(939)	(33)	(88)	-	(1,573)
At 31 December 2006	(471,417)	(852,556)	(418,571)	(159,041)	-	(1,901,585)

’000 RUR	Land and buildings	Machinery and equipment	Transportation equipment	Other fixed assets	Assets under construction	Total
At 1 January 2007	(471,417)	(852,556)	(418,571)	(159,041)		(1,901,585)
Depreciation charge	(310,424)	(789,847)	(348,341)	(110,795)	-	(1,559,407)
Acquisitions through business combinations	(113)	(6,527)	(5,151)	(640)	-	(12,431)
Disposals	6,144	88,069	81,823	13,000	-	189,036
Business disposals	208	1,641	-	90	-	1,939
Transfers and reclassifications	25,623	(33,440)	6,498	1,319	-	-
Effect of movements in exchange rates	(1,682)	(3,470)	221	(300)	-	(5,231)
At 31 December 2007	(751,661)	(1,596,130)	(683,521)	(256,367)	-	(3,287,679)
Net book value						
At 1 January 2006	3,139,218	2,464,931	1,103,032	883,105	531,180	8,121,466
At 31 December 2006	4,601,168	3,411,586	1,313,813	358,755	935,800	10,621,122
At 31 December 2007	7,258,349	4,871,584	1,698,401	371,709	3,620,738	17,820,781

’000 USD	Land and buildings	Machinery and equipment	Transportation equipment	Other fixed assets	Assets under construction	Total
Cost/Deemed cost						
At 1 January 2006	117,214	95,875	48,587	36,075	18,455	316,206
Acquisitions through business combinations	54,188	13,676	390	696	2,162	71,112
Additions	12,013	33,738	28,996	2,881	31,434	109,062
Disposals	(3,523)	(6,133)	(4,312)	(2,396)	(5,154)	(21,518)
Business disposals	(9,824)	(6,188)	(13,868)	(1,442)	(944)	(32,266)
Transfers and reclassifications	9,509	20,111	1,081	(18,894)	(12,638)	(831)
Effect of movements in exchange rates	13,069	10,865	4,921	2,744	2,225	33,824
At 31 December 2006	192,646	161,944	65,795	19,664	35,540	475,589

'000 USD	Land and buildings	Machinery and equipment	Transportation equipment	Other fixed assets	Assets under construction	Total
At 1 January 2007	192,646	161,944	65,795	19,664	35,540	475,589
Acquisitions through business combinations	86,587	2,076	514	209	15,248	104,634
Additions	24,018	80,697	31,119	5,263	114,044	255,141
Disposals	(1,455)	(6,563)	(6,975)	(1,361)	(4,419)	(20,773)
Business disposals	(4,223)	(854)	-	(76)	-	(5,153)
Transfers and reclassifications	9,492	10,282	758	256	(20,788)	-
Effect of movements in exchange rates	19,259	15,909	5,827	1,633	7,882	50,510
At 31 December 2007	326,324	263,491	97,038	25,588	147,507	859,948
Depreciation and impairment losses						
At 1 January 2006	(8,147)	(10,235)	(10,263)	(5,394)	-	(34,039)
Depreciation charge	(8,683)	(20,241)	(8,589)	(3,705)	-	(41,218)
Acquisitions through business combinations	(1,968)	(823)	(255)	(250)		(3,296)
Disposals	353	1,725	794	880	-	3,752
Transfers and reclassifications	(55)	(2,244)	(221)	2,693	-	173
Business disposals	1,657	1,092	3,739	245	-	6,733
Effect of movements in exchange rates	(1,060)	(1,653)	(1,104)	(509)	-	(4,326)
At 31 December 2006	(17,903)	(32,379)	(15,899)	(6,040)	-	(72,221)
At 1 January 2007	(17,903)	(32,379)	(15,899)	(6,040)	-	(72,221)
Depreciation charge	(12,149)	(30,912)	(13,633)	(4,336)	-	(61,030)
Acquisitions through business combinations	(4)	(255)	(202)	(25)	-	(486)
Disposals	240	3,447	3,202	509	-	7,398
Transfers and reclassifications	1,003	(1,309)	254	52	-	-
Business disposals	8	64	-	4	-	76
Effect of movements in exchange rates	(1,817)	(3,682)	(1,568)	(608)	-	(7,675)
At 31 December 2007	(30,622)	(65,026)	(27,846)	(10,444)	-	(133,938)

’000 USD	Land and buildings	Machinery and equipment	Transportation equipment	Other fixed assets	Assets under construction	Total
Net book value						
At 1 January 2006	109,067	85,640	38,324	30,681	18,455	282,167
At 31 December 2006	174,743	129,565	49,896	13,624	35,540	403,368
At 31 December 2007	295,702	198,465	69,192	15,144	147,507	726,010

Depreciation expense of RUR 1,464,215 thousand/USD 57,304 thousand has been charged in cost of goods sold, RUR 13,516 thousand/USD 529 thousand in distribution expenses and RUR 75,261 thousand/USD 2,945 thousand in administrative expenses.

(a) Determination of deemed cost

In 2005 management commissioned American Appraisal Inc. to independently appraise property, plant and equipment as at 1 January 2005 in order to determine its deemed cost.

The majority of the Group’s property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales of comparable property, plant and equipment for using a market-based approach for determining fair value.

Consequently the fair value of property, plant and equipment was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

The depreciated replacement cost was estimated based on internal sources and analysis of the Russian and international markets for similar property, plant and equipment. Various market data were collected from published information, catalogues, statistical data etc, and industry experts and suppliers of property, plant and equipment were contacted both in the Russian Federation and abroad.

In addition to the determination of the depreciated replacement cost, cash flow testing was conducted in order to assess the reasonableness of those values.

The following key assumptions were used in performing the cash flow testing:

- Cash flows were projected based on actual operating results and the five-year business plan.
- Total production at the Group companies for which assessment of the reasonableness of values has been done was projected at RUR 22,456 million/USD 829 million in the first year of the business plan. The anticipated annual production growth included in the cash flow projections was from 6% to 13% for each year since 2007 to 2011.
- Cash flows for further periods during which property plant and equipment is planned to be used were extrapolated assuming no further growth in production, and revenue and expenses increasing in line with inflation.

- Discount rates from 17.48% to 22.68% were applied in determining the recoverable amount of the plants. The discount rate was estimated based on an industry average weighted average cost of capital.

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external sources and internal sources (historical data).

The above estimates are particularly sensitive in the following areas:

- An increase of one percentage point in the discount rate used would have decreased the depreciated replacement cost values by RUR 221 million/USD 8 million.
- A 10% decrease in future planned production would have decreased depreciated replacement cost values by RUR 1,571 million/USD 58 million.

(b) Security

Properties with a carrying amount of RUR 2,273,439 thousand /USD 92,619 thousand are subject to a registered debenture to secure bank loans (2006: RUR 3,619,920 thousand /USD 137,476 thousand) (see note 26).

(c) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2007 the net book value of leased plant and machinery was RUR 2,493,110 thousand/USD 101,568 thousand (2006: RUR 1,699,923 thousand/ USD 64,560 thousand). The leased equipment secures the lease obligations.

16 Intangible assets

'000 RUR	**Goodwill**	**Other**	**Total**
Cost			
Balance at 1 January 2006	22,451	2,470	24,921
Acquisitions through business combinations	-	411	411
Additions	550,218	1,289	551,507
Disposals	-	(126)	(126)
Balance at 31 December 2006	572,669	4,044	576,713
Balance at 1 January 2007	572,669	4,044	576,713
Additions	638,840	15,563	654,403
Disposals	-	(842)	(842)
Reclassifications	-	1,926	1,926
Effects of movement in exchange rates	-	141	141
Balance at 31 December 2007	1,211,509	20,832	1,232,341

'000 RUR	**Goodwill**	**Other**	**Total**
Amortisation and impairment losses			
Balance at 1 January 2006	-	(652)	(652)
Amortisation charge	-	(242)	(242)
Disposals	-	84	84
Balance at 31 December 2006	-	(810)	(810)
Balance at 1 January 2007	-	(810)	(810)
Amortisation charge	-	(513)	(513)
Reclassifications	-	1	1
Effects of movement in exchange rates	-	(1,188)	(1,188)
Disposals	-	22	22
Balance at 31 December 2007	-	(2,488)	(2,488)
Net book value			
At 1 January 2006	22,451	1,818	24,269
At 31 December 2006	572,669	3,234	575,903
At 31 December 2007	1,211,509	18,344	1,229,853

'000 USD	**Goodwill**	**Other**	**Total**
Cost			
Balance at 1 January 2006	780	86	866
Acquisitions through business combinations	-	15	15
Additions	20,240	47	20,287
Disposals	-	(5)	(5)
Effect of movements in exchange rates	729	11	740
Balance at 31 December 2006	21,749	154	21,903
Balance at 1 January 2007	21,749	154	21,903
Additions	25,002	609	25,611
Disposals	-	(33)	(33)
Reclassifications	-	75	75
Effect of movements in exchange rates	2,606	43	2,649
Balance at 31 December 2007	49,357	848	50,205

’000 USD	**Goodwill**	**Other**	**Total**
Amortisation and impairment losses			
Balance at 1 January 2006	-	(23)	(23)
Amortisation charge	-	(9)	(9)
Disposals	-	3	3
Effect of movements in exchange rates	-	(2)	(2)
Balance at 31 December 2006	-	(31)	(31)
Balance at 1 January 2007	-	(31)	(31)
Amortisation charge	-	(20)	(20)
Disposals	-	1	1
Reclassifications	-	-	-
Effect of movements in exchange rates	-	(51)	(51)
Balance at 31 December 2007	-	(101)	(101)
Net book value			
At 1 January 2006	780	63	843
At 31 December 2006	21,749	123	21,872
At 31 December 2007	49,357	747	50,104

Intangible assets classified within other, with a carrying amount of RUR 2,767 thousand /USD 113 thousand are subject to a registered debenture to secure bank loans (2006: nil) (see note 26).

(a) Impairment testing of goodwill

For the purposes of impairment testing, goodwill is allocated to the Group’s statutory entities. These units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to each entity, are as follows:

	Allocated goodwill	
	’000 RUR	**’000 USD**
Zavod Zhelezobetonich Izdeliy-6	254,173	10,355
Aeroc International AS	245,952	10,020
LSR Europe GmbH	50,093	2,041
OOO Cement	621,485	25,319
OAO Parkon	17,355	707
OAO Construction Corporation Revival of Saint-Petersburg	22,451	915
	1,211,509	49,357

No impairment losses were recognised.

The recoverable amount of each entity represents value in use as determined by discounting the future cash flows generated from the continuing use of the entities.

The following key assumptions were used in determining the recoverable amounts of the respective entities:

- Cash flows were projected based on actual operating results and the five-year business plan.
- Goodwill values for all acquisitions above were estimated in accordance to the management industry experience.
- Total production at the entities for 2007 was approximately 101,300 m3 of reinforced concrete products at Zavod Zhelezobetonich Izdeliy-6 (2006: 98,643 m3), 655,091 m3 of aerated concrete blocks at Aeroc International AS (2006: 519,665 m3), 4,030 m2 of real estate development at LSR Europe GmbH (2006: 3,300 m2) and 60,992 m2 of real estate development at OAO Construction Corporation Revival of Saint-Petersburg (2006: 42,827 m2). The anticipated annual production growth included in the cash flow projections was up to 37% for the years 2008 to 2012.
- Discount rate of 16.67% was applied in determining the recoverable amount of the entities. The discount rate was estimated based on an industry average weighted average cost of capital.

The values assigned to the key assumptions represent management’s assessment of future trends in the construction and production of materials industry and are based on both external sources and internal sources.

Although no impairment loss was recognised in respect of goodwill allocated to the plants, the determination of recoverable amount is sensitive to the rate at which the plant achieves its planned growth in production. If actual production were to be below estimated production by 9% for Zavod Zhelezobetonich Izdeliy-6, by 85% for Aeroc International AS, by 22% for LSR Europe GmbH in 2008 and subsequent years, the value in use would approximate the carrying amount of the entities.

17 Investment property under development

’000 RUR	**2007**			**2006**		
	Land	**Costs capitalised**	**Total**	**Land**	**Costs capitalised**	**Total**
Cost / Fair Value						
At 1 January	-	496,852	496,852	-	178,040	178,040
Transfer from investment property	281,474	222,708	504,182	-	-	-
Transfer from lease incentives	1,195,466	-	1,195,466	-	-	-
Acquisitions through business combinations	-	-	-	-	100,444	100,444
Additions	-	646,180	646,180	-	218,368	218,368
Additions of investment property at fair value	11,356,935	-	11,356,935	-	-	-
Change in fair value recognised directly in profit and loss statement	6,839,218	973,013	7,812,231			
Transfer into investment property	-	(1,273,511)	(1,273,511)	-	-	-
At 31 December	19,673,093	1,065,242	20,738,335	-	496,852	496,852

’000 USD	**2007**			**2006**		
	Land	**Costs capitalised**	**Total**	**Land**	**Costs capitalised**	**Total**
Cost/Fair Value						
At 1 January	-	18,869	18,869	-	6,186	6,186
Transfer from investment property	11,016	8,716	19,732	-	-	-
Transfer from lease incentives	46,786	-	46,786	-	-	-
Acquisitions through business combinations	-	-	-	-	3,695	3,695
Additions	-	25,289	25,289	-	8,033	8,033
Additions of investment property at fair value	444,471	-	444,471	-	-	-
Change in fair value recognised directly in profit and loss statement	267,663	38,080	305,743			
Transfer into investment property	-	(49,841)	(49,841)	-	-	-
Effect of movements in exchange rates	31,536	2,284	33,820	-	955	955

At 31 December	801,472	43,397	844,869	-	18,869	18,869

Investment property under construction consists of plots of land, wholly or partly owned, or leased by the Group, on which commercial properties are being, or will be, built. These properties will be leased to third parties on completion.

Investment property under development consists of two components: land and costs capitalised in connection with the development of the site. Costs capitalised relate to development carried out on sites owned or partly owned by the Group or sites to which the Group holds lease titles and which will be acquired on completion of the development. Land on which the Group holds title of ownership is measured at fair value with any change therein recognised in profit or loss. Buildings that are being constructed for future use as investment property are accounted for in the same way as property, plant and equipment until construction or development is complete, at which time they are remeasured to fair value and reclassified as investment property along with the related land component. Any gain or loss arising on remeasurement is recognized in profit or loss.

The fair value of the land component is based on valuations by independent valuers who hold recognized and relevant professional qualifications and who have recent experience in the location and category of the investment property being valued. In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property less the estimated costs to complete the individual projects to the stage where they could be marketed and the estimated developer's profit margin. A yield that reflects the specific risks inherent in the net cash flows is applied to the net annual cash flows to arrive at the property valuation.

The annual rental rates used to determine the fair values of the land component in investment properties under development are within the range USD 530 to USD 1,100 per square meter, while the Developer's profit used ranges between 12.5% and 20% as follows:

Project				**Rent rates assumed per sq mtr**				
	Gross Buildable Area	**Capitalised costs of construction**	**Fair value of land component**	**Offices**	**Retail**	**Other**	**Parking (per lot)**	**Developer's Profit assumed**
	Sq. Mts.	**RUR '000**	**RUR '000**	**RUR**	**RUR**	**RUR**	**RUR**	**%**
TOC na Leningradskom	9,161	17,104	421,079	13,009	-	-	-	15.0
Kuybisheva	11,637	4,767	619,133	15,955	-	18,410	92,048	15.0
Hermitage View House	16,931	173,011	927,968	27,001	-	20,864	105,549	12.5
Electric City	340,892	163,916	17,704,913	19,391	20,373	-	81,002	20.0

Project	Gross Buildable Area	Capitalised costs of construction	Fair value of land component	Rent rates assumed per sq mtr: Offices	Retail	Other	Parking (per lot)	Developer's Profit assumed
		358,798	19,673,093					
Other Items (not carried at Fair Value)		706,444						
		1,065,242						
	Sq Mts	USD '000	USD '000	USD	USD	USD	USD	%
TOC na Leningradskom	9,161	697	17,155	530	-	-	-	15.0
Kuybisheva	11,637	194	25,223	650	-	750	3,750	15.0
Hermitage View House	16,931	7,048	37,805	1,100	-	850	4,300	12.5
Electric City	340,892	6,678	721,289	790	830	-	3,300	20.0
		14,617	801,472					
Other Items (not carried at Fair Value)		28,780						
		43,397						

A 10% increase in the estimated rental rates would have increased fair values of investment property under development and profit by RUR 3,122,380 thousand / USD 122,199 thousand. A 10% decrease in the estimated rental rates would have the equal but opposite effect on the basis that all other variables remain constant.

A 10% increase in the assumed developers’ profit margin would have decreased fair values of investment property under development and profit by RUR 451,088 thousand / USD 17,654 thousand. A 10% decrease in this margin would have increased fair values of investment property under development and profit by RUR 464,043 thousand / USD 18,161 thousand. on the basis that all other variables remain constant.

A 10% increase in the anticipated costs to completion of individual projects would have decreased fair values of investment property under development and profit by RUR 1,048,765 thousand / USD 41,045 thousand. A 10% increase in these costs would have the equal but opposite effect on the basis that all other variables remain constant.

All properties are projected to be fully occupied on commissioning. A 10% decrease in the anticipated occupancy of individual projects would have decreased fair values of investment property under development and profit by RUR 2,813,206 thousand / USD 110,099 thousand.

One of the plots of land that was acquired with the purchase of 30% of OAO Zavod Electrik (Project Electric City, Medikov, 10) in December 2006 was initially recorded at cost as lease incentives within Inventory. The final decision on construction of investment property (business centres) on this plot of land was made early 2007 and it has been transferred from Inventory to investment property under development. The construction of the business centre started in the middle of 2007. At the date of transfer the plot of land was recorded at a fair value with RUR 3,207,763 thousand/USD 122,984 thousand recorded in the Income Statement, RUR 1,685,258 thousand/USD 64,612 thousand of which represents increase in fair value since acquisition date in December 2006 and the rest is an effect of change of intentions to use this plot for an investment property in 2007 rather than inventory. During September 2007, the Group acquired a further 65% of the equity of OAO Zavod Electrik. The fair value of the subsequent acquisition of OAO Zavod Electik was recorded directly in Equity as contribution from shareholder in the amount of RUR 8,604,036 thousand / USD 336,732 thousand (net of deferred tax in the amount of RUR 2,717,063 thousand / USD 106,336 thousand).

One of the plots of land located on Zoologicheski, 2-4 was initially recorded as investment property. In 2007 it has been transferred from investment property to investment property under development as this classification better reflects the current status of the project.

The business centre, located on Dobrolyubova prospect, 8 has been fully completed in 2007 and therefore has been remeasured to fair value and reclassified as investment property along with a related land component.

The increase in fair value for the year relates to the following properties, all of which were either acquired or reclassified to investment properties under development late during the comparative year and for which no change in fair value was recognised for the period between acquisition and that year-end. These properties fair values at the year were as follows:

	'000 RUR	**'000 USD**
TOC na Leningradskom	419,952	16,435
Kuybisheva	593,265	23,218
Hermitage View House	637,653	24,955
	1,428,162	55,893

Investment properties under development with a carrying amount of RUR 1,100,979 thousand / USD 44,853 thousand are subject to a registered debenture to secure bank loans (2006: RUR 504,182 thousand / USD 19,149 thousand) - see note 26.

18 Investment property

'000 RUR	**2007**	**2006**
Cost		
At 1 January	1,046,666	-
Transfer into investment property under development	(504,182)	-
Transfer from investment property under development	1,273,511	-
Acquisitions through business combinations	-	916,560
Change in fair value	224,460	130,106

Additions	20,631	-
Disposals	(21,030)	-
At 31 December	2,040,056	1,046,666

’000 USD	**2007**	**2006**
Cost		
At 1 January	39,750	-
Transfer into investment property under development	(19,732)	-
Transfer from investment property under development	49,841	-
Acquisitions through business combinations	-	33,715
Change in fair value	8,785	4,786
Additions	807	
Disposals	(823)	-
Effect of movements in exchange rates	4,483	1,249
At 31 December	83,111	39,750

Investment property comprises a number of commercial properties that are leased to third parties.

External, independent valuation companies, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, value the Group’s investment property portfolio on a regular basis. The fair values are based on the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm’s length transaction.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows is applied to the net annual cash flows to arrive at the property valuation.

The annual rental income per square metre applied in the valuations reflects those actually being received from existing tenants of the properties and ranges between USD 550 and USD 825 for office space and stands at USD 3,960 per each parking space.

A 10% increase in rental rates would have increased fair values of investment property and profit by RUR 172,346 thousand / USD 6,745 thousand. A 10% decrease in rental rates would have the equal but opposite effect on the basis that all other variables remain constant.

A 10% decrease in projected occupancy rates would have decreased fair values of investment property and profit by RUR 216,189 thousand / USD 8,461 thousand.

The following amounts were recognized in the Consolidated Income Statement in respect of investment property:

	2007	**2006**	**2007**	**2006**
	’000 RUR	**’000 RUR**	**’000 USD**	**’000 USD**
Rental income from investment property	49,458	-	1,936	-
Direct operating expenses arising from investment property that generated rental income during the period	1,066	-	42	-
Direct operating expenses arising from investment property that did not generate rental income during the period	-	-	-	-

19 Other investments

	2007	**2006**	**2007**	**2006**
	’000 RUR	**’000 RUR**	**’000 USD**	**’000 USD**
Non-current				
Available-for-sale investments:				
Stated at cost	10,181	166,481	415	6,322
Originated loans	35,587	160,607	1,450	6,100
	45,768	327,088	1,865	12,422
Current				
Available-for-sale investments:				
Stated at fair value	71,410	47,259	2,909	1,795
Originated loans	225,204	753,180	9,175	28,604
	296,614	800,439	12,084	30,399

Available-for-sale investments stated at cost comprise unquoted equity securities in the construction industry. There is no market for these investments and there have not been any recent transactions that provide evidence of fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty of future cash flows in this industry. However, management does not believe that the fair value at the end of year would differ significantly from that carrying amount.

20 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

’000 RUR	**Assets**		**Liabilities**		**Net**	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Property, plant and equipment	(37,853)	(63,093)	1,734,612	1,138,508	1,696,759	1,075,415
Intangible assets	(149)	-	5	-	(144)	-
Investment property under development	-	-	4,388,802	(79)	4,388,802	(79)
Investment property	-	-	461,159	251,120	461,159	251,120
Investments	(595)	(22,203)	-	-	(595)	(22,203)
Inventories	(467,697)	(291,301)	24,909	30,386	(442,788)	(260,915)
Trade and other receivables	(234,453)	(122,914)	56,524	13,008	(177,929)	(109,906)
Assets, held for sale	(2,707)	-	-	-	(2,707)	-
Loans and borrowings	(125,393)	(237,823)	33,688	553	(91,705)	(237,270)
Provisions	(3,697)	(2,738)	151	-	(3,546)	(2,738)
Trade and other payables	(353,945)	(60,535)	(25,872)	19,669	(379,817)	(40,866)
Tax loss carry-forwards	(69,035)	(49,985)	3,778	-	(65,257)	(49,985)
Tax (assets)/liabilities	(1,295,524)	(850,592)	6,677,756	1,453,165	5,382,232	602,573
Set off of tax	-	513,430	-	(513,430)	-	-
Net tax (assets)/liabilities	(1,295,524)	(337,162)	6,677,756	939,735	5,382,232	602,573

’000 USD	Assets		Liabilities		Net	
	2007	2006	2007	2006	2007	2006
Property, plant and equipment	(1,542)	(2,396)	70,667	43,238	69,125	40,842
Intangible assets	(6)	-	-	-	(6)	-
Investment property under development	-		178,798	(3)	178,798	(3)
Investment property	-	-	18,787	9,537	18,787	9,537
Investments	(24)	(843)	-	-	(24)	(843)
Inventories	(19,055)	(11,063)	1,015	1,154	(18,040)	(9,909)
Trade and other receivables	(9,551)	(4,668)	2,303	494	(7,248)	(4,174)
Assets, held for sale	(110)				(110)	
Loans and borrowings	(5,108)	(9,033)	1,372	21	(3,736)	(9,012)
Provisions	(151)	(104)	6	-	(145)	(104)
Trade and other payables	(14,420)	(2,299)	(16054)	747	(15,474)	(1,552)
Tax loss carry-forwards	(2,812)	(1,898)	154	-	(2,658)	(1,898)
Tax (assets)/liabilities	(52,779)	(32,304)	272,048	55,188	219,269	22,884
Set off of tax	-	19,499	-	(19,499)	-	-
Net tax (assets)/liabilities	(52,779)	(12,805)	272,048	35,689	219,269	22,,884

(b) Movement in temporary differences during the year

'000 RUR	1 January 2007	Recognised in income	Acquired	Recognized as deduction from goodwill	31 December 2007
Property, plant and equipment	1,075,415	239,888	261,601	119,855	1,696,759
Intangible assets	-	(144)	-	-	(144)
Investment property under development	(79)	1,661,353	2,717,063	10,465	4,388,802
Investment property	251,120	210,039	-	-	461,159
Investments	(22,203)	21,608	-	-	(595)
Inventories	(260,915)	(181,873)	-	-	(442,788)
Trade and other receivables	(109,906)	(68,023)	-	-	(177,929)
Assets, held for sale	-	(2,707)	-	-	(2,707)
Loans and borrowings	(237,270)	145,565	-	-	(91,705)
Provisions	(2,738)	(808)	-	-	(3,546)
Trade and other payables	(40,866)	(338,951)	-	-	(379,817)
Tax loss carry-forwards	(49,985)	(15,272)	-	-	(65,257)
	602,573	1,670,675	2,978,664	130,320	5,382,232

'000 USD	1 January 2007	Recognised in income	Acquired	Recognised directly in equity	Recognized as deduction from goodwill	Effect of movements in exchange rate	31 December 2007
Property, plant and equipment	40,842	9,388	10,238		4,691	3,966	69,125
Intangible assets	-	(6)	-	-		-	(6)
Investment property under development	(3)	65,020	-	106,336	410	7,035	178,798
Investment property	9,537	8,220	-	-		1,030	18,787
Investments	(843)	846	-	-		(27)	(24)
Inventories	(9,909)	(7,118)	-	-		(1,012)	(18,039)
Trade and other receivables	(4,174)	(2,662)	-	-		(413)	(7,249)
Assets, held for sale		(106)	-	-		(4)	(110)
Loans and borrowings	(9,012)	5,697	-	-		(421)	(3,736)
Provisions	(104)	(32)	-	-		(9)	(143)
Trade and other payables	(1,552)	(13,265)	-	-		(656)	(15,475)
Tax loss carry-forwards	(1,898)	(598)	-	-		(163)	(2,659)
	22,884	65,384	10,238	106,336	5,100	9,326	219,269

During year ended 31 December 2007 RUR 1,670,674 thousand / USD 65,384 thousand (2006: RUR 132,989 thousand/USD 4,892 thousand) of the movement in the deferred tax asset and liability was recognised in the income statement.

21 Inventories

	2007 `000 RUR	2006 `000 RUR	2007 `000 USD	2006 `000 USD
Work in progress, construction of buildings	23,337,355	9,623,210	950,752	365,469
Finished goods, construction of buildings	3,218,536	2,482,720	131,121	94,289
Lease incentives	3,370,676	2,404,477	137,320	91,317
Raw materials and consumables	1,398,489	971,205	56,974	36,884
Finished goods and goods for resale	1,129,855	541,644	46,030	20,571
Work in progress	526,712	331,509	21,458	12,590
	32,981,623	16,354,765	1,343,655	621,120

Inventories with a carrying amount of RUR 1,008,617 thousand / USD 41,091 thousand are subject to a registered debenture to secure bank loans (2006: RUR 14,589 thousand / USD 554 thousand) (see note 26). There was no write-down of inventories during the year ended 31 December 2007 and 31 December 2006.

22 Trade and other receivables

	2007 ’000 RUR	2006 ’000 RUR	2007 ’000 USD	2006 ’000 USD
Non-current				
Prepayments for flats	308,527	-	12,569	-
Accounts receivable - trade	141	-	6	-
Accounts due from customers for contract work	-	89,791	-	3,410
Other receivables	1,049,957	11,702	42,775	444
	1,358,625	101,493	55,350	3,854

	2007 ’000 RUR	2006 ’000 RUR	2007 ’000 USD	2006 ’000 USD
Current				
Prepayments for flats	1,924,361	1,432,103	78,398	54,388
Accounts receivable – trade	1,872,150	1,196,759	76,270	45,450
Prepayments	2,403,403	1,899,955	97,913	72,156
VAT receivable	1,142,352	349,778	46,539	13,284
Deferred expenses	289,658	172,015	11,801	6,533
Notes receivable	528,071	325,630	21,513	12,367
Employee receivables	11,574	69,269	472	2,631
Finance lease receivable	26,134	204,392	1,065	7,762
Other receivables	1,021,296	838,558	41,607	31,847
	9,218,999	6,488,459	375,577	246,418
Provision for doubtful debtors	(170,208)	(146,187)	(6,934)	(5,552)
	9,048,792	6,342,272	368,643	240,866

Receivables with a carrying amount of RUR 110,531 thousand /USD 4,503 thousand are subject to a registered debenture to secure bank loans (2006: nil) (see note 26).

23 Cash and cash equivalents

	2007 ’000 RUR	2006 ’000 RUR	2007 ’000 USD	2006 ’000 USD
Petty cash	7,140	19,659	291	747
Current accounts	2,539,415	1,587,580	103,455	60,293
Call deposits	6,105,791	-	248,747	-
Restricted cash	1,114	-	45	-
Bank promissory notes	55,013	983	2,241	37
Cash and cash equivalents in the balance sheet	8,708,473	1,608,222	354,779	61,077
Bank overdrafts	(60,163)	(25,944)	(2,451)	(985)
Cash and cash equivalents in the statement of cash flows	8,648,310	1,582,278	352,328	60,092

The Group’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 29.

Cash and cash equivalents include the amount of RUR 53,747 thousand /USD 2,190 thousand which is reserved in connection with confirmed irrevocable letters of credit issued by the Group's bankers.

24 Equity

(a) Share capital

Number of shares unless otherwise stated	**Ordinary shares**	
	2007	**2006**
Authorised shares		
Par value	RUR 0.25	RUR 0.25
On issue at beginning of year	85,148,936	-
Converted into ordinary shares	-	85,148,936
On issue at end of year, fully paid	85,148,936	85,148,936

Before July 2006, the Company's legal form was a limited liability company. According to Article 26 of Federal Law of Russian Federation on limited companies, a shareholder in a limited liability company may unilaterally withdraw from the company. In such circumstances, the company is obliged to pay the withdrawing shareholder its share of the net assets of the company in cash or, subject to the consent of the shareholder, by an in-kind transfer of assets. The payment should be made no later than six months after the end of the year of the withdrawal.

Accordingly, the share capital of the Company and retained earning were grouped together and shown as net assets attributable to shareholders, which were liabilities of the Company. In July 2006 the Company changed its legal form from limited liability company to open joint stock company as defined in the Civil Code of the Russian Federation. As a result, the share capital has been converted into 85,148,936 ordinary shares with a nominal value 0.25 roubles each. The nominal value of registered share capital equalled RUR 21,287 thousand.

As a result the share capital, retained earnings and additional paid in capital were reclassified into equity.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

In September 2007 Federal Service on Financial Markets (FSFR of Russian Federation) registered the additional issue of 8,514,896 ordinary shares of the Company (10% of share capital). These shares were placed under private offering for further Initial Public Offering.

In November 2007 the Group completed its public offering of 10,643,718 ordinary shares at USD 72.50 each and placed global depository receipts ("GDR`s") on the London Stock Exchange as well as shares on the Non-for-Profit Partnership "Stock Exchange "Russian Trading System" and Closed Joint Stock Company "Moscow Interbank Currency Exchange". Cash in the amount of USD 771,670 thousand, generated from the public offering, was partly withheld by selling shareholders and partly used for bank loans repayment in the amount of RUR 3,432,000 thousand/ USD 141,008 thousand.

The remaining part of the cash, generated by the public offering, has been used to finance new acquisitions.

As had been disclosed in the Prospectus for the Initial Public Offering in on the London Stock exchange, of the total amount of shares listed, 8,514,896 shares being offered by Hiuki Holding Limited, had been acquired by this subsidiary of the Company from certain individual shareholder on the basis of a "Stock Lending Agreement" dated 21 September 2007. In terms of this agreement, Hiuki Holding Ltd was to reacquire an equivalent number of shares following the Initial Public Offering and transfer back to the individual shareholders the equivalent number of shares on or around the 31 March 2008. Costs born by the Group for issuance of restitutable shares amounted to RUR 536,476 thousand / USD 21,931 thousand.

Hiuki Holding Ltd did reacquire these shares on the 15 November 2007, by way of a direct issue of new shares by the Company, and transferred these back to the individual shareholders following the Balance Sheet date on the 24 April 2008.

These transactions, being the acquisition and ownership of shares in the Company by the subsidiary and the issue of these shares at a premium by the Company, have been eliminated on consolidation. The liability towards the individual shareholders was assessed as being in the nature of an advance settlement on the issue of shares to the individual shareholders and has, accordingly, been classified as a Reserve in the Group's Balance Sheet described as "Restitutable Shares Reserve" and valued at the equivalent price at which the shares were issued to the Subsidiary on the 15 November 2007. On release of this Reserve at the point of transfer of the shares to the individual shareholders, the reserve is to be reflected as increase in share capital and share premium in the subsequent set of the financial statements.

(b) Dividends

In accordance with Russian legislation the Company’s distributable reserves are limited to the balance of retained earnings as recorded in the Company’s statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2007 the Company had retained earnings, including the profit for the current year, of RUR 485,064 thousand/ USD 19,761 thousand (2006: RUR 85,763/ USD 3,257 thousand).

25 Earnings per share

The calculation of earnings per share for 2007 is based on profit attributable to the shareholders of the Company divided by the number of ordinary shares issued in July 2006 when the Company re-registered as an OAO company plus the number of shares issued prior to the public offering in September 2007, see note 24(a). The Company has no dilutive potential ordinary shares.

26 Loans and borrowings

This note provides information about the contractual terms of the Group’s loans and borrowings. For more information about the Group’s exposure to interest rate and foreign currency risk, see note 29.

	2007	2006	2007	2006
	’000 RUR	**’000 RUR**	**’000 USD**	**’000 USD**
Non-current				
Secured bank loans	6,084,057	4,314,320	247,861	163,848
Unsecured other loans	1,369,902	1,628,146	55,809	61,834
Unsecured bond issues	5,000,000	2,000,000	203,698	75,956
Finance lease liability	893,970	778,749	36,420	29,575
	13,347,929	8,721,215	543,788	331,213
Current				
Secured bank loans	456,755	736,330	18,608	27,964
Current portion of secured bank loans	254,667	199,099	10,375	7,561
Unsecured other loans	8,434,896	3,500,936	343,633	132,959
Unsecured bond issue	665,044	836,638	27,094	31,774
Current portion of finance lease liability	932,013	457,718	37,970	17,383
	10,743,375	5,730,721	437,680	217,641

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				2007		2006	
'000 RUR	**Currency**	**Nominal Interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured bank loan	EUR	3.75 – 10.33%	2008-2016	1,459,531	1,359,856	2,615,593	2,123,807
	USD	9.48 – 10.4%	2010-2016	2,012,826	1,972,518	1,974,818	1,632,528
	RUR	10 – 11.75%	2008-2016	3,461,284	3,458,684	1,840,841	1,488,979
	EEK	3.8 – 6%	2009-2016	4,420	4,420	4,435	4,435
Unsecured facility	EUR	5 – 9%	2008	81,059	81,059	820,753	820,753
	USD	9.4%	2009	-	-	871,923	871,923
	RUR	0 – 16.41%	2008-2016	15,416,353	15,388,784	6,276,976	6,273,044
	EEK	3.8 – 6%	2008	-	-	-	-
Finance lease liabilities	RUR	11 – 35%	2008-2016	1,825,983	1,825,983	1,236,467	1,236,467
				24,261,456	24,091,304	15,641,806	14,451,936

				2007		2006	
'000 USD	**Currency**	**Nominal Interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured bank loan	EUR	3.75 – 10.33%	2008-2016	59,461	55,400	106,558	86,523
	USD	9.48 – 10.4%	2010-2016	82,002	80,359	80,453	66,508
	RUR	10 – 11.75%	2008-2016	141,011	140,905	74,995	60,660
	EEK	3.8 – 6%	2009-2016	180	180	181	181
Unsecured facility	EUR	5 – 9%	2008	3,302	3,302	33,437	33,437
	USD	9.4%	2009	-	-	35,522	35,522
	RUR	0 – 16.41%	2008-2016	628,055	626,932	255,721	255,561
	EEK	3.8 – 6%	2008	-	-	-	-
Finance lease liabilities	RUR	11 – 35%	2008-2016	74,390	74,390	50,373	50,373
				988,400	981,468	637,239	588,765

On March 19, 2007, the Group entered into a RUR 5,000,000 thousands / USD 203,698 thousand term facility agreement (the ''Facility Agreement'') with Deutsche Bank, A.G., London Branch acting as arranger and agent. The funds advanced under the Facility Agreement were intended for general corporate purposes. As of June 30, 2007, the facility was fully drawn.

Repayment and prepayment

The facility is repayable in four equal instalments of RUB 1,250 million in June 2008, September 2008, December 2008 and March 2009. Subject to the payment of a pre-payment penalty, the Group may elect to voluntarily prepay the whole facility if the Group provide Deutsche Bank with not less than ten business days' written notice. The prepayment may occur on the last day of an interest period only (as defined in the Facility Agreement).

Events of default

The Facility Agreement contains certain events of default, including:

• Non-payment;

• Non-compliance with the financial covenants specified in the Facility Agreement;

• Insolvency;

• The occurrence of any event which has, in the opinion of the lender, a material adverse effect on the Group financial condition or business, ability to perform Group obligations under the Facility Agreement and related finance documents (together, the ‘‘Finance Documents’’) or which affects the validity or enforceability of any of the Finance Documents;

• Any government body (other than in its capacity as a shareholder) authorises the removal of the Group management board, the seizure, expropriation or nationalization of 10% or more of either Group issued shares or those of any of the Group subsidiaries, or interferes with the Group business to the extent that the Group is impeded from or unable to perform the Groups` obligations under the Finance Documents; or any claim is asserted against the Group with respect to taxes for an amount exceeding USD 5 million, except where (a) the claim will be successfully contested by the Group, or (b) the Group will be able to satisfy the claim without adversely impacting its ability to perform its obligations relating to the loan.

Security

The Groups' obligations and liabilities under the Facility Agreement are guaranteed by its subsidiaries OAO ‘‘Pobeda LSR’’; OAO ‘‘Obiedinenie 45’’; ZAO ‘‘DSK ‘‘Block’’; OAO ‘‘Rudas’’; OOO ‘‘GDSK’’; OAO ‘‘Granit-Kuznechnoye’’; ZAO ‘‘MOSSTROY-REKONSTRUKTSIA’’; ZAO ‘‘Gatchinsky DSK’’, Construction Corporation ‘‘Revival of St. Petersburg’’ and OAO PO Barrikada.

Covenants and other matters

The Facility Agreement requires the Group to comply with certain general, informational and financial covenants, including:

• a negative pledge significantly restricting the Group's ability, subject to certain exceptions, to create any additional security over its assets without the prior permission of the lender;

• a ‘‘no disposals’’ pledge significantly restricting the Group's ability to dispose of any of its assets, subject to certain exceptions, without the prior permission of the lender;

• a prohibition restricting the Group ability to make very significant acquisitions without the prior permission of the lender;

• a limitation on the Group ability to incur additional debt beyond a Total debt / EBITDA ratio = 4.0, Total debt / Equity ratio = 4.0 and a EBITDA / gross interest ratio = 2.4, as of 31 December 2007;

• a prohibition, subject to certain exceptions, on the Group ability to enter into new joint venture agreements without the approval of the lender;

• subject to certain exceptions, a prohibition restricting the Group ability to make significant loans, or give credit, guarantees or indemnities; and

• a prohibition on paying or declaring any dividend exceeding 20% of the maximum amount available to be declared for that year.

Finance lease liabilities are payable as follows:

’000 RUR	**2007**			**2006**		
	Payments	**Interest**	**Principal**	**Payments**	**Interest**	**Principal**
Less than one year	1,206,057	274,044	932,013	586,159	128,441	457,718
Between one and five years	1,120,096	234,855	885,241	913,387	134,638	778,749
More than five years	11,403	2,674	8,729	-	-	-
	2,337,556	511,573	1,825,983	1,499,546	263,079	1,236,467

’000 USD	**2007**			**2006**		
	Payments	**Interest**	**Principal**	**Payments**	**Interest**	**Principal**
Less than one year	49,134	11,164	37,970	22,261	4,878	17,383
Between one and five years	45,632	9,568	36,064	34,688	5,113	29,575
More than five years	465	109	356	-	-	-
	95,231	20,841	74,390	56,949	9,991	46,958

Bank loans are secured by the following:

- Property, plant and equipment with a carrying amount of RUR 2,273,439 thousand / USD 92,619 thousand is pledged as collateral to secure bank loans (2006: RUR 3,619,920 thousand / USD 137,476 thousand) – see note 15(b).
- Investment property under development with a fair value of RUR 1,100,979 thousand / USD 44,853 thousand is pledged as collateral to secure bank loans (2006: RUR 504,182 thousand / USD 19,149 thousand) – see note 17.
- Inventories with a carrying amount of RUR 1,008,617 thousand / USD 41,091 are pledged as collateral to secure bank loans. (2006: RUR 14,589 thousand / USD 554 thousand) – see note 21.
- Intangibles with a carrying amount of RUR 2,767 thousand / USD 113 thousand are subject to a registered debenture to secure bank loans (2006: nil) – see note 16.

- Receivables with a carrying amount of RUR 110,531 thousand /USD 4,503 thousand are subject to a registered debenture to secure bank loans (2006: nil) – see note 22.

The finance lease liabilities are secured by the leased assets (see note 15(c)).

Bank loans are secured by the pledge of the following shares in subsidiary companies:

- 85.18% of ZAO Gatchinsky DSK;
- 63.91% of Aeroc AS;
- 98.91% of Aeroc CIA;
- 90.16% of OAO Granit-Kuznechnoe;
- 89.92 % of OAO MTO Arkhproekt;
- 26.17% of OAO Zavod Elektrik;
- 26% of OOO Osobnyak.

The market value of the shares pledged comprised of RUR 6,996,189 thousand / USD 285,021 thousand.

27 Provisions

	Site restoration	Environment restoration	Warranty provisions	Total
Current				
Balance at 1 January 2007	185,329	27,711	-	213,040
Provisions made during the year	713,903	-	5,354	719,257
Provisions used during the year	(217,212)	(17,685)	-	(234,897)
Transfer to long-term provisions	-	(7,522)	-	(7,522)
Balance at 31 December 2007	682,020	2,504	5,354	689,878
Non-current				
Balance at 1 January 2007	-		-	-
Provisions made during the year	-	43	-	43
Provisions used during the year	-	-	-	-
Transfer to long-term provisions	-	7,522	-	7,522
Balance at 31 December 2007	-	7,565	-	7,565

USD	Site restoration	Environment restoration	Warranty provisions	Total
Current				
Balance at 1 January 2007	7,039	1,052	-	8,091
Provisions made during the year	27,940	-	210	28,150
Provisions used during the year	(8,501)	(692)	-	(9,193)
Transfer to long-term provisions	-	(294)	-	(294)
Effect of movements in exchange rates	1,307	36	8	1,351
Balance at 31 December 2007	27,785	102	218	28,105
Non-current				
Balance at 1 January 2007	-	-	-	-
Provisions made during the year	-	2	-	2
Provisions used during the year	-	-	-	-
Transfer to long-term provisions	-	294	-	294
Effect of movements in exchange rates	-	12	-	12
Balance at 31 December 2007	-	308	-	308

(a) Warranty provision

The provision for warranties relates mainly to the residential units sold during the last year. The provision is based on estimates made from historical warranty data associated with similar products and services and is required under the German legislation. The Group expects the resulting outflow of economic benefits over the next year.

(b) Site restoration

The Group records provisions in respect of the Group’s obligation to clean up the surrounding area after the construction of apartment buildings in St. Petersburg. The damage caused during construction is cleaned up after the construction of buildings is completed. The Group expects the resulting outflow of economic benefits over the next year.

(c) Environment restoration

The Group records provisions in respect of the Group’s obligation to clean up the surrounding area after quarrying sand in forested areas. The damage caused during quarrying is cleaned up after quarrying is completed. The amount of provision is estimated based on the average cost of past restoration works and current information available. The Group expects the resulting outflow of economic benefits over the next five years. No discounting has been applied as this amount is insignificant.

28 Trade and other payables

Non-current payables

	2007 ’000 RUR	2006 ’000 RUR	2007 ’000 USD	2006 ’000 USD
Prepayments received for flats	8,858,509	-	360,891	-
Accounts payable – trade	140,868	-	5,739	-
Other payables	112,526	12,954	4,584	492
	9,111,903	12,954	371,214	492

Current payables

	2007 ’000 RUR	2006 ’000 RUR	2007 ’000 USD	2006 ’000 USD
Prepayments received for flats	5,893,177	13,518,896	240,087	513,420
Accounts payable – trade	1,521,488	1,690,383	61,985	64,197
Advances from customers	1,702,967	1,113,356	69,378	42,283
Notes payable	88,771	316,780	3,616	12,031
Employee-related liabilities	513,590	275,196	20,923	10,451
Other taxes payable	505,538	306,763	20,595	11,650
Minority interest in limited liability subsidiaries	234,856	90,095	9,568	3,422
Accounts due to customers for contract work	338,137	175,344	13,776	6,659
Interest payable	301,169	60,740	12,269	2,307
Deferred income	91,433	3,373	3,725	128
Dividends payable	81	93	3	4
Other payables	594,065	297,352	24,202	11,292
	11,785,272	17,848,371	480,127	677,844

29 Financial instruments

(a) Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

’000 RUR	**Carrying amount**	
	2007	**2006**
Available-for-sale financial assets	10,181	213,740
Held-to-maturity investments, short-term	71,410	-
Loans and receivables	9,309,583	7,357,552
Cash and cash equivalents	8,708,473	1,608,222
Financial assets held for sale	4,702	718
	18,104,349	9,180,232

’000 USD	**Carrying amount**	
	2007	**2006**
Available-for-sale financial assets	416	8,117
Held-to-maturity investments, short-term	2,908	-
Loans and receivables	379,268	279,424
Cash and cash equivalents	354,779	61,077
Financial assets held for sale	192	27
	737,563	348,645

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

’000 RUR	**Carrying amount**	
	2007	**2006**
Domestic	1,741,083	1,060,422
Euro-zone countries	65,228	-
Other CIS countries	30,579	96,937
	1,836,890	1,157,359

’000 USD	**Carrying amount**	
	2007	**2006**
Domestic	70,931	40,273
Euro-zone countries	2,657	-
Other CIS countries	1,246	3,681
	74,834	43,954

The Group’s most significant customer, a Saint-Petersburg based development company, accounts for RUR 139,607 thousand / USD 5,688 thousand of the trade receivables carrying amount at 31 December 2007 (2006: RUR 8,388 thousand / USD 319 thousand).

All trade receivables for which payment is overdue are subject for full impairment therefore it is impracticable to make an aging analysis of trade receivables. The total amount of impaired trade receivables at the reporting date was RUR 35,260 thousand / USD 1,436 thousand.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2007	**2006**
	’000 RUR	**’000 RUR**
Balance at 1 January	(39,407)	(47,709)
Impairment loss recognised	4,147	8,302
Balance at 31 December	(35,260)	(39,407)

	2007	**2006**
	’000 USD	**’000 USD**
Balance at 1 January	(1,497)	(1,658)
Impairment loss recognised	61	161
Balance at 31 December	(1,436)	(1,497)

The movement in the allowance for impairment in respect of advances paid and other receivables during the year was as follows:

	2007	**2006**
	’000 RUR	**’000 RUR**
Balance at 1 January	(95,239)	(113,666)
Impairment loss recognised	(39,709)	18,427
Balance at 31 December	(134,948)	(95,239)

	2007	2006
	’000 USD	’000 USD
Balance at 1 January	(3,617)	(3,949)
Impairment loss recognised	(1,881)	332
Balance at 31 December	(5,498)	(3,617)

At 31 December 2007 the Group did not have any general provisions on its trade receivables or its held-to-maturity investments (2006: nil).

(b) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

2007	Average interest rate					
’000 RUR	Contractual	Effective	Less than 1 year	1-5 years	Over 5 years	Total
Secured bank loans:						
RUR*	8.95%-11.75%	9.48%	(103,639)	(3,315,977)	-	(3,419,616)
USD*	10.4%	10.4%	-	(205,192)	-	(205,192)
USD	Libor + 3.9% / Libor + 4.1%	9.36%	-	(1,767,326)	-	(1,767,326)
EUR*	8.65%-8.8%	8.69%	-	(390,954)	-	(390,954)
EUR	Euribor + 0.99% / Euribor + 1.5%	6.04%	(352,900)	(400,404)	-	(753,304)
EEK*	6.0%	6.0%	(216)	(1,078)	(3,126)	(4,420)
Current portion of secured bank loans:						
EUR*	8.8%	8.8%	(215,599)	-	-	(215,599)
RUR*	10.0%	10.0%	(39,068)	-	-	(39,068)
Unsecured other loans:						
RUR*	0.0%-16.41%	9.14%	(8,068,763)	(1,267,846)	(47,156)	(9,383,765)
RUR	1 m Mosprime + 3%	9.58%	(340,000)	-	-	(340,000)
EUR*	5.0%-9.0%	7.71%	(26,159)	(54,900)	-	(81,059)

Unsecured bond issues:						
RUR*	8.35%-10.7%	9.37%	(665,044)	(5,000,000)	-	(5,665,044)
Finance lease liabilities – RUR*	7%-41%	20.8%	(932,013)	(881,631)	(12,339)	(1,825,983)
Trade and other payables	-	-	(11,785,282)	(9,111,903)	-	(35,331,291)
			(22,528,683)	(22,397,211)	(62,621)	(44,988,515)

2006	**Average interest rate**					
'000 RUR	**Contractual**	**Effective**	**Less than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Secured bank loans:						
RUR*	10.0%-12.5%	10.54%	(460,493)	(1,005,475)	-	(1,465,968)
USD*	9.48%	9.48%	-	(789,932)	-	(789,932)
USD	Libor +4.0%-Libor+4.1%	9.46%	(842,596)	-	-	(842,596)
EUR*	5.45%-10.33%	8.41%	(275,837)	(1,054,013)	-	(1,329,850)
EUR	Libor+1.5%	5.70%	(617,869)	-	-	(617,869)
EEK*	3.80%-6.00%	4.90%	-	-	(4,435)	(4,435)
Current portion of secured bank loans:						
EUR	Eurolibor+1.6% - Eurolibor+5.1%	7.95%	(176,088)	-	-	(176,088)
RUR*	10.25%-12.5%	10.33%	(23,011)	-	-	(23,011)
Unsecured other loans:						
RUR*	8%-12.5%	9.26%	(3,418,946)	(140)	(17,320)	(3,436,406)
USD*	9.49%	9.49%	(81,990)	(789,933)	-	(871,923)
EUR	Libor+1.5%-Libor+7.5%	10.33%	(820,753)	-	-	(820,753)
Unsecured bond issues:						
RUR*	10.7%-11.0%	10.79%	(836,638)	(2,000,000)	-	(2,836,638)
Finance lease liabilities – RUR*	11%-35%	14.8%	(457,718)	(764,646)	(14,103)	(1,236,467)
Trade and other payables	-	-	(17,848,371)	(12,954)	-	(17,861,325)
			(25,860,360)	(6,417,093)	(35,858)	(32,313,311)

*Fixed rate

2007	**Average interest rate**					
’000 USD	**Contractual**	**Effective**	**Less than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Secured bank loans:						
RUR*	8.95%-11.75%	9.48%	(4,222)	(135,091)	-	(139,313)
USD*	10.4%	10.4%	-	(8,359)	-	(8,359)
USD	Libor + 3.9% / Libor + 4.1%	9.36%	-	(72,000)	-	(72,000)
EUR*	8.65%-8.8%	8.69%	-	(15,927)	-	(15,927)
EUR	Eribor + 0.99% / Euribor + 1.5%	6,04%	(14,377)	(16,312)	-	(30,689)
EEK*	6.0%	6.0%	(9)	(44)	(127)	(180)
Current portion of secured bank loans:				-	-	-
EUR*	8.8%	8.8%	(8,783)	-	-	(8,783)
RUR*	10.0%	10.0%	(1,592)	-	-	(1,592)
Unsecured other loans:				-	-	-
RUR*	0.0%-16.41%	9.14%	(328,717)	(51,651)	(1,921)	(382,289)
RUR	1 m Mosprime + 3%	9.58%	(13,851)	-	-	(13,851)
EUR*	5.0%-9.0%	7.71%	(1,066)	(2,237)	-	(3,301)
Unsecured bond issues:			-	-	-	-
RUR*	8.35%-10.7%	9.37%	(27,094)	(203,698)	-	(230,791)
Finance lease liabilities – RUR*	7%-41%	20.8%	(37,970)	(35,917)	(503)	(74,390)
Trade and other payables	-	-	(480,127)	(371,214)	-	(851,341)
			(917,808)	(912,451)	(2,551)	(1,832,810)

2006	**Average interest rate**					
’000 USD	**Contractual**	**Effective**	**Less than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Secured bank loans:						
RUR*	10.0%-12.5%	10.54%	(17,489)	(38,185)	-	(55,674)
USD*	9.48%	9.48%	-	(30,000)	-	(30,000)
USD	Libor +4.0%-Libor+4.1%	9.46%	(32,000)			(32,000)
EUR*	5.45%-10.33%	8.41%	(10,475)	(40,029)	-	(50,504)
EUR	Libor+1.5%	5.70%	(23,466)	-	-	(23,466)
EEK*	3.80%-6.00%	4.90%	-	-	(168)	(168)
Current portion of secured bank loans:						
EUR	Eurolibor+1.6%-Eurolibor+5.1%	7.95%	(6,688)	-	-	(6,688)
RUR*	10.25%-12.5%	10.33%	(873)		-	(873)
Unsecured other loans:						
RUR*	8%-12.5%	9.26%	(129,845)	(5)	(658)	(130,508)
USD*	9.49%	9.49%	(3,114)	(30,001)	-	(33,115)
EUR	Libor+1.5%-Libor+7.5%	10.33%	(31,170)	-	-	(31,170)
Unsecured bond issues:						
RUR*	10.7%-11.0%	10.79%	(31,774)	(75,956)	-	(107,730)
Finance lease liabilities – RUR*	11%-35%	14.8%	(17,383)	(29,039)	(536)	(46,958)
Trade and other payables	-	-	(677,844)	(492)	-	(678,336)
			(989,159)	(243,217)	(1,362)	(1,227,190)

* Fixed rate

(c) Currency risk

Exposure to currency risk

The Group's exposure to currency risk was as follows based on notional amounts:

2007 '000 RUR	**RUR-denominated**	**EUR-denominated**	**USD-denominated**	**EEK-denominated**
Trade and other receivables	8,910,442	110,135	319	27,895
Secured bank loans	(3,419,616)	(1,144,258)	(1,972,518)	(4,420)
Unsecured other loans	(9,723,765)	(81,059)	-	-
Unsecured bond issues	(5,665,044)	-	-	-
Trade payables	(35,243,796)	(10,923)	(1,718)	(74,853)
Gross balance sheet exposure	(45,141,779)	(1,126,105)	(1,973,917)	(51,378)

2006 '000 RUR	**RUR-denominated**	**EUR-denominated**	**USD-denominated**	**EEK-denominated**
Trade and other receivables	6,330,392	86,568	35	368,442
Secured bank loans	(1,488,979)	(2,123,807)	(2,151,183)	(69,532)
Unsecured other loans	(3,436,406)	(820,746)	(1,148,940)	-
Unsecured bond issues	(2,836,638)	-	-	-
Trade payables	(17,524,761)	(256,789)	(12,040)	(746,321)
Gross balance sheet exposure	(18,956,392)	(3,114,774)	(3,312,128)	(447,411)

2007 '000 USD	**RUR-denominated**	**EUR-denominated**	**USD-denominated**	**EEK-denominated**
Trade and other receivables	363,007	4,487	13	1,136
Secured bank loans	(139,313)	(46,617)	(80,359)	(180)
Unsecured other loans	(396,141)	(3,302)	-	-
Unsecured bond issues	(230,791)	-	-	-
Trade payables	(1,435,815)	(445)	(70)	(3,049)
Gross balance sheet exposure	(1,839,054)	(45,877)	(80,416)	(2,093)

2006 **’000 USD**	**RUR-denominated**	**EUR-denominated**	**USD-denominated**	**EEK-denominated**
Trade and other receivables	240,415	3,288	1	13,993
Secured bank loans	(56,548)	(80,658)	(81,697)	(2,641)
Unsecured other loans	(130,507)	(31,170)	(43,634)	-
Unsecured bond issues	(107,730)	-	-	-
Trade payables	(665,554)	(9,752)	(457)	(28,344)
Gross balance sheet exposure	(719,924)	(118,293)	(125,788)	(16,992)

The following significant exchange rates applied during the year:

	2007 **RUR**	**2006** **RUR**
1 USD equals	24.5462	26.3311
1 Euro equals	35.9332	34.6965
1 EEK equals	2.2846	2.21301

The Group’s operations in currencies other than RUR are immaterial therefore the influence of currencies fluctuations on income statement was not considered.

Sensitivity analysis

A 10% strengthening of RUR against the above currencies would have increased profit by RUR thousand 315,140 / USD 12,839 thousand. A 10% weakening of the RUR against the above currencies would have the equal but opposite effect on the basis that all other variables remain constant.

(d) Interest rate risk

Profile

At the reporting date the interest rate profile of the Group’s interest-bearing financial instruments was:

’000 RUR	**Carrying amount**	
	2007	**2006**
Fixed rate instruments		
Financial assets	260,791	913,787
Financial liabilities	(21,230,700)	(11,994,630)
	(20,969,909)	(11,080,843)
Variable rate instruments		

Financial liabilities	(2,860,630)	(2,457,306)

’000 USD	Carrying amount	
	2007	**2006**
Fixed rate instruments		
Financial assets	10,625	34,704
Financial liabilities	(864,928)	(455,530)
	(854,303)	(420,826)
Variable rate instruments		
Financial liabilities	(116,540)	(93,324)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006.

’000 RUR	Profit or loss	
	100 bp increase	**100 bp decrease**
2007		
Variable rate instruments	(28,606)	28,606
Cash flow sensitivity	(28,606)	28,606
2006		
Variable rate instruments	(24,573)	24,573
Cash flow sensitivity	(24,573)	24,573

’000 USD	Profit or loss	
	100 bp increase	**100 bp decrease**
2007		
Variable rate instruments	(1,165)	1,165
Cash flow sensitivity	(1,165)	1,165
2006		

Variable rate instruments	(933)	933
Cash flow sensitivity	(933)	933

(e) Fair values

The fair value of unquoted equity investments is discussed in note 3. In other cases management believes that the fair value of its financial assets and liabilities approximates their carrying amounts.

30 Commitments

At 31 December 2007, the Group was committed to purchase property, plant and equipment for approximately RUR 7,590,408 thousand/ USD 309,229 thousand (31 December 2006: RUR 325,541 thousand/ USD 12,363 thousand), thereof commitment to purchase equipment for a new cement plant for RUR 3,854,996 thousand/ USD 157,051 thousand and commitment to purchase equipment for a new brick-making plant for RUR 2,539,507 thousand/USD 103,458 thousand.

31 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Litigation

Litigation includes a number of small claims relating to purchases from domestic customers. Based on experience in resolving such claims, management believes that they will be settled without significant cost to the Group. Accordingly, no provision has been made for such amounts.

(c) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(d) Environmental liabilities

The Group is engaged in dredging sand from the sea bed and quarrying sand in forested areas. There is no liability to perform any restoration work in relation to the sea bed after the dredging is complete but a liability arises in relation to quarrying sand. Before June 2006 the Group rented land from which sand is quarried from a related party which is liable for the restoration work. The related party that rented land to the Group was acquired by the Group in June 2006. As at the date of purchase by the Group, the site restoration recorded in the books of the acquired company amounted to RUR 23,683 thousand/ USD 823 thousand.

The Group is engaged in crushed stone production in three areas covered by forests. According to existing legislation and the terms of licenses obtained by the Group there is a liability for the Group to restore these sites when quarrying is complete. The costs associated with restoration cannot be determined as, in accordance with existing licences on crushed stone production, the methods of restoration and its cost will be determined in the future based on discussions between the Group and Russian Environment Authorities after the quarrying is complete. Accordingly, no provision has been recognised in the consolidated financial statements for expected expenses on restoration. It is planned that quarrying will be completed for the currently used three areas in the years 2051 and 2057 respectively.

32 Related party transactions

(a) Control relationships

The Company is controlled by Andrey Molchanov.

(b) Transactions with management and close family members

The Directors and their close family members control 13.9% of the voting shares of the Group. (31 December 2006: 15.6%).

(i) Management remuneration

Sales to and purchases from the key management personnel are disclosed below:

	Transaction value		Outstanding balance		Transaction value		Outstanding balance	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
	’000 RUR	**’000 RUR**	**’000 RUR**	**’000 RUR**	**’000 USD**	**’000 USD**	**’000 USD**	**’000 USD**
Sale of goods and services provided to:	17,810	-	(71,492)	-	697	-	(2,913)	-
Purchase of goods and services from:	4,000	-	-	-	157	-	-	-
	21,810	-	(71,492)	-	854	-	(2,913)	-

Key management received the following remuneration during the year, which is included in personnel costs (see note 12):

	2007	**2006**	**2007**	**2006**
	’000 RUR	**’000 RUR**	**’000 USD**	**’000 USD**
Salaries and bonuses	306,655	271,745	12,001	9,996

(ii) Other transactions

Loans to executive directors amounting to RUR 1,167 thousand /USD 48 thousand are included in “employee receivables” (31 December 2006: RUR 4,876 thousand /USD 185 thousand) (see note 22). Interest of 8.5% p.a. is payable on these loans. The loans are expected to be repaid within 2 years.

(c) Transactions with other related parties

The Group’s other related party transactions are disclosed below.

(i) Revenue

	Transaction value		Outstanding balance		Transaction value		Outstanding balance	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
	’000 RUR	**’000 RUR**	**’000 RUR**	**’000 RUR**	**’000 USD**	**’000 USD**	**’000 USD**	**’000 USD**
Sale of goods and services provided to:								
Companies controlled or significantly influenced by or on behalf of, the Group’s ultimate beneficial owner	596,515	153,339	205,757	2,168	23,346	5,641	8,382	82
Companies significantly influenced by the Group key management	19	249,389	-	21,806	1	9,174	-	828
	596,534	402,728	205,757	23,974	23,347	14,815	8,382	910

All outstanding balances with related parties are to be settled in cash within six months of the balance sheet date. None of the balances are secured.

(ii) Expenses

	Transaction value		Outstanding balance		Transaction value		Outstanding balance	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
	’000 RUR	**’000 RUR**	**’000 RUR**	**’000 RUR**	**’000 USD**	**’000 USD**	**’000 USD**	**’000 USD**
Purchase of goods and services from:								
Companies controlled or significantly influenced by or on behalf of, the Group’s ultimate beneficial owners	1,593,222	76,896	116,119	7,136	62,353	2,829	4,731	271
Companies significantly influenced by the Group management	53,509	1,049,509	9,723	66,256	2,094	38,610	396	2,516
	1,646,731	1,126,405	125,842	73,392	64,447	41,439	5,127	2,787

All outstanding balances with related parties are to be settled in cash within six months of the balance sheet date. None of the balances are secured.

(iii) Loans

	Transaction value		Outstanding balance		Transaction value		Outstanding balance	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
	’000 RUR	**’000 RUR**	**’000 RUR**	**’000 RUR**	**’000 USD**	**’000 USD**	**’000 USD**	**’000 USD**
Loans received (included into unsecured other loans – refer to note 26):								
Companies significantly influenced by the Group management	253,599	378,958	-	320,462	9,925	13,940	-	12,170
Companies controlled or significantly influenced by or on behalf of, the Group’s ultimate beneficial owners	90,000	276,787	45,000	176,922	3,522	10,182	1,833	6,719
Total	343,599	655,745	45,000	497,384	13,447	24,122	1,833	18,889
Loans given (included into other investments – originated loans category– refer to note 19):								
Companies controlled or significantly influenced by or on behalf of, the Group’s ultimate beneficial owners	1,459,234	340,065	41,457	272,448	57,109	12,509	1,689	10,347

The loans from companies, significantly influenced by the Group management, and companies, controlled or significantly influenced by, or on behalf of, the Group’s ultimate beneficial owners, bear no interest and are repayable based on contractual terms.

The loans to companies, significantly influenced by the Group management, and companies, controlled, or significantly influenced by, or on behalf of, the Group’s ultimate beneficial owners bear no interest and are repayable based on contractual terms. No discounting of the loans has been performed at the balance sheet date due to the short maturity of loans received and given.

(d) Pricing policies

Related party transactions are based on market prices.

33 Significant subsidiaries

Entity	Country of incorporation	Ownership/voting interest 2007	Ownership/voting interest 2006
ZAO Gatchinsky DSK	Russia	98.23%	98.23%
OAO Construction corporation Revival of Saint-Petersburg (formerly OAO SKV SPb)	Russia	97.79%	95.53%
OOO Gorodskaya DomoStroitel’naya Kompania	Russia	100.00%	100.00%

Entity	**Country of incorporation**	**Ownership/voting interest 2007**	**Ownership/voting interest 2006**
OAO Lenstroirekonstruktsiya	Russia	99.99%	99.99%
ZAO NPO Keramika	Russia	88.09%	-
OAO Granit-Kuznechnoye	Russia	95.09%	95.09%
OAO Rudas	Russia	100.00%	86.55%
OAO Leningrad River Port	Russia	100.00%	100.00%
ZAO Skanex	Russia	90.00%	100.00%
ZAO Vertikal	Russia	100.00%	100.00%
OAO PO Barrikada	Russia	90.70%	95.35%
ZAO DSK Blok	Russia	100.00%	100.00%
OAO UM-260 (formerly ZAO UM-260)	Russia	97.11%	94.11%
OAO St. Petersburg River Port	Russia	100.00%	100.00%
OAO Obyedineniye 45	Russia	100.00%	93.83%
ZAO Mosstroyrekonstruktsia	Russia	100.00%	100.00%
OAO GATP-1	Russia	99.90%	74.63%
OAO Pobeda LSR (formerly ZAO Pobeda LSR)	Russia	99.87%	99.87%
OOO Aerok Saint-Petersburg	Russia	90.00%	100.00%
Aeroc Poribet SIA	Latvia	90.00%	100.00%
Aeroc AS	Estonia	90.00%	100.00%
Aeroc Ukraine	Ukraine	90.00%	100.00%
ZAO Petrobeton	Russia	90.00%	90.00%
OOO Aeroc Kaliningrad	Russia	90.00%	90.00%
Berezanskoe PPDO	Ukraine	89.99%	-
Aeroc UAB	Lithuania	90.00%	100.00%
OOO Osobnyak	Russia	100.00%	100.00%
OOO Kvartira LuxServis	Russia	100.00%	100.00%
ZAO Stroitrest 28	Russia	39.59%	44.82%
OOO Stroitrest 28	Russia	50.00%	50.00%
Branch Petrostroyinvest (formerly ZAO GSK Petrostroyinvest)	Russia	-	100.00%
OOO TD Granit-Kuznechnoye	Russia	95.09%	100.00%
ZAO Paradny kvartal (Naberezhnaya Evropy)	Russia	100.00%	100.00%
ZAO Paradny kvartal	Russia	100.00%	-
OOO Nevsky portal	Russia	100.00%	100.00%
OOO Novy kvartal	Russia	-	100.00%
OOO Nisk	Russia	-	74.00%
OOO LSK-Ecologiya	Russia	-	50.00%
OOO Promichlenno Stroitelnaya Gruppa LSR	Russia	100.00%	100.00%

Entity	Country of incorporation	Ownership/voting interest 2007	Ownership/voting interest 2006
ZAO Promyshlenny leasing (formerly OOO Promyshlenny leasing)	Russia	100.00%	100.00%
OOO Martynovka	Russia	100.00%	100.00%
OAO NKSM	Russia	87.89%	97.00%
ZAO NPO Vyborgstroyrekonsruktsiya	Russia	80.00%	80.00%
OOO SPB GDC Yuna	Russia	100.00%	100.00%
DNP Alakul*	Russia	-	-
DNP Penaty 2*	Russia	-	-
DNP Severnoye pomestye*	Russia	-	-
MSR companies*	Russia	24%	24.00%
OAO Zavod Zhelezobetonnich Izdeliy-6	Russia	57.70%	57.70%
ZAO Galernaya (formerly OOO Galernaya)	Russia	-	100.00%
OOO GDSK Yugo-Zapad (formerly OOO GDSK-invest-35	Russia	-	100.00%
OOO GDSK-invest Primorsky (formerly OOO GDSK-invest-49)	Russia	100.00%	100.00%
OOO Zarechye	Russia	100.00%	100.00%
OOO LSSMO Promstroymontazh	Russia	100.00%	100.00%
OOO Smolny kvartal	Russia	100.00%	100.00%
ZAO Severnaya Venecia	Russia	100.00%	100.00%
ZAO Vsevolozhskoye SMP	Russia	100.00%	100.00%
OOO Yakornaya	Russia	100.00%	100.00%
OOO BaltStroyKomplekt	Russia	100.00%	100.00%
Aerok International AS	Estonia	90.00%	90.00%
ZAO Obyedineniye 45M	Russia	100.00%	100.00%
SKV-invests*	Russia	-	-
OOO LSR-invest	Russia	100.00%	100.00%
ZAO Chifko Plus	Russia	90.70%	100.00%
LSR Europe GmbH	Germany	100.00%	100.00%
Saargemunder Strabe Wohnbau Gmbh & Co. KG	Germany	70.00%	70.00%
Saargemunder Strabe Wohnbau Beteiligungs-GmbH	Germany	70.00%	70.00%
Max-Josephs-Hohe Immobilien und Projektentwicklungs GmbH	Germany	94.80%	94.80%
ZAO A Plus Estate	Russia	97.79%	100.00%
ZAO Ingeokom	Russia	97.79%	100.00%
ZAO Electron	Russia	-	100.00%
ZAO Stroitel	Russia	100.00%	100.00%
OAO Stroicorporatciya	Russia	99.87%	84.44%
ZAO Petropolis	Russia	-	100.00%
ZAO Baltiyskaya panorama	Russia	-	100.00%

Entity	Country of incorporation	Ownership/voting interest 2007	Ownership/voting interest 2006
OOO Gidrotehnik	Russia	100.00%	100.00%
ZAO Zolotaya Kazanskaya	Russia	100.00%	100.00%
OAO MTO Arhproekt	Russia	99.94%	89.92%
OOO LSR Ukraina	Ukraine	100.00%	100.00%
ZAO Gvardeiskoe	Russia	-	100.00%
ZAO Parnas	Russia	-	100.00%
OOO Velikan XXI	Russia	100.00%	100.00%
OAO Zavod Elektrik*	Russia	95.01%	28.66%
ZAO Kikerino Elektrik*	Russia	95.01%	28.66%
ZAO Zavod Stroifarfor*	Russia	95.75%	20.00%
OOO BSK Invest*	Russia	20.00%	20.00%
OOO Cement	Russia	100.00%	-
OOO Investproekt	Russia	100.00%	-
ZAO Kazanskaya, 36	Russia	97.79%	-
OOO Masada Capital	Russia	94.00%	-
OOO Murinskoe	Russia	94.00%	-
OOO Ozherel'evskaya keramika	Russia	99.87%	-
OOO Okhtinskiy Bereg	Russia	94.00%	-
ZAO Parkon	Russia	89.34%	-
OOO LSR	Russia	100.00%	-
OOO UK LSR	Russia	100.00%	-
Hiuki Holding LTD *	Cyprus	-	-

* These subsidiaries are special purpose entities (see policy in the note 3(a)(ii)) in which the Group has no direct controlling ownership or direct controlling voting interest.

34 Post balance sheet events

Subsequent to 31 December 2007 the Group acquired all of the shares in OOO Kaskad and 86,42% of shares in OAO Betfor for RUR 2,409,550 thousand (USD 98,164 thousand), which was settled in cash.

The net assets of the acquired subsidiaries were as follows at the date of acquisition:

’000 RUR	**Pre-acquisition carrying amounts**	**Fair value**
Non-current assets		
Property, plant and equipment	595,647	595,647
Intangible assets	14	14
Investments	13,860	13,860
Deferred tax assets	87	87
Other Non-current assets	2,708	2,708
Unallocated Goodwill	-	2,038,848
Current assets		
Investments	100,000	100,000
Inventories	268,055	268,055
Trade and other receivables	141,784	141,784
Cash and cash equivalents	18,761	18,761
Non-current liabilities		
Loans and borrowings	(120,114)	(120,114)
Current liabilities		
Loans and borrowings	(335,025)	(335,025)
Trade and other payables	(315,075)	(315,075)
Net identifiable assets, liabilities and contingent liabilities	**370,702**	**2,409,550**
Consideration paid	2,409,550	2,409,550
Cash acquired	18,761	18,761
Net cash outflow	2,390,789	2,390,789

'000 USD	**Pre-acquisition carrying amounts**	**Fair value**
Non-current assets		
Property, plant and equipment	25,261	25,261
Intangible assets	1	1
Investments	573	573
Deferred tax assets	4	4
Other Non-current assets	115	115
Unallocated Goodwill	-	86,415
Current assets		
Investments	4,241	4,241
Inventories	11,368	11,368
Trade and other receivables	6,010	6,010
Cash and cash equivalents	796	796
Non-current liabilities		
Loans and borrowings	(5,094)	(5,094)
Current liabilities		
Loans and borrowings	(14,195)	(14,195)
Trade and other payables	(13,361)	(13,361)
Net identifiable assets, liabilities and contingent liabilities	**15,719**	**102,134**
Consideration paid	102,134	102,134
Cash acquired	796	796
Net cash outflow	101,338	101,338

The fair values attributed above are provisional and may be amended in subsequent financial statements as it has been impractical to accurately determine fair value of acquired assets at the moment of preparation of the consolidated financial statement for year ended as at 31 December 2007.

During the 1st quarter 2008 the Group acquired assets (plot of land in Ekaterinburg and lease incentive in Moscow) for RUR 243,416 thousand (USD 10,274 thousand) and RUR 433,551 thousand (USD 18,310 thousand) respectively from a third party at fair value.

On 17 March 2008 the Group entered into credit agreement with ABN AMRO Bank N.V. The amount of credit is within EUR 113,948 thousand (RUR 4,204,633 thousand / USD 177,793 thousand).

On 3 April 2008 the Group entered into credit agreement with OAO Sberbank. The amount of non-revolving credit line is no more than RUR 2,100,000 thousand (USD 88,718 thousand).

On 16 April 2008 the Group entered into credit agreements with OAO VTB Severo-Zapad. The total amount of credit is RUR 2,000,000 thousand (USD 85,270 thousand).

35 Supplementary disclosures

For the year ended 31 December 2007 ('000 RUR)	Brick	Reinforced Concrete	Ready-mix Concrete	Aerated Concrete	Cement	Other	*Eliminations*	**Building Materials**
Revenue from external customers	2,300,921	4,948,120	4,807,451	1,539,671	687,868	1,209,249	-	15,493,280
Inter-group revenue	103,379	607,709	283,131	41,346	1,130,838	171,840	(1,357,437)	980,806
Total revenue	**2,404,300**	**5,555,829**	**5,090,582**	**1,581,017**	**1,818,706**	**1,381,089**	**(1,357,437)**	**16,474,086**
Operating profit	**688,186**	**1,231,435**	**313,961**	**331,789**	**16,907**	**181,546**	**4,744**	**2,768,568**
Depreciation/Amortization	74,841	174,255	175,945	111,431	2,460	10,364	-	549,297
Change in fair value of investment property	-	-	-	-	-	-	-	-
EBITDA*	**763,027**	**1,405,690**	**489,906**	**443,220**	**19,367**	**191,910**	**4,744**	**3,317,864**

For the year e nded 31 December 2007	**Construction**	Sand	Crushed Granite	*Eliminations*	**Aggregates**	Tower Cranes	Transportation	*Eliminations*
Revenue from external customers	4,887,946	2,738,882	1,791,638	-	4,530,520	841,226	171,391	-
Inter-group revenue	1,489,236	236,085	782,886	(26,498)	992,473	122,767	365,710	-
Total revenue	**6,377,182**	**2,974,967**	**2,574,524**	**(26,498)**	**5,522,993**	**963,993**	**537,101**	**-**
Operating profit	**778,449**	**983,381**	**603,330**	**-**	**1,586,711**	**300,335**	**359**	**-**
Depreciation/Amortization	240,631	257,861	155,848	-	413,709	122,397	69,727	-
Change in fair value of investment property	-	-	-	-	-	-	-	-
EBITDA*	**1,019,080**	**1,241,242**	**759,178**	**-**	**2,000,420**	**422,732**	**70,086**	**-**

For the year ended 31 December 2007	**Construction Services**	Elite Real Estate	Business Class and Mass Market Real Estate	Gated Communities	Real Estate in Moscow	Real Estate in Western Europe	Other	*Eliminations*
Revenue from external customers	1,012,617	3,092,125	4,522,185	86,759	1,229,897	815,456	68,329	-
Inter-group revenue	488,477	311,453	30,000	3,600	662	-	49,738	(38,329)
Total revenue	**1,501,094**	**3,403,578**	**4,552,185**	**90,359**	**1,230,559**	**815,456**	**118,067**	**(38,329)**
Operating profit	**300,694**	**8,137,289**	**777,839**	**479**	**315,289**	**71,636**	**108**	**(17,704)**
Depreciation/Amortization	192,124	14,498	2,569	803	1,664	245	829	-
Change in fair value of investment property	-	6,839,218	-	-	-	-	-	-
EBITDA*	**492,818**	**1,312,569**	**780,408**	**1,282**	**316,953**	**71,881**	**937**	**(17,704)**

For the year ended 31 December 2007	**Development**	**Commercial Real Estate**	**Other entities**	*Eliminations*	Unallocated Expenses	**Consolidated**
Revenue from external customers	9,814,751	83,055	15,437	-	-	35,837,606
Inter-group revenue	357,124	10,433	-	(4,318,549)	-	-
Total revenue	**10,171,875**	**93,488**	**15,437**	**(4,318,549)**	**-**	**35,837,606**
Operating profit	**9,284,936**	**1,209,581**	**-**	**(622,518)**	**(926,647)**	**14,379,774**
Depreciation/Amortization	20,608	328	136,969	-	-	1,553,666
Change in fair value of investment property	6,839,218	1,197,473	-	-	-	8,036,691
EBITDA*	**2,466,326**	**12,436**	**136,969**	**(622,518)**	**(926,647)**	**7,896,749**

EBITDA= Operating Result + Depreciation/amortisation -** *Change in fair value* **of Investment Property

For the year ended 31 December 2007 ('000 USD)	Brick	Reinforced Concrete	Ready-mix Concrete	Aerated Concrete	Cement	Other	*Eliminations*	**Building Materials**
Revenue from external customers	90,050	193,652	188,147	60,257	26,921	47,326	-	606,353
Inter-group revenue	4,046	23,784	11,081	1,618	44,257	6,725	(53,125)	38,386
Total revenue	**94,096**	**217,436**	**199,228**	**61,875**	**71,178**	**54,051**	**(53,125)**	**644,739**
Operating profit	**26,933**	**48,194**	**12,287**	**12,985**	**662**	**7,105**	**186**	**108,352**
Depreciation/Amortization	2,929	6,820	6,886	4,361	96	406	-	21,498
Change in fair value of investment property	-	-	-	-	-	-	-	-
EBITDA	**29,862**	**55,014**	**19,173**	**17,346**	**758**	**7,511**	**186**	**129,850**

For the year ended 31 December 2007	**Construction**	Sand	Crushed Granite	*Eliminations*	**Aggregates**	Tower Cranes	Transportation	*Eliminations*
Revenue from external customers	191,297	107,190	70,118	-	177,308	32,923	6,708	-
Inter-group revenue	58,283	9,240	30,640	(1,037)	38,843	4,804	14,313	-
Total revenue	**249,580**	**116,430**	**100,758**	**(1,037)**	**216,151**	**37,727**	**21,021**	**-**
Operating profit	**30,466**	**38,486**	**23,612**	**-**	**62,098**	**11,754**	**14**	**-**
Depreciation/Amortization	9,417	10,092	6,099	-	16,191	4,790	2,729	-
Change in fair value of investment property	-	-	-	-	-	-	-	-
EBITDA	**39,883**	**48,578**	**29,711**	**-**	**78,289**	**16,544**	**2,743**	**-**

For the year ended 31 December 2007	**Construction Services**	Elite Real Estate	Business Class and Mass Market Real Estate	Gated Communities	Real Estate in Moscow	Real Estate in Western Europe	Other	*Eliminations*
Revenue from external customers	39,630	121,015	176,982	3,395	48,134	31,914	2,674	-
Inter-group revenue	19,117	12,189	1,174	141	26	-	1,947	(1,500)
Total revenue	**58,747**	**133,204**	**178,156**	**3,536**	**48,160**	**31,914**	**4,621**	**(1,500)**
Operating profit	**11,768**	**318,465**	**30,442**	**19**	**12,339**	**2,804**	**4**	**(693)**
Depreciation/Amortization	7,519	567	101	31	65	10	32	-
Change in fair value of investment property	-	267,663	-	-	-	-	-	-
EBITDA	**19,287**	**51,369**	**30,543**	**50**	**12,404**	**2,814**	**36**	**(693)**

For the year ended 31 December 2007	**Development**	**Commercial Real Estate**	**Other entities**	*Eliminations*	Unallocated Expenses	**Consolidated**
Revenue from external customers	384,115	3,250	604	-	-	1,402,558
Inter-group revenue	13,977	408	-	(169,012)	-	-
Total revenue	**398,092**	**3,658**	**604**	**(169,012)**	**-**	**1,402,558**
Operating profit	**363,380**	**47,339**	**-**	**(24,363)**	**(36,266)**	**562,774**
Depreciation/Amortization	807	13	5,360	-	-	60,805
Change in fair value of investment property	267,663	46,865	-	-	-	314,528
EBITDA	**96,524**	**487**	**5,360**	**(24,363)**	**(36,266)**	**309,051**

**** EBITDA= Operating Result + Depreciation/amortisation –** Change in fair value* ***of Investment Property***

For the year ended 31 December 2006 (‘000 RUR)	Brick	Reinforced Concrete	Ready-mix Concrete	Aerated Concrete	Other	*Eliminations*	**Building Materials**	**Construction**
Revenue from external customers	1,701,244	3,057,130	2,514,045	1,054,881	471,579	-	8,798,879	4,624,149
Inter-group revenue	9,548	283,347	643,739	4,883	814,138	(1,259,713)	495,942	269,180
Total revenue	**1,710,792**	**3,340,477**	**3,157,784**	**1,059,764**	**1,285,717**	**(1,259,713)**	**9,294,821**	**4,893,329**
Operating profit	**282,363**	**269,302**	**129,865**	**74,606**	**53,612**	**1,203**	**810,952**	**512,750**
Depreciation/Amortization	63,804	117,442	58,556	98,561	7,748	-	346,111	150,389
Fair value adjustment of investment property	-	-	-	-	-	-	-	-
EBITDA	**346,167**	**386,744**	**188,421**	**173,167**	**61,360**	**1,203**	**1,157,062**	**663,139**

For the year ended 31 December 2006	Sand	Crushed Granite	*Eliminations*	**Aggregates**	Tower Cranes	Transportation	*Eliminations*	**Construction Services**
Revenue from external customers	2,326,964	1,261,872	-	**3,588,836**	526,916	242,691	-	769,607
Inter-group revenue	243,771	617,109	(28,111)	**832,769**	100,766	255,334	-	356,100
Total revenue	**2,570,735**	**1,878,981**	**(28,111)**	**4,421,605**	**627,682**	**498,025**	**-**	**1,125,707**
Operating profit	**562,243**	**369,239**	**25,754**	**957,236**	**187,498**	**86,068**	**-**	**273,566**
Depreciation/Amortization	305,706	118,688	-	**424,394**	65,434	57,890	-	123,324
Fair value adjustment of investment property	-	-	-	**-**	-	-	-	-
EBITDA	**867,949**	**487,927**	**25,754**	**1,381,630**	**252,932**	**143,958**	**-**	**396,890**

For the year ended 31 December 2006	Elite Real Estate	Business Class and Mass Market Real Estate	Gated Communities	Real Estate in Moscow	Real Estate in Western Europe	*Eliminations*	**Development**	**Commercial Real Estate**
Revenue from external customers	1,743,397	1,493,849	1,322	(1,338)	-	-	3,237,230	17,600
Inter-group revenue	21,291	20,732	2,336	2,379	-	(8,682)	38,056	-
Total revenue	**1,764,688**	**1,514,581**	**3,658**	**1,041**	**0**	**(8,682)**	**3,275,286**	**17,600**
Operating profit	**450,478**	**35,958**	**(1,954)**	**(83,531)**	**(7,675)**	**(10,667)**	**382,609**	**3,931**
Depreciation/Amortization	8,332	3,404	193	1,364	34	-	13,327	2,161
Fair value adjustment of investment property	126,356	-	-	-	-	-	126,356	3,750
EBITDA	**332,454**	**39,362**	**(1,761)**	**(82,167)**	**(7,641)**	**(10,667)**	**269,580**	**2,342**

For the year ended 31 December 2006	**Other entities**	*Eliminations*	Unallocated Expenses	**Consolidated**
Revenue from external customers	74,450	-	-	21,110,751
Inter-group revenue	107,086	2,099,133	-	-
Total revenue	**181,536**	**2,099,133**	**-**	**21,110,751**
Operating profit	**50,984**	**170,288**	**(527,512)**	**2,634,803**
Depreciation/Amortization	61,025	-	-	1,120,731
Fair value adjustment of investment property	-	-	-	130,106
EBITDA	**112,009**	**170,288**	**(527,512)**	**3,625,428**

* *EBITDA= Operating Result + Depreciation/amortisation - Fair value adjustment of Investment Property*

For the year ended 31 December 2006 ('000 USD)	Brick	Reinforced Concrete	Ready-mix Concrete	Aerated Concrete	Other	*Eliminations*	**Building Materials**	**Construction**
Revenue from external customers	62,581	112,457	92,480	38,804	17,347	-	323,669	170,098
Inter-group revenue	351	10,423	23,680	180	29,948	(46,339)	18,243	9,902
Total revenue	**62,932**	**122,880**	**116,160**	**38,984**	**47,295**	**(46,339)**	**341,912**	**180,000**
Operating profit	**10,387**	**9,906**	**4,777**	**2,744**	**1,972**	**44**	**29,830**	**18,862**
Depreciation/Amortization	2,347	4,320	2,154	3,626	285	-	12,732	5,532
Fair value adjustment of investment property	-	-	-	-	-	-	-	-
EBITDA	**12,734**	**14,226**	**6,931**	**6,370**	**2,257**	**44**	**42,562**	**24,394**

For the year ended 31 December 2006	Sand	Crushed Granite	*Eliminations*	**Aggregates**	Tower Cranes	Transportation	*Eliminations*	**Construction Services**
Revenue from external customers	85,598	46,418	-	132,014	19,383	8,927	-	28,310
Inter-group revenue	8,967	22,700	(1,034)	30,633	3,707	9,393	-	13,100
Total revenue	**94,565**	**69,118**	**(1,034)**	**162,647**	**23,090**	**18,320**	**-**	**41,410**
Operating profit	**20,682**	**13,583**	**947**	**35,212**	**6,897**	**3,166**	**-**	**10,063**
Depreciation/Amortization	11,245	4,366	-	15,611	2,407	2,129	-	4,536
Fair value adjustment of investment property	-	-	-	-	-	-	-	-
EBITDA	**31,927**	**17,949**	**947**	**50,823**	**9,304**	**5,295**	**-**	**14,599**

For the year ended 31 December 2006	Elite Real Estate	Business Class and Mass Market Real Estate	Gated Communities	Real Estate in Moscow	Real Estate in Western Europe	*Eliminations*	**Development**	**Commercial Real Estate**
Revenue from external customers	64,131	54,951	49	(49)	-	-	119,081	647
Inter-group revenue	783	763	86	88	-	(319)	1,401	-
Total revenue	**64,914**	**55,714**	**135**	**38**	**0**	**(319)**	**120,481**	**647**
Operating profit	**16,571**	**1,323**	**(72)**	**(3,073)**	**(282)**	**(392)**	**14,075**	**145**
Depreciation/Amortization	306	125	7	50	1	-	489	79
Fair value adjustment of investment property	4,648	-	-	-	-	-	4,648	138
EBITDA	**12,229**	**1,448**	**(65)**	**(3,023)**	**(281)**	**(392)**	**9,916**	**86**

For the year ended 31 December 2006	**Other entities**	*Eliminations*	Unallocated Expenses	**Consolidated**
Revenue from external customers	2,739	-	-	776,562
Inter-group revenue	3,939	77,217	-	-
Total revenue	6,678	77,217	-	776,562
Operating profit	1,875	6,264	(19,405)	96,922
Depreciation/Amortization	2,245	-	-	41,226
Fair value adjustment of investment property	-	-	-	4,786
EBITDA	4,120	6,264	(19,405)	133,362

* *EBITDA= Operating Result + Depreciation /amortisation - Fair value adjustment of Investment Property*