World Trade Centre

International Financial Reporting Standards
Consolidated Financial Statements

31 December 2005

Contents

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

	Note	31 December 2005	31 December 2004
ASSETS			
Non-current assets:			
Intangible assets		17	23
Investment property	9	389,200	330,300
Property, plant and equipment	8	158,223	129,673
Prepayments		850	488
Defined benefit pension plan prepayment	18	1,630	-
Non-current financial assets	10	194	38
Total non-current assets		**550,114**	**460,522**
Current assets:			
Cash and cash equivalents	13	9,764	35,507
Accounts receivable and prepayments	12	4,105	3,831
Income tax prepaid		2,073	1,380
Inventories		300	326
Bank deposits	11	52,751	25,974
Total current assets		**68,993**	**67,018**
Total assets		**619,107**	**527,540**
LIABILITIES			
Non-current liabilities:			
Deferred tax liabilities	21	104,672	81,629
Advances from tenants		475	540
Defined benefit pension liability	18	726	-
Total non-current liabilities		**105,873**	**82,169**
Current liabilities:			
Accounts payable and accrued expenses	17	1,035	1,278
Other taxes payable	16	1,578	1,764
Advances from tenants		13,641	12,675
Total current liabilities		**16,254**	**15,717**
Total liabilities		**122,127**	**97,886**
Equity (all attributable to the Company's equity holders):			
Share capital	14	20,328	44,777
Reserves	15	94,759	76,687
Retained earnings		381,893	308,190
Total equity attributable to the Company's equity holders		**496,980**	**429,654**
Total liabilities and equity		**619,107**	**527,540**

Approved for issue and signed on behalf of the Board of Directors on 17 November 2006.

S. Tarachanov	E. Komarov
Director General	First Deputy Director General

	Note	Year ended 31 December 2005	Year ended 31 December 2004
Revenue	19	103,973	83,450
Investment property fair valuation	9	71,000	66,000
Total operating income		**174,973**	**149,450**
Payroll	20	34,218	25,227
Depreciation	8	5,359	3,625
Repairs and maintenance		4,292	4,159
Utilities		3,818	3,430
Materials		3,689	4,303
FA demolishing expenses		3,204	97
Property tax		2,498	2,491
Communication		2,203	1,942
Consulting and other professional services	7	2,121	2,083
Other	20	6,159	6,041
Profit from operations		**107,412**	**96,052**
Interest income		3,021	2,908
Gains less losses from currency rates changes		1,197	(1,173)
Other income		293	218
Profit before income tax		**111,923**	**98,005**
Income tax expense	21	(28,054)	(23,923)
Profit for the year		**83,869**	**74,082**
Earnings per share for profit (all from continuing operations) attributable to the equity holders of the Company, basic and diluted (expressed in USD per share)	22	**0.0822**	**0.0692**

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

		Attributable to equity holders of the Company				Minority interest	Total Equity
	Note	**Share capital**	**Other reserves**	**Retained earnings**	**Total**		
Balance at 1 January 2004		**42,184**	**38,799**	**221,659**	**302,642**	**139**	**302,781**
Property, plant and equipment:							
- Revaluation	8	-	43,020	-	43,020	-	43,020
- Realised revaluation reserve	15	-	(1,280)	1,280	-	-	-
Effect of translation to presentation currency		2,593	4,837	13,618	21,048	-	21,048
Income tax recorded in equity	21	-	(9,637)	-	(9,637)	-	(9,637)
Net income recognised directly in equity		2,593	36,940	14,898	54,431	-	54,431
Profit for the year		-	-	74,082	74,082	-	74,082
Total recognised income for 2004		2,593	36,940	88,980	128,513	-	128,513
Transfer of profit to statutory reserve	15	-	948	(948)	-	-	-
Dividends declared	14	-	-	(1,501)	(1,501)	(139)	(1,640)
Balance at 31 December 2004		**44,777**	**76,687**	**308,190**	**429,654**	**-**	**429,654**
Property, plant and equipment:							
- Revaluation	8	-	32,569	-	32,569	-	32,569
- Realised revaluation reserve	15	-	(2,503)	2,503	-	-	-
Effect of translation to presentation currency		(1,211)	(5,485)	(9,563)	(16,259)	-	(16,259)
Income tax recorded in equity	21	-	(7,665)	-	(7,665)	-	(7,665)
Net income recognised directly in equity		(1,211)	16,916	(7,060)	8,645	-	8,645
Profit for the year		-	-	83,869	83,869	-	83,869
Total recognised income for 2005		(1,211)	16,916	76,809	92,514	-	92,514
Transfer of profit to statutory reserve	15	-	1,156	(1,156)	-	-	-
Acquisition of treasury shares	14	(23,238)	-	-	(23,238)	-	(23,238)
Dividends declared	14	-	-	(1,950)	(1,950)	-	(1,950)
Balance at 31 December 2005		**20,328**	**94,759**	**381,893**	**496,980**	**-**	**496,980**

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

	Note	Year ended 31 December 2005	Year ended 31 December 2004
Cash flows from operating activities			
Profit before income tax		111,923	98,005
Adjustments for:			
Depreciation and amortisation	8	5,359	3,625
Gain on investment property fair valuation	9	(71,000)	(66,000)
Interest income		(3,021)	(2,908)
Net foreign exchange (gains) / losses		(1,197)	1,173
Other non-cash operating costs		66	62
Operating cash flows before working capital changes			
(Increase)/decrease in trade and other receivables		(904)	4,099
(Increase) in defined benefit pension plan prepayment		(1,630)	-
Decrease in inventories		15	64
Increase/(decrease) in trade and other payables		478	(89)
Increase in advances from customers		1,301	7,238
Increase in other taxes payable		458	665
Cash generated from operations		41,848	45,934
Income taxes paid		(9,933)	(7,540)
Net cash from operating activities		**31,915**	**38,394**
Cash flows from investing activities			
Purchase of property, plant and equipment		(6,577)	(1,624)
Purchase of investment property		(996)	(3,492)
Increase in bank deposits	11	(24,579)	(4,508)
Net cash used in investing activities		**(32,152)**	**(9,624)**
Cash flows from financing activities			
Purchase of treasury shares	14	(23,238)	-
Dividends paid to the Company's shareholders	14	(1,947)	(1,513)
Dividends paid to minority interests		-	(139)
Net cash used in financing activities		**(25,185)**	**(1,652)**
Effect of exchange rate changes on cash and cash equivalents		(321)	936
Net (decrease)/increase in cash and cash equivalents		**(25,743)**	**28,054**
Cash and cash equivalents at the beginning of the year		**35,507**	**7,453**
Cash and cash equivalents at the end of the year	13	**9,764**	**35,507**

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

1 The WTC Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005 for OAO World Trade Centre (the "Company") and its subsidiaries (together referred to as the "Group" or "WTC Group").

The Company was incorporated and is domiciled in the Russian Federation. The Company is an open joint stock company limited by shares and was set up in accordance with Russian regulations.

The Group's immediate parent and ultimate controlling party is the Chamber of Commerce & Industry of the Russian Federation (2004: the Chamber of Commerce & Industry of the Russian Federation). The Company's shareholders at 31 December 2005 and 31 December 2004 were:

Name	Percentage of ownership at 31 December 2005	Percentage of ownership at 31 December 2004
The Chamber of Commerce & Industry	47%	46%
Limited Liability Company "Sovincenter-2" (treasury shares)	16%	3%
The Property Management Department of Moscow	-	10%
Joint Stock Commercial Bank "Bank of Moscow"	10%	-
Closed Joint Stock Company "Depository and Clearing Company"	10%	1%
Others	17%	40%
Total	**100%**	**100%**

Voting power of the Company's shareholders at 31 December 2005 and 31 December 2004 was as follows:

Name	Percentage of voting rights at 31 December 2005	Percentage of voting rights at 31 December 2004
The Chamber of Commerce & Industry	54%	53%
Limited Liability Company "Sovincenter-2" (treasury shares)	14%	1%
The Property Management Department of Moscow	11%	11%
Closed Joint Stock Company "Depository and Clearing Company"	9%	1%
Others	12%	33%
Total	**100%**	**100%**

The Company's principal subsidiaries at 31 December 2005 and 31 December 2004 were:

Name	Nature of business	Percentage of voting rights	Percentage of ownership	Country of registration
Subsidiaries:				
Soyuz	Hotel management	100%	100%	Russian Federation
Sovincenter-2	Purchase of securities	100%	100%	Russian Federation

Principal activity. The Group is part of the "World Trade Center" global network. The Group's principal business activity is operating a high-quality office, hotel and apartment complex properties. The Group also operates the second largest conference facility in Russia. The Group's portfolio consists of office tower properties, hotel properties and congress centers. The World Trade Center is a real estate complex based in Moscow, Russia, and comprises the following:

- Office tower-1
- Office tower-2
- Mezhduarodnaya-1 (hotel)
- Mezhdunarodnaya-2 (office premises and apartments)
- Congress center
- Apartment building Eridan-1
- Apartment building Eridan-2
- Hotel Soyuz.

Registered address and place of business. The Company's registered address is:

Krasnopresnenskaya nab., 12
123610 Moscow, Russian Federation.

2 Basis of Preparation and Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations adopted by the International Standard Board (IASB) as adopted by the European Commission in IFRS at 31 December 2005, under the historical cost convention as modified by the revaluation of land and buildings, available-for-sale investments and investment property. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 4, First time adoption of IFRS).

Presentation currency. All amounts in these consolidated financial statements are presented in thousands of US Dollars ("USD thousands"), unless otherwise stated. The Group operates in a property development and management market which prices are US dollar driven.

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation had ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these financial statements.

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Group's equity. When a subsidiary is liquidated the minority interest is paid out to the minority shareholders.

Property, plant and equipment. Buildings and other equipment related to the hotels (except for investment properties - refer to note below) are shown at fair value, based on periodic, but at least annual, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amounts arising on revaluation of buildings and other equipment are credited, net of tax, to other reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the income statement. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost, net of tax, is transferred from the property, plant and equipment revaluation reserve to retained earnings.

Other plant and equipment is stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

2 Basis of Preparation and Significant Accounting Policies (Continued)

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Depreciation on items of property, plant and equipment, based on a component approach, is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	40 to 50
Plant and equipment	2 to 20
Other	2 to 10
Leasehold improvements	over the term of the underlying lease

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group. Investment property comprises rights to use land received as a shareholder contribution, land under a 50 year operating lease and buildings held to earn rentals, for capital appreciation or both.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value based on its market value. Market value of the Group's investment property is obtained from reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. Fair values are determined using the discounted cash flow method, having regard to recent market transactions for similar properties in the same location as the property being appraised. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in profit or loss within Revenue. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss and presented separately.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Where rights to use land are classified as investment property, the Company applies accounting policies described above under Investment property.

Classification of financial assets. The Group classifies its financial assets into the following measurement categories: trading, available-for-sale, held to maturity and loans and receivables.

Trading investments are securities or other financial assets, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are included in a portfolio in which a pattern of short-term trading exists. The Group classifies financial assets into trading investments if it has an intention to sell them within a short period after acquisition, i.e. within 1 to 3 months. Trading investments are not reclassified out of this category even when the Group's intentions subsequently change.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Held to maturity classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date.

All other financial assets are included in the available-for-sale category.

Initial recognition of financial instruments. Trading investments and derivatives are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading investments; and recognised in equity for assets classified as available for sale.

Derecognition of financial assets. The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Available-for-sale investments. Available-for-sale investments are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from equity to profit or loss.

Held to maturity investments. Held to maturity investments are carried at amortised costs using the effective interest method, net of a provision for incurred impairment losses.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Trade and other receivables. Trade and other receivables are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement.

Advances received from customers. Business practices in Russia generally involve a considerable proportion of sales on a prepayment basis, wherein, payment is collected from customers prior to delivery of services.

A considerable proportion of the Group's rental income is made on prepayment terms. Customers transfer funds to the Group before rental services are rendered, and these funds are recorded as advances received from customers at their fair value of consideration. Advances received are amortised to income over the rental period.

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the cashflow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in other non-current assets.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company purchases its own shares in the market, the shares are presented as a deduction from equity, at the amount paid including transaction costs, applying the cost method: the gross cost of the treasury shares is shown as a one-line deduction from equity, that is, treasury shares are shown as a separate class of shareholders' equity with a debit balance.

Dividends. Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Value added tax. Value added tax related to sales is payable to tax authorities upon accrual of revenue from services rendered to customers. Input VAT is generally reclaimable against sales VAT upon payment for purchases, except for export sales related input VAT which is reclaimable upon confirmation of export and input VAT on construction in progress which can be reclaimed only upon transfer of a constructed asset into operation. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest method.

Provisions for liabilities and charges. Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Foreign currency translation. Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency is the national currency of the Russian Federation, Russian Roubles ("RR"), and the Group's presentation currency is US dollar.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Translation from functional to presentation currency. The results and financial position of each group entity (functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

At 31 December 2005 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 28.7825 (2004: USD 1 = RR 27.7487).

Revenue recognition. Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Gross rental income is determined based on contractual lease term entitlements. The rental income from a lease contract is straight-lined over the period of the contract. The straight-lined income is presented in the period to which it is attributable. Gross rental income includes service charges, such as heating, electricity and security.

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are delivered to customers.

Revenue from operating the hotels represents amounts billed in respect of rooms and other services provided and food and beverage sold during the year.

Sales are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable.

Interest income is recognised on a time-proportion basis using the effective interest method.

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

Retirement benefit obligations. The Company's post-employment non-statutory benefit plan is placed with the Chamber of Commerce & Industry's Pension Fund and classifies as a defined benefit plan. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Earnings per share. Preference shares are not redeemable and are not considered to be participating shares. Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

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), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately.

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 23.

Related party transactions. In the normal course of business the Group enters into transactions with its related parties. These transactions are shown in the consolidated income statement at contracted prices which could differ from the fair value of services rendered. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses.

Estimate of fair value of PPE and investment properties. The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgements, the Group considers information from a variety of sources including:

- discounted cash flow (DCF) projections, based on reliable estimates of future cash flows derived from the terms of any existing lease and other contracts, and from external evidence such as current market rent for similar properties in the same location an condition, and using discount rates that reflect the current market assessment of the uncertainty in the amount and timing of the cash flows;

- current prices in an active market for offers of different nature, conditions or locations, adjusted to reflect these differences.

If information on current or recent prices of investment properties is not available, the fair value of investment properties is determined using DCF valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each of the balance dates.

The principal assumptions underlying management's estimation of fair value are those related to the receipt of contractual rentals, expected future market rentals, void/vacancy periods, maintenance requirements, and appropriate discount rates. These valuations are regularly compared to actual market yield data and to actual transactions by the Group and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar offices in the same location and condition.

If the assumptions used in the valuation of the fixed assets and investment properties varied from those used, the valuations could differ significantly from what was recorded.

Impairment of Construction in progress and PP&E. Impairment losses were recognised in relation to CIP as a result of an impairment test described in Note 8.

Present value of the defined benefit pension plan obligation. The main assumptions used in determining the present value of the defined benefit pension plan obligation are discussed in Note 18.

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

4 First-time adoption of IFRS

These consolidated financial statements are the Group's first annual financial statements that comply with IFRS. The Group's IFRS transition date is 1 January 2004. Subject to certain exceptions, IFRS 1 requires retrospective application of the version of IFRS valid as at 31 December 2005 in preparing the opening IFRS balance sheet at 1 January 2004 and in subsequent periods up to the first IFRS reporting date. In preparing these consolidated financial statements, the Group has applied the mandatory exceptions and has elected to apply the following optional exemptions:

(a) ***Fair value as deemed cost exemption.*** The Group has elected to measure certain items of property, plant and equipment at fair value at 1 January 2004. The effect of the exemption was to increase the RAR carrying amount of property, plant and equipment by USD 46,132 thousand to USD 81,097 thousand under IFRS on the date of transition, 1 January 2004.

(b) ***Cumulative translation differences exemption.*** The Group has elected to set the previous cumulative currency translation reserve to zero at 1 January 2004. This exemption has been applied to all subsidiaries in accordance with IFRS 1.

Exceptions from retrospective application, which are mandatory under IFRS 1 are:

(a) ***Derecognition of financial assets and liabilities exception.*** Financial assets and liabilities derecognised before 1 January 2004 are not re-recognised under IFRS. The application of the exemption from restating comparatives for IAS 32 and IAS 39 means that the Group recognised from 1 January 2005 any financial assets and financial liabilities derecognised since 1 January 2004 that do not meet the IAS 39 derecognition criteria. Management did not choose to apply the IAS 39 derecognition criteria from an earlier date.

(b) ***Hedge accounting exception.*** The Group does not apply hedge accounting.

(c) ***Estimates exception.*** Estimates under IFRS at 1 January 2004 and 31 December 2004 should be consistent with estimates made for the same dates under previous GAAP, unless there is evidence that those estimates were in error.

(d) ***Assets held for sale and discontinued operations exception.*** Management applies IFRS 5 prospectively from 1 January 2005. Any assets held for sale, disposal groups or discontinued operations are recognised in accordance with IFRS 5 only from 1 January 2005.

The following reconciliations provide a quantification of the effect of the transition from Russian Accounting Regulations ("RAR") to IFRS at 1 January 2004, 31 December 2005 and for the year 2005:

		31 December 2005	1 January 2004
EQUITY UNDER RAR		**195,031**	**148,008**
Effects of changes in accounting policies:			
(i)	Property, plant and equipment: restatement for hyperinflation	755	1,356
(ii)	Property, plant and equipment: fair value as deemed cost and additional depreciation	46,132	46,132
(iii)	Property, plant and equipment: revaluation and additional depreciation	72,803	-
(iv)	Investment property: fair value adjustment	314,054	166,038
(v)	Inventory write off	(570)	(1,627)
(vi)	Cut-off interest income	-	252
(vii)	Provision for bad and doubtful debts	(108)	(2,929)
(viii)	Deferred tax: recognition under the balance sheet liability method	(104,689)	(49,825)
(ix)	Accounting for treasury shares under IFRS	(22,928)	(84)
(x)	Accrual for unutilised vacations	(186)	(57)
(xi)	Impairment of CIP	(4,218)	(4,483)
(xii)	Defined benefit plan obligation accrual	904	-
IFRS EQUITY		**496,980**	**302,781**

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

4 First-time adoption of IFRS (continued)

		2005
PROFIT UNDER RAR		**27,552**
Effects of changes in accounting policies:		
(i)	Property, plant and equipment: restatement for hyperinflation	(293)
(ii)	Property, plant and equipment: additional depreciation on revalued assets	(3,064)
(iii)	Property, plant and equipment: fair value as deemed cost at transition date	-
(iv)	Investment property: fair value adjustment and reversal of RAR depreciation charge	75,319
(v)	Inventory write off	1,238
(vi)	Cut-off interest income	-
(vii)	Provision for bad and doubtful debts	-
(viii)	Deferred tax: recognition under the balance sheet liability method	(18,112)
(ix)	Accounting for treasury shares under IFRS	-
(x)	Accrual for unutilised vacations	(66)
(xi)	Impairment of CIP	375
(xii)	Defined benefit plan obligation accrual	920
IFRS PROFIT		**83,869**

The key adjustments for the differences between RAR and IFRS were attributable to the following:

(i) ***Property, plant and equipment: restatement for hyperinflation.*** The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29. As part of the Group's transition to IFRS, non-monetary assets, non-monetary liabilities and equity items arising from transactions prior to 1 January 2003 were restated in accordance with IAS 29 for the changes in the general purchasing power of the Russian Rouble from the dates of the transactions until 31 December 2002. The amounts expressed in the measuring unit current at as 31 December 2002 are treated as the basis for the carrying amounts in these financial statements. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, transactions after 1 January 2003 are not subject to restatement in accordance with the provisions of IAS 29.

(ii) ***Property, plant and equipment: revaluation and additional depreciation on revalued assets.*** The Group has elected to measure property, plant and equipment of the Hotel and Congress segment at the revalued cost. Revaluations are performed on an annual basis by independent valuers. Refer also to Note 8.

(iii) ***Property, plant and equipment: fair value as deemed cost at transition date.*** The Group has elected to measure property, plant and equipment of the Hotel and Congress segment at fair value of USD 81,097 thousand at 1 January 2004. This fair value represents the assets' deemed cost and is the basis for future depreciation.

(iv) ***Investment property: fair value adjustment.*** The Group has elected to measure investment properties at fair value. The valuation was performed by qualified independent appraisers. RAR carrying values were adjusted on transition to IFRS. In subsequent years, RAR depreciation charged on investment property items ws reversed.

(v) ***Inventory write off.*** Non-existent or released inventory balances recorded in the RAR books were written off at the date of transition to IFRS.

(vi) ***Cut-off interest income.*** At 1 January 2004 there was an interest income attributable to short-term bank deposits but not accrued for in the RAR books. It was not a recurring adjustment.

(vii) ***Provision for bad and doubtful debts.*** Bad debts receivable from Elbim Bank and Akademservice were written off in RAR books in 2004. A respective provision was made in the IFRS accounts at 1 January 2004.

(viii) ***Deferred tax: recognition under the balance sheet liability method.*** The adjustment was required to recognise deferred taxes under the balance sheet liability method for temporary differences detailed in Note 21 and mainly related to IFRS adjustments.

(ix) ***Accounting for treasury shares under IFRS.*** Treasury shares acquired by a wholly owned subsidiary of the Company, Sovincenter-2, have been accounted for as a deduction from equity.

(x) ***Accrual for unutilised vacations.*** Under IFRS, an accrual for a liability for vacations not used by the Group's employees was made.

(xi) ***Impairment of CIP.*** CIP carrying amount recorded in the RAR books was tested for impairment at the date of transition to IFRS, 1 January 2004. A provision for impairment was made against retained earnings at that date. The details are disclosed in Note 8.

(xii) ***Accrual for a defined benefit plan obligation.*** An accrual is made for a fair value of the Group's obligation for the defined benefit pension plan accounted for under IAS 19.

The Group's operating, investing and financing cash flows reported under RAR did not significantly differ from IFRS.

5 Adoption of New or Revised Standards and Interpretations

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006:

- Amendment to IAS 19, 'Actuarial gains and losses, group plans and disclosures', effective for annual periods beginning on or after 1 January 2006. The Group decided to retain its former accounting policy regarding the recognition of actuarial gains and losses;
- Amendment to IAS 39, Amendment to 'The fair value option', effective for annual periods beginning on or after 1 January 2006. This amendment does not have any impact on the classification and valuation of the Group's financial instruments classified as at fair value through profit or loss prior to 1 January 2006 as the Group is able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss;
- Amendment to IAS 21, Amendment 'Net investment in a foreign operation', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to IAS 39, Amendment 'Cash flow hedge accounting of forecast intragroup transactions', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the group;
- Amendment to IAS 39 and IFRS 4, Amendment 'Financial guarantee contracts', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- IFRS 6, 'Exploration for and evaluation of mineral resources', effective for annual periods beginning on or after 1 January 2006. This standard is not relevant for the Group;
- IFRIC 4, 'Determining whether an arrangement contains a lease', effective for annual periods beginning on or after 1 January 2006. The Group has reviewed its contracts. Some of them are required to be accounted for as leases in accordance with IAS 17, 'Leases'. However, these leases are operating leases, and their reclassification has had no impact on the expense recognised in respect of them;
- IFRIC 5, 'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds', effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Group; and
- IFRIC 6, 'Liabilities arising from participating in a specific market – waste electrical and electronic equipment', effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant for the group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- IFRIC 7, 'Applying the Restatement Approach under IAS 29', effective for annual periods beginning on or after 1 March 2006. Management do not expect the interpretation to be relevant for the Group;
- IFRIC 8, 'Scope of IFRS 2', effective for annual periods beginning on or after 1 May 2006. Management is currently assessing the impact of IFRIC 8 on the Group's operations;
- IFRIC 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Group already assess if embedded derivative should be separated using principles consistent with IFRIC 9; and
- IFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007. IAS 1, 'Amendments to capital disclosures', effective for annual periods beginning on or after 1 January 2007. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

These new standards and interpretations are not expected to significantly affect the Group's financial statements.

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

6 Segment Information

The Group's primary format for reporting segment information is business segments and the secondary format is geographical segments.

Business Segments. The Group is organised on a basis of two main business segments:

- Rent of office premises, apartments and parking lots – representing renting office premises and apartment units, providing communication and other business services to tenants, and providing a pool of parking lots;
- Hotel and Congress services – representing managing the hotels and providing catering services to guests, managing congress center, and providing conference services and facilities.

There are no transactions between the business segments.

Other operations of the Group mainly comprise ancillary services such as satellite TV, transportation, repairs and maintenance services, information services and others, neither of which are of a sufficient size to be reported separately.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash, and mainly exclude investments and income tax balances. Segment liabilities comprise operating liabilities and exclude items such as taxation. Capital expenditure comprises additions to property, plant and equipment and costs associated with the construction of WTC-3 building complex that will consist of office premises and a hotel. Due to the early stage of construction works, the Group could not reliably estimate the costs attributable to each segment, and the total construction costs were recorded as Other. Impairment loss and provisions relate only to those charges made against allocated assets.

Segment information for the main reportable business segments of the Group for the years ended 31 December 2005 and 31 December 2004 is set out below:

	Rent of office premises, apartments and parking lots	**Hotel and Congress services**	**Other**	**Group**
2005				
Sales – external	69,682	31,312	2,979	103,973
Investment property fair valuation	71,000	-	-	71,000
Total operating income	140,682	31,312	2,979	174,973
Segment result	125,123	14,637	1,609	141,369
Unallocated expenses				(33,957)
Operating profit				107,412
Interest income				3,021
Gains less losses from currency rates changes				1,197
Other income				293
Profit/(loss) before income tax				111,923
Income tax expense				(28,054)
Profit /(loss) for the year				83,869
Segment assets	390,143	151,782	12,843	554,768
Total segment assets	390,143	151,782	12,843	554,768
Bank deposits				52,751
Other unallocated assets				11,588
Total assets				619,107

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

6 Segment Information (Continued)

	Rent of office premises, apartments and parking lots	**Hotel and Congress services**	**Other**	**Group**
Segment liabilities	(13,315)	(1,108)	(2,121)	(16,544)
Total segment liabilities	(13,315)	(1,108)	(2,121)	(16,544)
Current and deferred tax liability				(104,672)
Other unallocated liabilities				(911)
Total liabilities				(122,127)
Capital expenditure	996	1,741	4,181	6,918
Depreciation and amortisation	-	(4,555)	(804)	(5,359)
2004				
Sales – external	52,942	26,210	4,298	83,450
Fair value adjustments	66,000	-	-	66,000
Total operating income	118,942	26,210	4,298	149,450
Segment result	102,900	13,222	3,086	119,208
Unallocated expenses				(23,156)
Operating profit				96,052
Interest income				2,908
Gains less losses from currency rates changes				(1,173)
Other income				326
Profit/(loss) before income tax				98,005
Income tax expense				(23,923)
Profit /(loss) for the year				74,082
Segment assets	331,252	125,703	9,066	466,021
Total segment assets	331,252	125,703	9,066	466,021
Bank deposits				25,974
Other unallocated assets				35,545
Total assets				527,540
Segment liabilities	(11,945)	(1,203)	(2,981)	(16,129)
Total segment liabilities	(11,945)	(1,203)	(2,981)	(16,129)
Current and deferred tax liability				(81,629)
Other unallocated liabilities				(128)
Total liabilities				(97,886)
Capital expenditure	3,492	876	712	5,080
Depreciation and amortisation	-	(2,906)	(719)	(3,625)

Geographical segments. The Group's two business segments operate in one main geographical area (Moscow, Russia).

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

7 Balances and Transactions with Related Parties

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Company's immediate parent and ultimate controlling party are disclosed in Note 1.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2005 are detailed below.

At 31 December 2005, the outstanding balances with related parties were as follows:

	Parent company	**Entities under common control**	**Other related parties**
Prepayment made to the Pension fund [3]	-	1,630	-

The income and expense items with related parties for the year 2005 were as follows:

	Parent company	**Entities under common control**	**Other related parties**
Income:			
Hotel services	58	-	-
Expenses:			
Dividends declared	907	-	1,043
Consulting and other professional services [1]	2,121	-	-
Professional membership fees	418	-	-
Loss on managing the business center [2]	286	-	-
Defined benefit pension plan – expense [3]	-	726	-
Remuneration paid to the members of the Board of Directors	-	-	373

At 31 December 2005, there were no other rights and obligations with related parties.

Cross shareholding. At 31 December 2005 Sovincenter-2, a 100% owned subsidiary of the Company, owned 14% of the ordinary shares of the Company, and 26% of the preference shares of the Company. Shares owned by Sovincenter-2 are accounted for as treasury shares, but retain their voting rights and rights to dividends.

At 31 December 2004, the outstanding balances with related parties were as follows:

	Parent company	**Entities under common control**	**Other related parties**
Gross amount of other receivables	198	-	-
Trade and other payables	369	-	-

[1] *Consulting services agreement.* The Company has an agreement with the Chamber of Commerce and Industry whereby they provide services to assist the Company in establishing business relations with foreign partners, attracting tenants and also providing media support.

[2] *Trust management agreement.* The Company has a trust management agreement with the Chamber of Commerce and Industry. According to the agreement, the Chamber transferred a building that it beneficially owns to the Company as trustee. The Company manages the property for the benefit of the Chamber for a consideration which is paid on a quarterly basis in the amount of a 2.5% of all revenues received from the trust management. The Company also guarantees revenues in the amount of RR 30,000 thousand to be received from the trust management, and compensates any unearned revenues to the Chamber.

[3] *Agreement for non-state pension coverage.* The Company signed an agreement with the Non-state Pension Fund "Commerce and Industry Pension Fund" regarding non-state pension coverage of the Company's employees. Details of the pension plan are disclosed in Note 18.

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

7 Balances and Transactions with Related Parties (Continued)

The income and expense items with related parties for the year 2004 were as follows:

	Parent company	Entities under common control	Other related parties
Income:			
Hotel services	10	-	-
Expenses:			
Dividends declared	692	-	809
Consulting and other professional services [1]	2,083	-	-
Loss on for managing the business center [2]	452	-	-
Remuneration paid to the members of the Board of Directors	-	-	165

At 31 December 2004, there were no other rights and obligations with related parties.

Cross shareholding. At 31 December 2004 Sovincenter-2, a 100% owned subsidiary of the Company, owned 1% of the ordinary shares of the Company, and 10% of the preference shares of the Company. Shares owned by Sovincenter-2 are accounted for as treasury shares, but retain their voting rights and rights to dividends.

Board of Directors. In 2005, the remuneration of members of the Board of Directors totalled USD 373 thousand (2004: USD 165 thousand) and comprised service fees (2005: USD 168 thousand, 2004: USD 57 thousand), salaries (2005: USD 88 thousand, 2004: USD 62 thousand), discretionary bonuses (2005: USD 95 thousand, 2004: USD 38 thousand) and other short-term benefits (2005: USD 22 thousand, 2004: USD 8 thousand).

The following persons were directors of the Company during the financial years ended 31 December 2005 and 31 December 2004:

Strashko Vladimir P. (Chairman)
Aitkulov Damir Z.
Kotov Yury I.
Kuprianov Alexandr A.
Lipatnikov Nikolai M.
Petrov Georgi G.
Tarachanov Sergei A. (the Director General of the Company)

Aitkulov Damir Z., Lipatnikov Nikolai M. and Petrov Georgi G. resigned from the positions of non-executive directors on 18 May 2006. On the same date, the following non-executive directors were appointed:
Katenev Vladimir I.
Komarov Evgeni B.
Serov Valeri M.

[1] *Consulting services agreement.* The Company has an agreement with the Chamber of Commerce and Industry whereby they provide services to assist the Company in establishing business relations with foreign partners, attracting tenants and also providing media support.
[2] *Trust management agreement.* The Company has a trust management agreement with the Chamber of Commerce and Industry. According to the agreement, the Chamber transferred a building that it beneficially owns to the Company as trustee. The Company manages the property for the benefit of the Chamber for a consideration which is paid on a quarterly basis in the amount of a 2.5% of all revenues received from the trust management. The Company also guarantees revenues in the amount of RR 30,000 thousand to be received from the trust management, and compensates any unearned revenues to the Chamber.

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

8 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

	Note	Buildings	Plant and equipment	Other	Construction in progress	Total
Cost or valuation at 1 January 2004		79,575	7,671	462	1,261	88,969
Accumulated depreciation		-	(4,950)	(305)	-	(5,255)
Carrying amount at 1 January 2004		**79,575**	**2,721**	**157**	**1,261**	**83,714**
Additions		876	490	9	214	1,589
Disposals		-	(25)	-	(64)	(89)
Revaluation	15	43,020	-	-	-	43,020
Effect of translation to presentation currency – cost or valuation		4,925	440	29	83	5,477
Depreciation charge		(2,906)	(692)	(27)	-	(3,625)
Effect of translation to presentation currency – depreciation		(111)	(282)	(20)	-	(413)
Cost or valuation at 31 December 2004		128,396	8,576	500	1,494	138,966
Accumulated depreciation		(3,017)	(5,924)	(352)	-	(9,293)
Carrying amount at 31 December 2004		**125,379**	**2,652**	**148**	**1,494**	**129,673**
Additions		1,741	1,376	24	2,875	6,016
Disposals		-	(6)	(1)	-	(7)
Revaluation	15	32,569	-	-	-	32,569
Effect of translation to presentation currency – cost or valuation		(4,641)	(396)	(20)	(103)	(5,160)
Depreciation charge		(4,555)	(735)	(69)	-	(5,359)
Effect of translation to presentation currency – depreciation		187	289	15	-	491
Cost or valuation at 31 December 2005		158,065	9,550	503	4,266	172,384
Accumulated depreciation		(7,385)	(6,370)	(406)	-	(14,161)
Carrying amount at 31 December 2005		**150,680**	**3,180**	**97**	**4,266**	**158,223**

Buildings and other equipment attributable to the Hotel and Congress segment have been revalued to market value at 31 December 2005 and 31 December 2004. The revaluation was performed based on the reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was discounted cash flows (DCF). Fair values were estimated using appropriate valuation techniques using the following assumptions:

- the discount factor used was 14.5% for 2005 (2004: 15.5%), being the market rate;
- the DCF model assumes the revenue growth of 4% pa, occupancy rate of 45% and occupancy rates growth of 2-4% pa for the hotels during a 5 year period, with the annualisation of incomes afterwards;
- net average market rate per room was used to determine the revenues from hotels;
- operating expenses assumed to maintain the above revenue and occupancy growth rates are direct department expenses (eg salaries), fixed charges (eg property tax, insurance, scheduled repairs and maintenance) and other unavoidable costs (eg general and admin). The average growth rate of operating expenses is assumed as 4% pa. Property tax assumed to be 2% of total carrying value of the Group's assets based on the Russian statutory property tax rate;
- USA CPI (inflation rate applied for the purposes of DCF) is assumed at a level of 4% pa.

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

8 Property, Plant and Equipment (Continued)

Included in the above carrying amount is USD 119,796 thousand (2004: USD 91,877 thousand) representing revaluation surplus relating to buildings and other equipment attributable to the Hotel and Congress segment of the Group. At 31 December 2005 the carrying amount of buildings and other equipment would have been USD 36,367 thousand (2004: USD 36,621 thousand) had the buildings and other equipment been carried at cost less depreciation.

At transition to IFRS impairment losses were recognised in relation to CIP as a result of an impairment test.

The Group commenced construction of a new complex of buildings in the early 90s. However, due to a lack of financing and subsequent crisis in the Russian economy in 1998, this construction remained frozen until 2003. In 2003 the Group made a decision to continue with a new construction plan. The new plan required a significant portion of the old construction work to be demolished due to architectural and physical obsolescence. The demolishing work was completed in 2005. The Group's construction engineers assessed the value of the demolished portion of construction in progress at 31 December 2003 to be USD 5,175 thousand. For these purposes a physical inspection of all objects under construction was undertaken, conditions determined and reconciled to the new construction plan. The value of the assets to be demolished was determined as a proportion to the total value of accumulated construction costs at 31 December 2003. As such, an impairment provision in the same amount was recognised in the Group's accounts at 31 December 2003.

The remaining portion of the original construction work became the basis for the new buildings. The value of the remaining construction in progress objects amounted to USD 484 thousand in historical terms, and was subsequently indexed to USD 1,261 thousand to arrive at the carrying amount in current terms. The assessment was performed by the Group's engineers by reference to the officially published construction indexation.

9 Investment Property

	2005	2004
Investment properties at fair value as at 1 January	**330,300**	**243,200**
Additions	996	3,492
Fair value gains less losses	71,000	66,000
Translation to presentation currency	(13,096)	17,608
Investment properties at fair value as at 31 December	**389,200**	**330,300**

The Group classified rights to use land received as a shareholder contribution to share capital and operating leases of land attributable to the premises rented out as investment properties. The investment properties are valued annually on 31 December at fair value, by an independent, professionally qualified valuer who has recent experience in valuing similar properties in the Russian Federation. The methods and significant assumptions applied in determining the fair value were as follows:

- the discounted cash flow method was used to arrive at fair values of land and properties classified as investment property at 31 December 2005 and 31 December 2004;
- the discount factor used was 14.5% for 2005 (2004: 15.5%), being the market rate;
- the DCF model assumes the rental rate of approximately USD 500 per square meter, revenue growth of 2% pa, occupancy rates starting from 75% in 2004 and growing to 95% by 2009 for the office premises available for rent during a 5 year period, with the annualisation of incomes afterwards. For apartment units the rental rate is assumed at USD 473 pa growing by 4% pa.;
- it is assumed that 100% of operating expenses are reimbursable by tenants, and these expenses account for 15% of total growth rentals. In addition, the Group is assumed to be paying some fixed charges (eg property tax and insurance), as well as renovation and repair costs;
- USA CPI (inflation rate applied for the purposes of DCF) is assumed at a level of 4% pa.

Revenues and expenses attributable to the rental premises are disclosed in Note 6.

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

10 Non-current financial assets

	31 December 2005	31 December 2004
Assets available for sale		
Corporate shares:		
Vneshtorgbank shares (0.002%)	14	15
ZAO "Eurostrakh" (9.0%)	3	3
Assets held to maturity		
OVVGZ 3% coupon bonds	25	-
Loans and receivables		
Loans given to employees	152	20
Total non-current financial assets	**194**	**38**

Available-for-sale investments include equity securities, which are not publicly traded. Due to the nature of the local financial markets, it is not possible to obtain current market value for these investments. Management could not reliably estimate fair value of its investment in shares of Vneshtorgbank and ZAO "Eurostrakh". These investments are carried at cost of USD 14 thousand and USD 3 thousand respectively (2004: USD 15 thousand and USD 3 thousand). These investees' shares are not quoted and recent trade prices are not publicly accessible.

For other investments traded in active markets, fair value is determined by reference to the current market value at the close of business on 31 December.

OVVGZ are USD denominated loan bonds issued by the Ministry of Finance of the Russian Federation. OVVGZ bonds have maturity dates in 2008, with a coupon rate of 3% payable annually.

11 Bank deposits

	31 December 2005	31 December 2004
Bank deposits USD denominated (interest rate: 5.38% p.a.; 2004: 11.47% p.a.)	25,431	13,000
Bank deposits RR denominated (interest rate: 6.62% p.a.; 2004: 13.15% p.a.)	27,320	12,974
Total bank deposits	**52,751**	**25,974**

12 Accounts receivable and Prepayments

	31 December 2005	31 December 2004
Trade receivables	1,102	1,221
VAT recoverable	1,235	739
Other receivables	480	1,236
Prepayments	1,398	743
Less impairment loss provision	(110)	(108)
Total trade and other receivables	**4,105**	**3,831**

Trade receivables of USD 130 thousand (2004: USD 179 thousand) net of impairment loss provisions are denominated in foreign currency, mainly in US dollars.

13 Cash and Cash Equivalents

	31 December 2005	31 December 2004
Cash on hand	6	7
RR denominated bank balances (interest rate: 0.35% p.a.; 2004: 0.35% p.a.)	3,438	20,579
USD denominated bank balances (interest rate: 0.35% p.a.; 2004: 0.35% p.a.)	1,144	14,857
USD denominated overnights (interest rate: 7% p.a.; 2004: 0%)	5,000	-
Corporate card accounts	33	34
Cash in transit	143	30
Total cash and cash equivalents	**9,764**	**35,507**

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

14 Share capital

	Number of outstanding shares	Ordinary shares	Preference shares	Share capital	Treasury shares	Total
At 1 January 2004	1,245,000,000	36,769	5,500	42,269	(85)	42,184
Translation to presentation currency	-	2,260	338	2,598	(5)	2,593
At 31 December 2004	1,245,000,000	39,029	5,838	44,867	(90)	44,777
Acquisition of treasury shares	-	-	-	-	(23,238)	(23,238)
Translation to presentation currency	-	(1,402)	(210)	(1,612)	401	(1,211)
At 31 December 2005	1,245,000,000	37,627	5,628	43,255	(22,927)	20,328

The Company's shareholders approved a resolution to transfer from retained earnings to share capital the monetary loss recognised in previous years on the restatement of share capital for the effects of hyperinflation. Following the reclassification, the nominal registered amount of the Company's issued share capital corresponds to the amount reported in these consolidated financial statements.

The total authorised number of ordinary shares is 1,083,000 thousand shares (2004: 1,083,000 thousand shares) with a par value of RR 1 per share (2004: RR 1 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

The total authorised number of preference shares is 162,000 thousand shares (2004: 162,000 thousand shares) with a par value of RR 1 per share (2004: RR 1 per share). All issued preference shares are fully paid.

The preference shares are not redeemable and rank ahead of the ordinary shares in the event of the Company's liquidation. The preference shares give the holders the right to participate in general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organisation and liquidation of the Company, and where changes and amendments to the Company's charter which restrict the rights of preference shareholders are proposed. Preference share dividends are set by the Charter of the Company at no less that 1% of the par value of preference shares p.a. (2004: 1% p.a.) and rank above ordinary dividends.

At 31 December 2005 treasury shares include 151,089,400 ordinary and 42,471,060 preference shares of the Company (2004: 15,780,000 ordinary and 16,071,776 preference shares) owned by a wholly owned subsidiary of the Group, Sovincenter-2. These ordinary shares carry voting rights in the same proportion as other ordinary shares. Voting rights of ordinary shares of the Company held by the entities within the Group are effectively controlled by the Management of the Group.

Dividends declared and paid during the year were as follows:

	2005		2004	
	Ordinary	Preference	Ordinary	Preference
Dividends payable at 1 January	19	3	29	2
Dividends declared during the year	1,696	254	1,306	195
Dividends paid during the year	(1,695)	(252)	(1,317)	(196)
Effect of translation to presentation currency	(1)	(1)	1	2
Dividends payable at 31 December	**19**	**4**	**19**	**3**
Dividends per share declared during the year (in USD)	**0.00157**	**0.00157**	**0.00121**	**0.00121**

All dividends are declared and paid in Russian Roubles.

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

15 Other Reserves

		Revaluation reserve for property, plant and equipment	Statutory reserve	Currency translation reserve	Total
At 1 January 2004		35,060	3,739	-	38,799
Revaluation	8	43,020	-	-	43,020
Realised revaluation reserve		(1,280)	-	-	(1,280)
Income tax effects	21	(9,637)	-	-	(9,637)
Transfer of profit to statutory reserve		-	948	-	948
Effect of translation to presentation currency		-	-	4,837	4,837
At 31 December 2004		67,163	4,687	4,837	76,687
Revaluation	8	32,569	-	-	32,569
Realised revaluation reserve		(2,503)	-	-	(2,503)
Income tax effects	21	(7,665)	-	-	(7,665)
Transfer of profit to statutory reserve		-	1,156	-	1,156
Effect of translation to presentation currency		-	-	(5,485)	(5,485)
At 31 December 2005		89,564	5,843	(648)	94,759

Revaluation reserve for property, plant and equipment is transferred to retained earnings when realised through depreciation, impairment, sale or other disposal.

Currency translation reserve represents an effect of translation of balances from measurement to presentation currency.

In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2005, the current year net statutory profit for the Group as reported in the published annual statutory reporting forms was USD 27,552 thousand (2004: USD 19,947 thousand) and the closing balance of the accumulated profit including the current year net statutory profit totalled USD 98,094 thousand (2004: USD 76,778 thousand). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

The Russian statutory reserve is established in accordance with the Charter of the Company to reach no less than 15% of the share capital. The reserve is formed by transfers of no less than 5% of the net statutory profit for the year. The distribution of the reserve is limited by the Charter to recovery of possible losses, redemption of promissory notes and repurchase of own shares of the Company.

16 Other taxes payable

	31 December 2005	31 December 2004
Other taxes payable within one year comprise:		
Value-added tax	967	1 094
Property and other taxes	611	670
Other taxes payable - current	**1,578**	**1,764**
Total other taxes payable	**1,578**	**1,764**

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

17 Accounts payable and accrued expenses

	31 December 2005	31 December 2004
Trade payables	700	660
Vacation accrual	186	126
Payables to shareholders	23	22
Other creditors	126	470
Trade and other payables	**1,035**	**1,278**

18 Retirement benefit obligations

All employees of the Group are entitled to benefits from the Group's pension plan on retirement, disability or death. The Group has one plan with a defined benefit section (non-state pension fund) and a defined contribution section (state pension fund). The defined contribution section receives fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

The defined benefit pension plan provide for monthly pension during 5 years upon attaining statutory retirement age (55 – females, 60 – males). The pension is settled via the non-state pension fund "Commerce and Industry Pension Fund". The pension plan is unfunded, as the contract with the fund specifies an option for the Company to unconditionally withdraw any contributions made.

There were 1,419 active participants to the defined benefit plan at 31 December 2005 (nil at 31 December 2004).

The following sets out details in respect of the defined benefit section only.

(a) Balance sheet amounts

The amounts recognised in the balance sheet are determined as follows:

	31 December 2005	31 December 2004
Present value of the defined benefit obligation	3,741	-
	3,741	-
Unrecognised past service costs	(3,015)	-
Net liability in the balance sheet	**726**	**-**

The Group has no legal obligation to settle this liability with an immediate contribution or additional one off contributions. The Group intends to continue to contribute to the defined benefit section of the plan in line with the actuary's latest recommendations.

(b) Amounts recognised in the income statement

No current service costs were charged in 2005 due to the fact that the majority of employees joined the plan at the end of the year.

The amounts recognised in the income statement are as follows:

	2005	2004
Past service cost	726	-
Total included in employee benefits expense	726	-
Actual return on plan assets	**-**	**-**

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

18 Retirement benefit obligations (continued)

(c) Principal actuarial assumptions

The principal actuarial assumptions used (expressed as weighted averages) were as follows:

	2005	2004
Nominal discount rate	7.00% pa	-
Nominal pension entitlement increase (before benefit commencement)	7.10% pa	-
Nominal increase in pensions-in-pay (after benefit commencement)	5.00% pa	-

(d) Changes in the present value of the defined benefit obligation

	2005	2004
Benefit amendments	3,741	-
Defined benefit obligation at the end of the year	**3,741**	**-**

(e) Employer contributions

Employer contributions to the defined benefit section of the plan are based on recommendations by the plan's actuary. Actuarial assessments are made at no more than yearly intervals, and the last such assessment was made as at 31 December 2005.

Total prepayment made by the Company to the fund by 31 December 2005 is USD 1,630 thousand which is recognised as a prepayment made to the fund at 31 December 2005 (2004: nil).

(f) Sensitivity analysis

Sensitivity analysis presented in the table below illustrates the impact of changes in the key assumptions used on the resulting DBO for active members and pensioners as at 31 December 2005:

	Change in DBO as at 31 December 2005	Change in DBO as at 31 December 2004
Real discount rate of 1% p.a. lower than the base case	6%	-
Real benefit entitlement increase of 1% p.a. higher than the base case prior to benefit commencements	6%	-
Annuity rate of 4%	2%	-
Death rates of minus 10% to the base case	1%	-
Withdrawal rates 1%	1%	-

19 Analysis of Revenue by Category

	2005	2004
Rentals	60,810	45,617
Hotel	23,327	19,351
Catering	5,619	4,909
Communication	6,209	5,284
Parking	2,663	2,041
Exhibition	2,366	1,950
Other	2,979	4,298
Total sales	**103,973**	**83,450**

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

20 Operating Income and Expenses

Included in payroll costs are the following expenses:

	2005	2004
Salaries and other payroll related accruals	28,049	20,522
Statutory social security and pension expense	4,967	4,241
Voluntary medical insurance	476	464
Non-statutory defined benefit pension plan expense	726	-
Total Payroll	**34,218**	**25,227**

Other operating expenses comprise:

	2005	2004
Management expenses	643	482
General and admin	521	420
Bank charges	496	378
Advertising	447	443
Professional membership fees	418	29
Security	415	329
Charity	316	363
Loss on managing the business center	286	452
Catering	276	269
Land lease	232	235
Insurance	167	172
Agency commission	52	1,137
Other	1,890	1,332
Total Other expenses	**6,159**	**6,041**

21 Income Taxes

Income tax expense comprises the following:

	2005	2004
Current tax	9,292	6,645
Deferred tax	18,762	17,278
Income tax expense for the year	**28,054**	**23,923**

A reconciliation between the expected and the actual taxation charge is provided below.

	2005	2004
IFRS profit before tax	**111,923**	**98,005**
Theoretical tax charge at statutory rate (2005: 24%; 2004: 24%)	26,862	23,521
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Social expenses out of net profit	313	402
- Non deductible non-statutory pension fund expenses	165	-
- Non deductible membership fees	95	-
- Other	619	-
Income tax expense for the year	**28,054**	**23,923**

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

21 Income Taxes (Continued)

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 24% (2004: 24%).

	1 January 2005	Charged/ (credited) to profit or loss	Charged / (credited) directly to equity	Effect of translation to presentation currency	31 December 2005
Tax effect of deductible temporary differences					
Impairment provision for receivables	27	-	-	(1)	26
Accounts payable	30	16	-	(1)	45
Inventories	445	(297)	-	(11)	137
Defined benefit pension obligation	-	177	-	(3)	174
Gross deferred tax asset	**502**	**(104)**	**-**	**(16)**	**382**
Less offsetting with deferred tax liabilities	**(502)**	**104**	**-**	**16**	**(382)**
Recognised deferred tax asset	**-**	**-**	**-**	**-**	**-**
Tax effect of taxable temporary differences					
Property, plant and equipment	(23,387)	(1,220)	(7,665)	992	(31,280)
Investment properties	(58,744)	(17,040)	-	2,401	(73,383)
Defined benefit pension plan	-	(398)	-	7	(391)
Gross deferred tax liability	**(82,131)**	**(18,658)**	**(7,665)**	**3,400**	**(105,054)**
Less offsetting with deferred tax assets	**502**	**(104)**	**-**	**(16)**	**382**
Recognised deferred tax liability	**(81,629)**	**(18,762)**	**(7,665)**	**3,384**	**(104,672)**

Included in the deferred income tax liability at 31 December 2005 is the amount of USD 1,671 thousand that is expected to be recovered within 12 months.

	1 January 2004	Charged/ (credited) to profit or loss	Charged / (credited) directly to equity	Effect of translation to presentation currency	31 December 2004
Tax effect of deductible temporary differences					
Impairment provision for receivables	-	26	-	1	27
Accounts payable	14	15	-	1	30
Inventories	390	29	-	26	445
Gross deferred tax asset	**404**	**70**	**-**	**28**	**502**
Less offsetting with deferred tax liabilities	**(404)**	**(70)**	**-**	**(28)**	**(502)**
Recognised deferred tax asset	**-**	**-**	**-**	**-**	**-**
Tax effect of taxable temporary differences					
Property, plant and equipment	(11,130)	(1,508)	(9,637)	(1,112)	(23,387)
Investment properties	(39,849)	(15,840)	-	(3,055)	(58,744)
Gross deferred tax liability	**(50,979)**	**(17,348)**	**(9,637)**	**(4,167)**	**(82,131)**
Less offsetting with deferred tax assets	**404**	**70**	**-**	**28**	**502**
Recognised deferred tax liability	**(50,575)**	**(17,278)**	**(9,637)**	**(4,139)**	**(81,629)**

Included in the deferred income tax liability at 31 December 2004 is the amount of USD 1,224 thousand that is expected to be recovered within 12 months.

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

22 Earnings per Share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

At present the Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equals the basic earnings per share.

Earnings per share are calculated as follows:

	2005	2004
Profit (all from continuing operations) attributable to equity holders of the Company	83,615	73,887
Weighted average number of ordinary shares in issue	1,017,189,317	1,067,280,000
Basic and diluted earnings per share (all from continuing operations) for profit attributable to equity holder of the Company (expressed in USD per share)	**0.0822**	**0.0692**

23 Contingencies, Commitments and Operating Risks

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the Management is of the opinion that no material losses will be incurred in respect of claims, accordingly no provisions have been made in these consolidated financial statements.

At 31 December 2005 and 31 December 2004 the Group was not engaged in litigation proceedings.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice with this respect is contradictory.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant.

The tax consequence of transactions for Russian taxation purposes is frequently determined by the form in which transactions are documented and the underlying accounting treatment prescribed by Russian Accounting Rules. Accordingly, the Group structures certain transactions so as to take advantage of such form driven determinations to reduce the overall effective tax rate of the Group. The consolidated income statement as presented in these consolidated financial statements includes reclassifications to reflect the underlying economic substance of those transactions. The effect of these reclassifications does not have an effect on the Group's profit before tax.

All amounts are measured in Russian Roubles and presented in thousands of US Dollars (Note 2)

23 Contingencies, Commitments and Operating Risks (Continued)

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2005 no provision for potential tax liabilities had been recorded (2004: no provision). The Group estimates that it has potential obligations from exposure to other than remote tax risks of USD 1,050 thousand at 31 December 2005 and nil 31 December 2004.

Capital expenditure commitments. At 31 December 2005 the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling USD 3,065 thousand (2004: USD 15,752 thousand) payable not later than 1 year from the respective reporting date.

Commitments under the franchise agreement. In December 2005 the Group entered into a franchise agreement with Six Continents Hotels, Inc. (now known as InterContinental) under which the Group will be paying a royalty fee entitling it to rename its Mezhdunarodnaya Hotel the "Crown Plaza Moscow – World Trade Center" and the use of certain other related service marks, trademarks, copyrights and designs. Under the agreement, the Group will pay a one-off fixed amount of USD 228,800 to InterContinental and pay a monthly variable royalty fee which is the greater of a fixed percentage of the Group's gross room revenue or USD 50,000 per year. In addition, the Group will pay a one-off fixed amount of USD 170,000 for technical support. The Group assessed their commitments under the above agreement based on a percentage of estimated gross room revenue.

At 31 December 2005 the Group had the following commitments under the above agreement:

	2005	2004
Not later than 1 year	398	-
Later than 1 year and not later than 5 years	5,875	-
Later than 5 years	2,525	-
Total commitments under the franchise agreement	**8,798**	**-**

Operating lease commitments. The Group is the lessee to a land lease agreement, and the future minimum lease payments under non-cancellable operating leases are as follows:

	2005	2004
Not later than 1 year	228	237
Later than 1 year and not later than 5 years	362	564
Later than 5 years	64	113
Total operating lease commitments	**654**	**914**

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Assets pledged and restricted. At 31 December 2005 the Group did not have any assets pledged as collateral.

Hedging activities. The Group does not engage in any hedging activities.

Environmental matters. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Operating environment of the Group. Whilst there have been improvements in economic trends in the Russian Federation, the country continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

24 Financial Risk Management

Credit risk. Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and primarily on credit terms for rental income. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

Market risk. The Group takes on exposure to market risks. Market risks arise from commodity prices and open positions in interest rate, currency and equity financial instruments, all of which are exposed to general and specific market movements.

Foreign exchange risk. The Group maintains USD denominated bank accounts, receives payments in USD from customers as well as invests cash into the short term USD denominated bank deposits. Foreign currency denominated assets (see Notes 11, 12 and 13) give rise to foreign exchange exposure. The Board of Directors sets limits on the level of exposure by currency and in total. Compliance with limits is monitored regularly.

Cash flow and fair value interest rate risk. The Group's income and operating cash flows are not exposed to changes in market interest rates. The Group has no significant interest-bearing assets.

Liquidity risk. Prudent liquidity risk management mainly implies maintaining sufficient cash. Due to the dynamic nature of the underlying businesses, Group Finance Department aims to maintain flexibility in funding by keeping sufficient cash available.

Management prepares annual budgets and quarterly plans and monitors the Group's performance against those budgets. Also, marketing department monitors current market rates and updates plans and prices lists if there are significant fluctuations.

25 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading and available-for-sale investments are carried on the consolidated balance sheet at their fair value. Cash and cash equivalents are carried at amortised cost which approximates current fair value. Refer to Note 11.

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade receivables approximate fair values.

26 Events After the Balance Sheet Date

Dividends. Management proposed to the Annual General Meeting of the Shareholders held in May 2006 a dividend on ordinary shares of USD 2,105 thousand (USD 0.002 per ordinary share) and a dividend on preference shares of USD 315 thousand (USD 0.002 per preference share or 5.246% of the nominal value of the underlying preference shares).