

OJSC LSR Group

**Consolidated Financial Statements
for the year ended 31 December 2008**

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Independent Auditors' Report

Board of Directors of OJSC LSR Group

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OJSC LSR Group (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

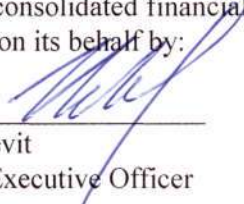
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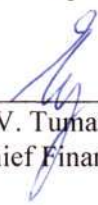
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17 April 2009

		2008	2007	2008	2007
	Note	'000 RUR	'000 RUR	'000 USD	'000 USD
Revenue		49,813,079	35,837,606	2,004,123	1,402,558
Cost of sales		(31,807,408)	(23,861,326)	(1,279,703)	(933,849)
Gross profit		18,005,671	11,976,280	724,420	468,709
Distribution expenses		(2,226,311)	(1,753,754)	(89,571)	(68,636)
Administrative expenses	8	(4,446,387)	(3,755,481)	(178,891)	(146,976)
Change in fair value of investment property	16/17	(16,142,635)	8,036,691	(649,465)	314,528
Impairment losses on goodwill	15	(390,986)	-	(15,730)	-
Other income	9	182	-	7	-
Other expenses	9	(203,538)	(123,962)	(8,189)	(4,851)
Results from operating activities		(5,404,004)	14,379,774	(217,419)	562,774
Financial income	11	389,771	565,830	15,682	22,145
Financial expenses	11	(5,248,010)	(2,454,608)	(211,142)	(96,065)
(Loss) / profit before income tax		(10,262,243)	12,490,996	(412,879)	488,854
Income tax benefit / (expense)	12	2,255,168	(3,311,197)	90,732	(129,589)
(Loss) / profit for the year		(8,007,075)	9,179,799	(322,147)	359,265
Attributable to:					
Shareholders of the Company		(8,177,051)	8,885,424	(328,986)	347,744
Minority interest		169,976	294,375	6,839	11,521
		(8,007,075)	9,179,799	(322,147)	359,265
Basic and diluted (loss)/earnings per share	25				
Ordinary shares		(87.30) RUR	101.81 RUR	(3.51) USD	3.98 USD

These consolidated financial statements were approved by management on 17 April 2009 and were signed on its behalf by:


 I.M. Levit
 Chief Executive Officer


 E.V. Tumanova
 Chief Financial Officer

		31 December 2008	31 December 2007	31 December 2008	31 December 2007
	Note	'000 RUR	'000 RUR	'000 USD	'000 USD
ASSETS					
Non-current assets					
Property, plant and equipment	14	28,314,000	17,820,781	963,704	726,010
Investment property under development	16	5,488,448	20,738,335	186,806	844,869
Investment property	17	1,925,057	2,040,056	65,522	83,111
Intangible assets	15	4,615,488	1,229,853	157,094	50,104
Other investments	18	124,627	45,768	4,242	1,865
Deferred tax assets	19	876,831	419,331	29,844	17,083
Trade and other receivables	21	1,206,318	1,050,098	41,059	42,781
Restricted cash	23	4,259,234	54,861	144,969	2,235
Total non-current assets		46,810,003	43,399,083	1,593,240	1,768,058
Current assets					
Other investments	18	133,648	296,614	4,549	12,084
Inventories	20	50,237,001	32,981,623	1,709,881	1,343,655
Income tax receivable		290,156	160,166	9,876	6,525
Trade and other receivables	21	13,120,081	9,357,318	446,559	381,212
Cash and cash equivalents	22	3,246,060	8,653,612	110,483	352,544
Assets classified as held for sale	6	61,903	28,309	2,107	1,153
Total current assets		67,088,849	51,477,642	2,283,455	2,097,173
Total assets		113,898,852	94,876,725	3,876,695	3,865,231

		31 December 2008	31 December 2007	31 December 2008	31 December 2007
	Note	'000 RUR	'000 RUR	'000 USD	'000 USD
EQUITY AND LIABILITIES					
Equity	24				
Share capital		32,235	30,106	1,164	1,078
Restitutable Shares Reserve		-	14,564,829	-	570,017
Share premium		14,562,700	-	569,931	-
Additional paid in capital		16,477,226	16,428,655	638,450	636,495
Foreign currency translation reserve		21,782	30,607	(154,016)	84,829
Retained earnings		3,231,009	11,408,060	110,397	439,383
Total equity attributable to shareholders of the Company		34,324,952	42,462,257	1,165,926	1,731,802
Minority interest		648,530	514,395	24,442	19,045
Total equity		34,973,482	42,976,652	1,190,368	1,750,847
Non-current liabilities					
Loans and borrowings	26	18,863,532	13,347,929	642,045	543,788
Deferred tax liabilities	19	2,246,027	5,801,563	76,446	236,352
Trade and other payables	28	37,165	253,393	1,266	10,323
Provisions	27	1,700	7,565	58	308
Total non-current liabilities		21,148,424	19,410,450	719,815	790,771
Current liabilities					
Bank overdrafts	22	57,937	60,163	1,972	2,451
Loans and borrowings	26	17,952,486	10,743,375	611,036	437,680
Income tax payable		323,374	342,323	11,006	13,947
Trade and other payables	28	38,550,004	20,643,781	1,312,099	841,018
Provisions	27	885,556	689,878	30,141	28,105
Liabilities classified as held for sale	6	7,589	10,103	258	412
Total current liabilities		57,776,946	32,489,623	1,966,512	1,323,613
Total liabilities		78,925,370	51,900,073	2,686,327	2,114,384
Total equity and liabilities		113,898,852	94,876,725	3,876,695	3,865,231

OJSC LSR Group
Consolidated Statement of Cash Flows for the year ended at 31 December 2008

	2008	2007	2008	2007
	'000 RUR	'000 RUR	'000 USD	'000 USD
OPERATING ACTIVITIES				
(Loss) / profit for the year	(8,007,075)	9,179,799	(322,147)	359,265
Adjustments for:				
Depreciation and amortisation	2,048,597	1,559,920	82,421	61,050
(Gain) / loss on disposal of property, plant and equipment	156,618	39,281	6,301	1,537
Change in fair value of investment property	16,142,635	(8,036,691)	649,465	(314,528)
Impairment losses on goodwill	390,986	-	15,730	-
Net finance expense	4,858,239	1,888,778	195,460	73,920
Income tax (benefit) / expense	(2,255,168)	3,311,197	(90,732)	129,589
Operating profit before changes in working capital and provisions	13,334,832	7,942,284	536,498	310,833
Increase in inventories	(12,165,552)	(12,269,035)	(489,455)	(480,167)
Increase in trade and other receivables	(1,809,952)	(3,937,772)	(72,820)	(154,111)
Increase in trade and other payables	10,547,135	2,553,955	424,341	99,953
Increase in provisions	176,499	484,403	7,101	18,958
Cash flows from / (utilized by) operations before income taxes and interest paid	10,082,962	(5,226,165)	405,665	(204,534)
Income taxes paid	(2,752,285)	(1,466,216)	(110,732)	(57,383)
Interest paid	(2,957,333)	(1,799,113)	(118,982)	(70,411)
Cash flows from / (utilised by) operating activities	4,373,344	(8,491,494)	175,951	(332,328)

	2008	2007	2008	2007
	'000 RUR	'000 RUR	'000 USD	'000 USD
INVESTING ACTIVITIES				
Proceeds from disposal of non-current assets	364,976	224,681	14,684	8,793
Interest received	324,707	66,766	13,064	2,613
Acquisition of property, plant and equipment	(9,319,623)	(4,909,523)	(374,955)	(192,142)
Increase in restricted cash	(4,204,373)	(54,861)	(142,734)	(2,235)
Acquisition of intangible assets	(26,680)	(15,563)	(1,073)	(609)
Acquisition of investment property and investment property under development	(849,989)	(702,647)	(34,198)	(27,499)
Loans given	(159,430)	(1,429,070)	(6,414)	(55,930)
Loans repaid	428,175	1,680,903	17,227	65,785
Disposal of subsidiaries, net of cash disposed of	-	169,872	-	6,648
Acquisition of subsidiaries, net of cash acquired	(4,572,149)	(1,153,019)	(183,951)	(45,125)
Acquisition of minority interest	(151,277)	(218,676)	(6,086)	(8,557)
Disposal of minority holdings in subsidiaries	29,930	47,367	1,204	1,854
Purchase of other investments	(13,234)	-	(532)	-
Cash flows utilised by investing activities	(18,148,967)	(6,293,770)	(703,764)	(246,404)
FINANCING ACTIVITIES				
Proceeds from borrowings	27,750,665	28,110,210	1,116,489	1,100,135
Repayment of borrowings	(18,701,306)	(19,421,986)	(752,407)	(760,109)
Proceeds from the sale of restitutable shares	-	14,530,883	-	568,688
Distribution to shareholders	(40,140)	-	(1,615)	-
Payment of finance lease liabilities	(773,421)	(1,256,418)	(31,117)	(49,171)
Cash flows from financing activities	8,235,798	21,962,689	331,350	859,543
Net increase / (decrease) in cash and cash equivalents	(5,539,825)	7,177,425	(196,463)	280,811
Cash and cash equivalents at beginning of year	8,593,449	1,582,278	350,093	60,092
Effect of exchange rate fluctuations on cash and cash equivalents	134,499	(166,254)	(45,119)	9,190
Cash and cash equivalents at end of year (note 22)	3,188,123	8,593,449	108,511	350,093

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 14 to 97.

'000 RUR	Attributable to shareholders of the Company						Minority interest	Total equity	
	Share capital	Restitutable shares reserve	Share premium	Additional paid in capital	Foreign currency translation reserve	Retained earnings			Total
Balance at 1 January 2007	30,106	-	-	2,145,697	-	2,522,636	4,698,439	441,248	5,139,687
Profit for the year	-	-	-	-	-	8,885,424	8,885,424	294,375	9,179,799
Foreign exchange translation differences	-	-	-	-	30,607	-	30,607	-	30,607
Total recognised income and expense for the year	-	-	-	-	30,607	8,885,424	8,916,031	294,375	9,210,406
Excess of book values of net assets acquired for entities under common control over consideration paid	-	-	-	5,615,861	-	-	5,615,861	93,321	5,709,182
Excess of minority interest acquired for entities under common control over consideration paid	-	-	-	8,992,107	-	-	8,992,107	(610,440)	8,381,667
Excess of consideration paid over minority interest acquired for entities under common control	-	-	-	(74,482)	-	-	(74,482)	-	(74,482)
Excess of consideration received over minority interest sold for entities under common control	-	-	-	4,821	-	-	4,821	296,166	300,987
Excess of minority interest sold over consideration received for entities under common control	-	-	-	(255,909)	-	-	(255,909)	-	(255,909)
Excess of book values of net assets sold for entities under common control over consideration received	-	-	-	(14)	-	-	(14)	(275)	(289)
Excess of consideration received for entities under common control over book values of net assets sold	-	-	-	574	-	-	574	-	574
Restitutable Shares Reserve	-	14,564,829	-	-	-	-	14,564,829	-	14,564,829
Balance at 31 December 2007	30,106	14,564,829	-	16,428,655	30,607	11,408,060	42,462,257	514,395	42,976,652

'000 RUR	Attributable to shareholders of the Company							Minority interest	Total equity
	Share capital	Restitutable shares reserve	Share premium	Additional paid in capital	Foreign currency translation reserve	Retained earnings	Total		
Balance at 1 January 2008	30,106	14,564,829	-	16,428,655	30,607	11,408,060	42,462,257	514,395	42,976,652
Foreign exchange translation differences	-	-	-	-	(8,825)	-	(8,825)	-	(8,825)
(Loss) / profit for the year	-	-	-	-	-	(8,177,051)	(8,177,051)	169,976	(8,007,075)
Total recognised income and expense for the year	-	-	-	-	(8,825)	(8,177,051)	(8,185,876)	169,976	(8,015,900)
Contribution from shareholder	-	-	-	163	-	-	163	-	163
Excess of book values of net assets acquired for entities under common control over consideration paid	-	-	-	18,815	-	-	18,815	-	18,815
Excess of minority interest acquired for entities under common control over consideration paid	-	-	-	429,604	-	-	429,604	(524,828)	(95,224)
Excess of consideration paid over minority interest acquired for entities under common control	-	-	-	(27,351)	-	-	(27,351)	(28,702)	(56,053)
Excess of consideration received for entities under common control over book values of net assets sold	-	-	-	1,992	-	-	1,992	-	1,992
Excess of minority interest sold over consideration received for entities under common control	-	-	-	(334,512)	-	-	(334,512)	362,450	27,938
Acquisition of subsidiaries	-	-	-	-	-	-	-	155,239	155,239
Distribution to shareholders	-	-	-	(40,140)	-	-	(40,140)	-	(40,140)
Shares issued	2,129	(14,564,829)	14,562,700	-	-	-	-	-	-
Balance at 31 December 2008	32,235	-	14,562,700	16,477,226	21,782	3,231,009	34,324,952	648,530	34,973,482

'000 USD	Attributable to shareholders of the Company						Minority interest	Total	
	Share capital	Restitutable shares reserve	Share premium	Additional paid in capital	Foreign currency translation reserve	Retained earnings	Total		
Balance at 1 January 2007	1,078	-	-	77,510	8,785	91,639	179,012	16,182	195,194
Profit for the year	-	-	-	-	-	347,744	347,744	11,521	359,265
Foreign exchange translation differences	-	-	-	-	76,044	-	76,044	-	76,044
Total recognised income and expense for the year	-	-	-	-	76,044	347,744	423,788	11,521	435,309
Excess of book values of net assets acquired for entities under common control over consideration paid	-	-	-	219,785	-	-	219,785	3,652	223,437
Excess of minority interest acquired for entities under common control over consideration paid	-	-	-	351,920	-	-	351,920	(23,890)	328,030
Excess of consideration paid over minority interest acquired for entities under common control	-	-	-	(2,915)	-	-	(2,915)	-	(2,915)
Excess of consideration received over minority holdings in subsidiaries sold for entities under common control	-	-	-	189	-	-	189	11,591	11,780
Excess of minority interest sold over consideration received for entities under common control	-	-	-	(10,015)	-	-	(10,015)	-	(10,015)
Excess of book values of net assets sold for entities under common control over consideration received	-	-	-	(1)	-	-	(1)	(11)	(12)
Excess of consideration received for entities under common control over book values of net assets sold	-	-	-	22	-	-	22	-	22
Restitutable Shares Reserve	-	570,017	-	-	-	-	570,017	-	570,017
Balance at 31 December 2007	<u>1,078</u>	<u>570,017</u>	<u>-</u>	<u>636,495</u>	<u>84,829</u>	<u>439,383</u>	<u>1,731,802</u>	<u>19,045</u>	<u>1,750,847</u>

'000 USD	Attributable to shareholders of the Company						Minority interest	Total	
	Share capital	Restitutable shares reserve	Share premium	Additional paid in capital	Foreign currency translation reserve	Retained earnings	Total		
Balance at 1 January 2008	1,078	570,017	-	636,495	84,829	439,383	1,731,802	19,045	1,750,847
(Loss) /profit for the year	-	-	-	-	-	(328,986)	(328,986)	6,839	(322,147)
Foreign exchange translation differences	-	-	-	-	(238,845)	-	(238,845)	-	(238,845)
Total recognised income and expense for the year	-	-	-	-	(238,845)	(328,986)	(567,831)	6,839	(560,992)
Contribution from shareholder	-	-	-	7	-	-	7	-	7
Excess of book values of net assets acquired for entities under common control over consideration paid	-	-	-	757	-	-	757	-	757
Excess of minority interest acquired for entities under common control over consideration paid	-	-	-	17,284	-	-	17,284	(21,115)	(3,831)
Excess of consideration paid over minority interest acquired for entities under common control	-	-	-	(1,100)	-	-	(1,100)	(1,155)	(2,255)
Excess of consideration received for entities under common control over book values of net assets sold	-	-	-	80	-	-	80	-	80
Excess of minority interest sold over consideration received for entities under common control	-	-	-	(13,458)	-	-	(13,458)	14,582	1,124
Acquisition of subsidiaries	-	-	-	-	-	-	-	6,246	6,246
Distribution to shareholders	-	-	-	(1,615)	-	-	(1,615)	-	(1,615)
Shares issued	86	(570,017)	569,931	-	-	-	-	-	-
Balance at 31 December 2008	<u>1,164</u>	<u>-</u>	<u>569,931</u>	<u>638,450</u>	<u>(154,016)</u>	<u>110,397</u>	<u>1,165,926</u>	<u>24,442</u>	<u>1,190,368</u>

1 Background

(a) Organisation and operations

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

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

The Group’s principal activities include real estate development in St. Petersburg, Munich and Moscow, prefabricated panel construction in St. Petersburg and Yekaterinburg, commercial real estate development in St. Petersburg and Moscow, the production of building materials at plants located in Russia (St. Petersburg, Leningrad region and Urals Region), Latvia Estonia and Ukraine the extraction and processing of aggregates in different areas of Leningrad region, and the provision of construction services. These products and services are sold mainly in Russia.

The Group’s significant subsidiaries are detailed in note 33.

The Group is ultimately controlled (72.9%) by a single individual, Mr. A. Molchanov, who has the power to direct the transactions of the Group at his own discretion and for his own benefit. In November 2007 the Group completed its public offering of 10,643,718 ordinary shares at USD 72.50 each and placed global depository receipts (“GDR’s”) on the London Stock Exchange as well as shares on the Not-for-Profit Partnership Stock Exchange “Russian Trading System” and Closed Joint Stock Company “Moscow Interbank Currency Exchange”. Related party transactions are detailed in note 32.

(b) Russian business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that investment properties, the land components of investment properties under development and financial investments classified as available-for-sale are stated at fair value; and the carrying

amounts of assets, liabilities and equity items in existence at 31 December 2002 may include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

- Note 15 – impairment;
- Notes 16 and 17 – determination of Fair Values of investment properties and the land components of investment properties under development;
- Note 27 – warranty provision, provision for site restoration and environment restoration; and
- Note 31 – contingencies.

3 Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are described in note 3(a) to 3(u). These accounting policies have been consistently applied. The following comparative information was reclassified as follows:

- Prepayments received for flats in the amount of RUR 8,858,509 thousand / USD 360,891 thousand was reclassified from long-term payables to short-term payables.
- Prepayments, issued for flats in the amount of RUR 308,527 thousand / USD 12,569 thousand was reclassified from long-term receivables to short-term receivables.

- Deferred tax assets in the amount of RUR 876,193 thousand / USD 35,696 thousand were set off with deferred tax liabilities.
- Administrative expenses in the amount of RUR 87,326 thousand / USD 3,418 thousand were reclassified to other expenses.
- Financial income in the amount of RUR 304,623 thousand / USD 11,921 thousand was set off with financial expenses.
- Cash and cash equivalents in the amount of RUR 53,747 thousand / USD 2,190 thousand were reclassified to restricted cash.

Management believes that such presentation is more appropriate.

(a) Basis of consolidation

(i) *Subsidiaries*

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

(ii) *Special purpose entities*

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

(iii) *Acquisitions from entities under common control*

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Company are accounted for at the date of transfer of shares to the Group. The assets and liabilities acquired are recognised at their carrying amounts in the financial statements of the entities transferred. If these companies previously have not prepared IFRS financial statements, assets and liabilities are determined in accordance with IFRS1. Any difference between the book value of net assets acquired and consideration paid is recognised as a contribution from, or distribution to, shareholders.

(iv) *Disposals to entities under common control*

Disposals of controlling interests in entities to the same controlling shareholder that controls the Company are accounted for at the date of transfer of shares from the Group. The assets and

liabilities sold are derecognised at their book values as recognised in the financial statements of the Group. Any difference between the book value of net assets sold and consideration received is recognised as a contribution from, or a distribution to, shareholders.

(v) *Acquisitions and disposals of minority interests*

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

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

(vi) *Transactions eliminated on consolidation*

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

(b) *Foreign currencies*

(i) *Foreign currency transactions*

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

(ii) *Foreign operations*

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

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

(iii) *Translation to presentation currency*

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

(c) Financial instruments

(i) Non-derivative financial instruments

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

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

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

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement

Loans and receivables

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

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be estimated on a reasonable basis by other means, investments are stated at cost less impairment losses.

(d) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital (treasury shares)

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

(e) Property, plant and equipment

(i) Recognition and measurement

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

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

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

Gains and losses on disposal of an item of property, plant and equipment are recognised net in "other income" in the income statement.

(ii) Investment property under development and reclassification of owner occupied property

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

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

(iii) Subsequent costs

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

(iv) Depreciation

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

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

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

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

(f) Intangible assets

(i) Goodwill and negative goodwill

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

Acquisitions prior to 1 January 2005

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

Acquisitions on or after 1 January 2005

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

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The capitalised expenditure includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iv) Subsequent expenditure

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

(v) Amortisation

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

(g) Leased assets

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

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet. Acquired rights to lease of land for development are recognised at cost in inventory or investment property under development.

(h) Investment property under development

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

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

In the absence of current prices in an active market, the fair values of land are established by considering the aggregate of the estimated cash flows expected to be received from renting out the property less the estimated costs, including developer's profit margin, to complete the individual projects to the stage where they could be marketed as well as actual costs incurred. Discount rate that reflects the specific risks inherent in the net cash flows is applied to the net annual cash flows to arrive at the property valuation.

(i) Investment property

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

(j) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the

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

(k) Impairment

(i) *Financial assets*

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

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

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

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

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

(ii) *Non-financial assets*

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business acquisition, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

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

(l) Non-current assets held for sale

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

(m) Employee benefits

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

(n) Provisions

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

(i) Site restoration

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

(ii) Onerous contracts

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

(o) Revenues

(i) Goods sold

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

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

(ii) Services

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

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

(iii) Construction contracts

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

(iv) Rental income

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

(p) Other expenses

(i) Lease payments

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

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

(ii) Social expenditure

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

(q) Financial income and expenses

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

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

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

(r) Income tax expense

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to

be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

(s) Earnings per share

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

(t) Segment reporting

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

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

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(u) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2008, and have not been applied in preparing this consolidated financial statements. The Group plans to adopt these pronouncements when they become effective. Of these pronouncements, potentially the following will have an impact on the Group's operations.

- IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8 *Operating Segments*, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business segments (refer to note 5 Segment Reporting).

- Revised IAS 1 *Presentation of Financial Statements (2007)* will become mandatory for the Group's 2009 consolidated financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.
- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised IAS 23 to qualifying assets for which capitalization of borrowing costs commences on or after the effective date. Currently it is impracticable to evaluate the effect of the adoption of the revised standard on the consolidated financial statements.
- Amended IAS 27 *Consolidated and Separate Financial Statements (2008)* requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in the income statement. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009 consolidated financial statements, with retrospective application required, are not expected to have any impact on the consolidated financial statements.
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment, which becomes mandatory for the Group's 2010 consolidated financial statements, with retrospective application required, is not expected to have any impact on the consolidated financial statements.
- Amendment to IFRS 2 *Share-based Payment – Vesting conditions and cancellations* clarify the definition of vesting conditions, introduce the concept of non-vesting conditions, require non-vesting conditions to be reflected in grant-date fair value and provide the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 consolidated financial statements, with retrospective application, is not expected to have any impact on the consolidated financial statements.
- Revised IFRS 3 *Business Combinations (2008)* and amended IAS 27 (2008) *Consolidated and Separate Financial Statements*, which come into effect on 1 July 2009 (i.e. become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to recognise the effects of transactions with non-controlling interest directly in equity.

- IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements, is not expected to have any effect on the consolidated financial statements.
- IFRIC 15 *Agreements for the Construction of Real Estate* addresses the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Group has not yet analysed the likely impact of IFRIC 15 requirements on the consolidated financial statements.
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* applies to all entities using net investment hedging for its investments in foreign operations. IFRIC 16 clarifies the nature of the hedged risk and the amount of the hedged item for which a hedging relationship may be designated. It also addresses where in a group the hedging instrument can be held and provides guidance on the consequences of disposal of a hedged foreign operation. IFRIC 16 will come into effect on 1 October 2008 (i.e. becomes mandatory for the Group's 2009 consolidated financial statements).
- IFRIC 17 *Distributions of Non-cash Assets to Owners* addresses the accounting of non-cash dividend distributions to owners. The interpretation clarifies when and how the non-cash dividend should be recognised and how the differences between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 becomes effective for annual periods beginning on or after 1 July 2009.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purpose, will come into effect not earlier than 1 January 2009. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

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

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to

reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

(b) Investment property and investment property under development

The fair value of investment property and the land component of investment property under development is based on valuations, performed by independent valuers, who hold recognized and relevant professional qualifications and who have recent experience in the location and category of the investment property being valued. The valuations are based primarily on comparable rents, discount rates, yields and sales prices from recent market transactions on an arm's lengths basis, using the Discounted Cash Flow technique for investment property under development and income approach for investment property, undertaken according to the requirements of the United Kingdom's Royal Institution of Chartered Surveyors Appraisal and Valuation Manual.

(c) Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(d) Inventories

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

(e) Trade and other receivables

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

(f) Non-derivative financial liabilities

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

5 Segment reporting

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

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

(a) Business segments

The Group comprises the following main business segments:

Real Estate Development. companies specialize in the development of elite, mass-market and business class residential real estate, gated communities and A+ class commercial real estate

Commercial real estate. Commercial real estate company owns and operates business centres.

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

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

Construction. Construction companies specialize in panel construction.

Construction services. Construction services companies specialize in providing of tower cranes services, transportation of construction materials and foundation works.

In 2008 management of the Group has reconsidered the operational activity of OOO Stroitelny trest № 28 and ZAO Stroitelny trest № 28 resulting in the transfer of operational and financial results of the companies from the Construction business segment to the Construction services business segment. Comparative data has been changed respectively.

(b) Geographical segments

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

(i) **Business segments****Year ended 31 December 2008**

'000 RUR

	Real estate development	Commercial real estate	Building materials	Aggregates	Construction	Construction services	Other entities	Eliminations	Consolidated
Revenue from external customers	12,158,482	169,908	18,463,080	7,201,705	9,652,348	2,063,029	104,527	-	49,813,079
Inter-segment revenue	59,247	10,754	1,229,038	1,317,915	3,466,710	689,289	-	(6,772,953)	-
Total segment revenue	<u>12,217,729</u>	<u>180,662</u>	<u>19,692,118</u>	<u>8,519,620</u>	<u>13,119,058</u>	<u>2,752,318</u>	<u>104,527</u>	<u>(6,772,953)</u>	<u>49,813,079</u>
Segment result	(11,522,893)	(545,424)	2,891,788	2,633,572	2,699,891	574,417	-	(726,573)	(3,995,222)
Unallocated expenses									(1,408,782)
Financial income									389,771
Financial expenses									(5,248,010)
Income tax benefit									2,255,168
Loss for the year									<u>(8,007,075)</u>

Depreciation/amortisation

30,972	1,165	717,471	513,276	421,068	277,090	87,555	-	2,048,597
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Capital expenditure

224,723	1,222	6,662,829	853,823	1,239,005	1,163,966	300,063	(115,893)	10,329,738
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Year ended 31 December 2007

'000 RUR

	Real estate development	Commercial real estate	Building materials	Aggregates	Construction	Construction services	Other entities	Eliminations	Consolidated
Revenue from external customers	9,814,751	83,055	15,493,280	4,530,520	4,281,348	1,619,215	15,437	-	35,837,606
Inter-segment revenue	357,124	10,433	980,806	992,473	1,489,301	777,933	-	(4,608,070)	-
Total revenue	<u>10,171,875</u>	<u>93,488</u>	<u>16,474,086</u>	<u>5,522,993</u>	<u>5,770,649</u>	<u>2,397,148</u>	<u>15,437</u>	<u>(4,608,070)</u>	<u>35,837,606</u>
Segment result	9,284,936	1,209,581	2,768,568	1,586,712	624,776	455,650	-	(623,801)	15,306,422
Unallocated expenses									(926,648)
Financial income									565,830
Financial expenses									(2,454,608)
Income tax expense									(3,311,197)
Profit for the year									<u>9,179,799</u>

Depreciation/amortisation

20,608	328	549,297	413,709	211,908	220,847	136,969	-	1,553,666
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Capital expenditure

233,965	3,763	3,103,435	1,295,098	621,569	1,039,252	225,412	(3,249)	6,519,245
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Year ended 31 December 2008	Real estate development	Commercial real estate	Building materials	Aggregates	Construction	Construction services	Other entities	Eliminations	Consolidated
'000 USD									
Revenue from external customers	489,171	6,836	742,823	289,745	388,342	83,002	4,204	-	2,004,123
Inter-segment revenue	2,384	433	49,448	53,024	139,476	27,732	-	(272,497)	-
Total revenue	491,555	7,269	792,271	342,769	527,818	110,734	4,204	(272,497)	2,004,123
Segment result	(463,599)	(21,944)	116,345	105,956	108,624	23,110	-	(29,232)	(160,740)
Unallocated expenses									(56,679)
Financial income									15,682
Financial expenses									(211,142)
Income tax benefit									90,732
Profit for the year									(322,147)
Depreciation/amortisation	1,246	47	28,866	20,651	16,941	11,148	3,523	-	82,422
Capital expenditure	9,041	49	268,065	34,352	49,849	46,830	12,072	(4,664)	415,594
Year ended 31 December 2007									
'000 USD									
Revenue from external customers	384,115	3,250	606,353	177,309	167,557	63,370	604	-	1,402,558
Inter-segment revenue	13,977	408	38,385	38,842	58,286	30,446	-	(180,344)	-
Total revenue	398,092	3,658	644,738	216,151	225,843	93,816	604	(180,344)	1,402,558
Segment result	363,380	47,339	108,352	62,098	24,452	17,833	-	(24,414)	599,040
Unallocated expenses									(36,266)
Financial income									22,145
Financial expenses									(96,065)
Income tax expense									(129,589)
Profit for the year									359,265
Depreciation/amortisation	807	13	21,498	16,191	8,293	8,643	5,360	-	60,805
Capital expenditure	9,157	147	121,458	50,686	24,326	40,673	8,822	(128)	255,141

Year ended 31 December 2008	Real estate	Commercial	Building			Construction	Other		
'000 RUR	development	real estate	materials	Aggregates	Construction	services	entities	Eliminations	Consolidated
Segment assets	73,004,595	1,426,309	25,572,343	8,000,668	10,226,774	3,664,287	-	(17,631,645)	104,263,331
Unallocated assets									9,635,521
Total assets									113,898,852
Segment liabilities	40,128,474	426,504	6,122,518	1,244,996	2,903,145	1,431,294	-	(15,838,019)	36,418,912
Unallocated liabilities									42,506,458
Total liabilities									78,925,370
Year ended 31 December 2007	Real estate	Commercial	Building			Construction	Other		
'000 RUR	development	real estate	materials	Aggregates	Construction	services	entities	Eliminations	Consolidated
Segment assets	66,817,653	2,078,624	15,253,511	3,971,175	5,693,274	2,988,207	-	(12,977,531)	83,824,913
Unallocated assets									11,051,812
Total assets									94,876,725
Segment liabilities	27,199,819	46,839	5,361,272	477,226	2,030,261	1,273,008	-	(15,131,692)	21,256,733
Unallocated liabilities									30,643,340
Total liabilities									51,900,073

Year ended 31 December 2008	Real estate development	Commercial real estate	Building materials	Aggregates	Construction	Construction services	Other entities	Eliminations	Consolidated
'000 USD									
Segment assets	2,484,806	48,546	870,388	272,313	348,081	124,719	-	(600,116)	3,548,737
Unallocated assets									327,958
Total assets									3,876,695
Segment liabilities	1,365,825	14,517	208,388	42,375	98,812	48,716	-	(539,067)	1,239,566
Unallocated liabilities									1,446,761
Total liabilities									2,686,327
Year ended 31 December 2007	Real estate development	Commercial real estate	Building materials	Aggregates	Construction	Construction services	Other entities	Eliminations	Consolidated
'000 USD									
Segment assets	2,722,118	84,682	621,420	161,784	231,941	121,738	-	(528,698)	3,414,985
Unallocated assets									450,246
Total assets									3,865,231
Segment liabilities	1,108,107	1,908	218,416	19,442	82,712	51,862	-	(616,458)	865,989
Unallocated liabilities									1,248,395
Total liabilities									2,114,384

6 Assets classified as held for sale

One entity within the Group is presented as a disposal group held for sale following the commitment of the Group's management to plan to sell this entity representing a non-core business of the Group. Efforts to sell the disposal Group have commenced, and the sale is expected to take place within 2009.

	As at 31 December 2008	
	'000 RUR	'000 USD
Assets classified as held for sale		
Property plant and equipment	5,314	181
Inventories	55,424	1,886
Financial assets	1,165	40
	61,903	2,107
Liabilities classified as held for sale		
Trade and other payables	(7,589)	(258)
	(7,589)	(258)

7 Acquisitions and disposals of subsidiaries and minority interests

(a) Acquisition of subsidiaries

During the year ended 31 December 2008 and 2007 the Group had the following significant acquisitions of subsidiaries:

<u>Name of acquired company</u>	<u>Share acquired</u>	<u>Seller</u>	<u>Date of acquisition</u>	<u>Location</u>	<u>Segment</u>
OAO "Betfor"	87.5%	Third party	1 April 2008	Ekaterinburg, Russia	Construction
OOO "UK Nova-Group"	100.00%	Third party	29 May 2008	Ekaterinburg, Russia	Unallocated
ZAO "Nova-Story"	100.00%	Third party	19 August 2008	Ekaterinburg, Russia	Real Estate Development
OOO "Nova-Story"	100.00%	Third party	19 August 2008	Ekaterinburg, Russia	Real Estate Development
OOO "SMU NOVA-stroy"	100.00%	Third party	19 August 2008	Ekaterinburg, Russia	Construction
OOO "PKU "NOVA-StroyProekt"	100.00%	Third party	19 August 2008	Ekaterinburg, Russia	Construction
OOO "Uralscheben"	100.00%	Third party	27 July 2008	Ekaterinburg, Russia	Aggregates
OOO "Rezhevskiy Drobilno-Sortirovochniy Zavod"	100.00%	Third party	27 July 2008	Ekaterinburg, Russia	Aggregates
"Gagarskiy Granitniy Carrier"	100.00%	Third party	27 July 2008	Ekaterinburg, Russia	Aggregates

Name of acquired company	Share acquired	Seller	Date of acquisition	Location	Segment
OOO "Kaskad"	100.00%	Third party	28 February 2008	Saint-Petersburg Region, Russia	Aggregates
OAo "Aeroc Obuchow" (former OAo "Obukhovskiy Zavod Poristyykh Izdeliy")	97.27%	Third party Entity under	1 October 2008	Obuchow, Ukraine	Building Materials
OOO "Okhta-25"	55.00%	common control Entity under	11 April 2008	Saint-Petersburg, Russia	Building Materials
ZAO "Grad"	100.00%	common control Entity under	19 January 2007	Saint-Petersburg, Russia	Construction
ZAO "GATP Block"	100.00%	common control	12 September 2007	Saint-Petersburg, Russia	Construction
OOO "Cement"	100.00%	Third party	3 September 2007	Saint-Petersburg Region, Russia	Building Materials
OAo "Parkon"	93.33%	Third party	20 August 2007	Saint-Petersburg, Russia	Building Materials
OAo "Berezanskoe PPDO"	99.99%	Third party	28 March 2007	Berezan, Ukraine	Building Materials

The impact of acquiring the subsidiaries was to increase net profit for the year ended 31 December 2008 by RUR 66,278 thousand / USD 2,594 thousand. OOO Cement forms the main part of the values being acquired.

Acquisition of companies in Yekaterinburg

The companies in Yekaterinburg were acquired from the same seller. Although control over the individual companies was obtained during the period from April to August 2008 due to certain approval registration procedures, the acquisitions were negotiated as a package and considered by the Group as a single purchase.

Acquisition of the companies in Yekaterinburg had the following effect on the Group's assets and liabilities at the date of acquisition:

	Recognised fair values on acquisition	
	'000 RUR	'000 USD
Non-current assets		
Property, plant and equipment	2,245,745	90,353
Intangible assets	466,827	18,781
Investments	22,145	891
Deferred tax assets	51,710	2,080
Non-current trade and other receivables	65,258	2,626
Current assets		
Inventory	4,977,728	200,268
Trade and other receivables	1,925,583	77,473
Income tax receivable	41,509	1,670
Loan receivable	159,627	6,422
Cash and cash equivalents	42,522	1,711
Non-current liabilities		
Loans and borrowings	(131,808)	(5,303)
Deferred tax liabilities	(863,849)	(34,755)
Long-term liabilities	(2,920,429)	(117,497)
Current liabilities		
Overdraft	(27,430)	(1,104)
Loans and borrowings	(860,313)	(34,613)
Deferred income	(28)	(1)
Provisions	(13,314)	(536)
Income tax payable	(1,063)	(43)
Trade and other payables	(1,380,846)	(55,556)
Net identifiable assets, liabilities and contingent liabilities	3,799,574	152,867
Minority interest	(145,235)	(5,843)
Net identifiable assets, liabilities and contingent liabilities acquired	3,654,339	147,024
Goodwill on acquisition	2,141,540	86,161
Consideration paid and liability incurred	5,795,879	233,185
Consideration paid satisfied in cash	3,520,496	141,640
Cash acquired	(15,092)	(607)
Net cash outflow	3,505,404	141,033

It has not been practicable to determine the carrying amounts of the subsidiary's assets, liabilities and contingent liabilities on an IFRS basis immediately prior to the date of acquisition because the subsidiary's financial statements were prepared in accordance with Russian Accounting Principles, which are significantly different from IFRSs.

Goodwill on the acquisition represents the difference between the fair values of net assets acquired and considerations paid. Management believes that goodwill represents a premium paid for entering Ekaterinburg market which is not capable of being individually identified and separately recognised.

Acquisition of OAO "Aeroc Obuchow"

In October 2008 the Group acquired OAO "Aeroc Obuchow" (former OAO "Obukhovskiy Zavod Poristyk Izdeliy") which had the following effect on the Group's assets and liabilities at the date of acquisition:

	Recognised fair values on acquisition	
	'000 RUR	'000 USD
Non-current assets		
Property, plant and equipment	618,565	24,887
Intangible assets	160	6
Deferred tax assets	90	4
Current assets	-	-
Inventory	82,342	3,313
Trade and other receivables	69,854	2,810
Other current assets	-	-
Cash and cash equivalents	15	1
Non-current liabilities		
Loans and borrowings	(296,369)	(11,924)
Deferred tax liabilities	(36,769)	(1,479)
Other non-current liabilities	(5,095)	(205)
Current liabilities		
Trade and other payables	(66,335)	(2,669)
Net identifiable assets, liabilities and contingent liabilities	366,458	14,744
Minority interest	(10,004)	(403)
Net identifiable assets, liabilities and contingent liabilities acquired	356,454	14,341
Goodwill on acquisition	818,546	32,933
Consideration paid and liability incurred	1,175,000	47,274
Consideration paid satisfied in cash	775,000	31,180
Cash acquired	(15)	(1)
Net cash outflow	774,985	31,179

It has not been practicable to determine the carrying amounts of the subsidiary's assets, liabilities and contingent liabilities on an IFRS basis immediately prior to the date of acquisition because the

subsidiary's financial statements were prepared in accordance with Russian Accounting Principles, which are significantly different from IFRSs.

Goodwill on acquisitions represents the difference between the fair values of net assets acquired and considerations paid. Management believes that goodwill represents the potential synergy from the acquisition, including savings on transportation costs to Ukraine, which is not capable of being individually identified and separately recognised.

Acquisition of OOO "Kaskad"

In February 2008 the Group acquired OOO "Kaskad", which had the following effect on the Group's assets and liabilities at the date of acquisition:

	Recognised fair values on acquisition	
	'000 RUR	'000 USD
Non-current assets		
Property, plant and equipment	64	3
Intangible assets	209,770	8,440
Deferred tax assets	743	30
Current assets		
Inventory	3,119	125
Trade and other receivables	3,945	159
Cash	114	5
Non-current liabilities		
Deferred tax liabilities	(50,341)	(2,025)
Current liabilities		
Loans and borrowings	(13,000)	(523)
Trade and other payables	(1,731)	(70)
Net identifiable assets, liabilities and contingent liabilities	152,683	6,144
Minority interest	-	-
Net identifiable assets, liabilities and contingent liabilities acquired	152,683	6,144
Goodwill on acquisition	155,317	6,248
Consideration paid	308,000	12,392
Cash acquired	(114)	(5)
Net cash outflow	307,886	12,387

It has not been practicable to determine the carrying amounts of the subsidiary's assets, liabilities and contingent liabilities on an IFRS basis immediately prior to the date of acquisition because the subsidiary's financial statements were prepared in accordance with Russian Accounting Principles, which are significantly different from IFRSs.

Goodwill on acquisitions represents the difference between the fair values of net assets acquired and considerations paid. Management believes that goodwill represents the potential synergy from the acquisition which is not capable of being individually identified and separately recognised.

Acquisition of companies under common control

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

	Recognised book values on acquisition			
	2008		2007	
	'000 RUR	'000 USD	'000 RUR	'000 USD
Non-current assets				
Property, plant and equipment	7	-	1,164,820	45,587
Investments	-	-	810	32
Current assets				
Inventory	3,583	144	54	2
Income tax receivable	4,129	166	368	14
Trade and other receivables	70,525	2,837	15,007	587
Cash and cash equivalents	16,137	649	220	9
Non-current liabilities				
Deferred tax liabilities	-	-	(271,943)	(10,643)
Current liabilities				
Trade and other payables	(60,168)	(2,421)	(406)	(16)
Net identifiable assets, liabilities and contingent liabilities	34,213	1,375	908,930	35,572
Minority interest in OOO companies	(15,387)	(618)	-	-
Net identifiable assets, liabilities and contingent liabilities acquired	18,826	757	908,930	35,572
Difference between net assets acquired and consideration paid recognised in equity	(18,815)	(757)	(896,620)	(35,091)
Consideration paid	11	-	12,310	481
Cash acquired	(16,137)	(649)	(220)	(9)
Net cash (inflow) / outflow	(16,126)	(649)	12,090	472

Acquisitions in 2007 financial year

The acquisition of companies from unrelated parties in 2007 had the following effect on the Group's assets and liabilities at the date of acquisition:

	2007	
	Recognised fair values on acquisition	
	'000 RUR	'000 USD
	<hr/>	<hr/>
Non-current assets		
Property, plant and equipment	874,136	34,211
Investments	3,089	121
Deferred income tax assets	3,357	131
Current assets		
Inventory	96,026	3,758
Trade and other receivables	189,874	7,431
Income tax receivable	-	-
Cash and cash equivalents	5,017	196
Non-current liabilities		
Deferred tax liability	(118,767)	(4,648)
Current liabilities		
Loans and borrowings	(402,079)	(15,736)
Income tax payable	-	-
Trade and other payables	(79,681)	(3,118)
Net identifiable assets, liabilities and contingent liabilities	<hr/>	<hr/>
	570,972	22,346
Minority interest	(68,205)	(2,669)
Minority interest in OOO companies	<hr/>	<hr/>
	-	-
Net identifiable assets, liabilities and contingent liabilities acquired	502,767	19,677
Goodwill on acquisitions	643,178	25,172
Consideration paid	1,145,945	44,849
Cash acquired	(5,017)	(196)
Net cash outflow	<hr/> <hr/>	<hr/> <hr/>
	1,140,928	44,653

(b) Changes in minority interests

During the 2008 year the Group acquired an additional interest in a number of subsidiaries from companies controlled by the Group ultimate controlling party and third parties. The Group recognised a decrease in minority interest of RUR 553,530 thousand / USD 22,270 thousand. Contribution from shareholders of RUR 429,604 thousand / USD 17,284 thousand and distribution to shareholders of RUR 27,351 thousand / USD 1,100 thousand was recognised directly in equity.

During the 2008 year the Group disposed of minority holdings in a number of its subsidiaries to companies controlled by the Group ultimate controlling party and third parties. The Group recognised an increase in minority interest of RUR 362,451 thousand / USD 14,582 thousand. Distribution to shareholders of RUR 334,512 thousand / USD 13,458 thousand was recognised directly in equity.

During the year ended 31 December 2007 the Group acquired an additional minority interest in a number of subsidiaries. The Group recognised a decrease in minority interest of RUR 532,265 thousand / USD 21,684 thousand. Contribution from shareholders of RUR 8,992,107 thousand / USD 351,920 thousand and distribution to shareholders of RUR 74,482 thousand / USD 2,915 thousand was recognised directly in equity.

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

8 Administrative expenses

	2008	2007	2008	2007
	'000 RUR	'000 RUR	'000 USD	'000 USD
Wages and salaries	2,501,624	1,956,187	100,648	76,559
Services	953,167	961,994	38,349	37,649
Materials	173,160	109,469	6,967	4,284
Depreciation and amortisation	114,510	75,261	4,607	2,945
Taxes other than profit tax	260,495	147,634	10,480	5,778
Social expenditure	216,252	220,470	8,700	8,628
Insurance	39,305	26,969	1,581	1,055
Other administrative expenses	187,874	257,497	7,559	10,078
	<u>4,446,387</u>	<u>3,755,481</u>	<u>178,891</u>	<u>146,976</u>

9 Other income and expenses

	2008	2007	2008	2007
	'000 RUR	'000 RUR	'000 USD	'000 USD
Other income:				
Gain on disposal of other assets	182	-	7	-
Total other income	182	-	7	-
Other expenses:				
Loss on disposal of property, plant and equipment	(156,618)	(39,281)	(6,301)	(1,537)
Loss on disposal of other assets	(46,920)	(84,681)	(1,888)	(3,314)
Total other expenses	(203,538)	(123,962)	(8,189)	(4,851)
Net other income / (expenses)	(203,356)	(123,962)	(8,182)	(4,851)

10 Total personnel costs

	2008	2007	2008	2007
	'000 RUR	'000 RUR	'000 USD	'000 USD
Wages and salaries:				
Cost of sales	5,455,276	4,116,181	219,481	161,093
Administrative expenses	2,501,624	1,956,187	100,648	76,558
Distribution expenses	378,715	265,091	15,237	10,375
	8,335,615	6,337,459	335,366	248,026

11 Financial income and expenses

	2008	2007	2008	2007
	'000 RUR	'000 RUR	'000 USD	'000 USD
Financial income				
Foreign exchange gain	58,482	211,529	2,353	8,278
Interest income	324,707	66,766	13,064	2,613
Income from sale of available-for-sale investments	4,624	183,419	186	7,179
Other financial income	1,958	104,116	79	4,075
	389,771	565,830	15,682	22,145
Financial expenses				
Interest expense	(3,152,388)	(2,036,280)	(126,830)	(79,693)
Foreign exchange loss	(2,181,419)	(104,730)	(87,765)	(4,099)
Loss from sale of available-for-sale investments	(8,830)	(19,262)	(355)	(755)
Impairment of financial assets	-	(2,540)	-	(99)
Minority interest in limited liability subsidiaries	162,104	(148,023)	6,522	(5,793)
Other financial expenses	(67,477)	(143,773)	(2,714)	(5,626)
	(5,248,010)	(2,454,608)	(211,142)	(96,065)

12 Income tax expense

	2008	2007	2008	2007
	'000 RUR	'000 RUR	'000 USD	'000 USD
<i>Current tax expense</i>				
Current period	2,647,920	1,640,523	106,534	64,204
<i>Deferred tax expense</i>				
Origination and reversal of temporary differences	(4,903,088)	1,670,674	(197,266)	65,385
Income tax (benefit) / expense	(2,255,168)	3,311,197	(90,732)	129,589

The majority of the Group activities are taxed in Russia at a corporate income tax rate of 24% (2007: 24%). Effective from 1 January 2009 the corporate income tax rate is 20%.

Reconciliation of effective tax rate:

	2008		2007		2008		2007	
	'000 RUR	%	'000 RUR	%	'000 USD	%	'000 USD	%
(Loss) / profit for the year	(8,007,075)		9,179,799		(322,147)		359,265	
Income tax (benefit)/ expense	(2,255,168)		3,311,197		(90,732)		129,589	
(Loss) / profit before income tax	(10,262,243)	100	12,490,996	100	(412,879)	100	488,854	100
Income tax at applicable tax rate	(2,462,938)	24	2,997,839	24	(99,091)	24	117,325	24
Effect of reduction of the income tax rate from 24% to 20%	(268,051)	3	-	-	(10,784)	3	-	-
Non-deductible items	574,928	(6)	313,358	2	23,131	(6)	12,264	2
Non-taxable items	(99,107)	1	-	-	(3,988)	1	-	-
	(2,255,168)	22	3,311,197	26	(90,732)	22	129,589	26

The effective tax rate for the year 2008 compared to the year 2007 is effected by the decrease of the income tax rate from 24% to 20%, which affected deferred taxes.

13 Construction contracts

The revenue and gross margin recognised on construction contracts during the year are presented below:

	2008	2007	2008	2007
	'000 RUR	'000 RUR	'000 USD	'000 USD
Contract revenue	7,919,424	4,182,456	318,621	163,687
Contract costs	(5,443,938)	(3,173,931)	(219,025)	(124,217)
(Increase)/decrease in provision for onerous contracts	-	-	-	-
Gross profit	2,475,486	1,008,525	99,596	39,470

14 Property, plant and equipment

'000 RUR	Land and buildings	Machinery and equipment	Transportation equipment	Other fixed assets	Assets under construction	Total
Cost/Deemed cost						
At 1 January 2007	5,072,585	4,264,142	1,732,384	517,796	935,800	12,522,707
Acquisitions through business combinations	2,212,433	53,052	13,135	5,331	389,599	2,673,550
Additions	613,701	2,061,929	795,142	134,476	2,913,997	6,519,245
Disposals	(37,189)	(167,684)	(178,234)	(34,774)	(112,904)	(530,785)
Business disposals	(107,903)	(21,822)	-	(1,935)	-	(131,660)
Transfers	242,530	262,718	19,357	6,529	(531,134)	-
Effect of movements in exchange rates	13,853	15,379	138	653	25,380	55,403
At 31 December 2007	<u>8,010,010</u>	<u>6,467,714</u>	<u>2,381,922</u>	<u>628,076</u>	<u>3,620,738</u>	<u>21,108,460</u>
At 1 January 2008	8,010,010	6,467,714	2,381,922	628,076	3,620,738	21,108,460
Acquisitions through business combinations	1,356,813	1,025,771	81,990	37,128	368,207	2,869,909
Additions	821,115	2,096,209	598,456	75,269	6,734,331	10,325,380
Disposals	(65,736)	(95,448)	(281,106)	(28,784)	(337,637)	(808,711)
Transfer from investment property	4,358	-	-	-	-	4,358
Transfers and reclassifications	1,277,849	1,110,558	42,236	(60,376)	(2,370,267)	-
Effect of movements in exchange rates	(175,248)	(28,406)	(5,836)	989	83,704	(124,797)
At 31 December 2008	<u>11,229,161</u>	<u>10,576,398</u>	<u>2,817,662</u>	<u>652,302</u>	<u>8,099,076</u>	<u>33,374,599</u>
Depreciation and impairment losses						
At 1 January 2007	(471,417)	(852,556)	(418,571)	(159,041)	-	(1,901,585)
Depreciation charge	(310,424)	(789,847)	(348,341)	(110,795)	-	(1,559,407)
Acquisitions through business combinations	(113)	(6,527)	(5,151)	(640)	-	(12,431)
Disposals	6,144	88,069	81,823	13,000	-	189,036
Business disposals	208	1,641	-	90	-	1,939
Transfers	25,623	(33,440)	6,498	1,319	-	-
Effect of movements in exchange rates	(1,682)	(3,470)	221	(300)	-	(5,231)
At 31 December 2007	<u>(751,661)</u>	<u>(1,596,130)</u>	<u>(683,521)</u>	<u>(256,367)</u>	<u>-</u>	<u>(3,287,679)</u>
At 1 January 2008	(751,661)	(1,596,130)	(683,521)	(256,367)	-	(3,287,679)
Depreciation charge	(440,989)	(1,038,262)	(428,483)	(119,487)	-	(2,027,221)
Acquisitions through business combinations	(4,023)	(801)	(302)	(402)	-	(5,528)
Disposals	32,214	116,969	117,453	20,973	-	287,609
Transfers and reclassifications	(2,769)	(50,016)	429	52,356	-	-
Effect of movements in exchange rates	(6,548)	(21,334)	1,164	(1,062)	-	(27,780)
At 31 December 2008	<u>(1,173,776)</u>	<u>(2,589,574)</u>	<u>(993,260)</u>	<u>(303,989)</u>	<u>-</u>	<u>(5,060,599)</u>
Net book value						
At 1 January 2007	<u>4,601,168</u>	<u>3,411,586</u>	<u>1,313,813</u>	<u>358,755</u>	<u>935,800</u>	<u>10,621,122</u>
At 31 December 2007	<u>7,258,349</u>	<u>4,871,584</u>	<u>1,698,401</u>	<u>371,709</u>	<u>3,620,738</u>	<u>17,820,781</u>
At 31 December 2008	<u>10,055,385</u>	<u>7,986,824</u>	<u>1,824,402</u>	<u>348,313</u>	<u>8,099,076</u>	<u>28,314,000</u>

'000 USD	Land and buildings	Machinery and equipment	Transportation equipment	Other fixed assets	Assets under construction	Total
Cost/Deemed cost						
At 1 January 2007	192,646	161,944	65,795	19,664	35,540	475,589
Acquisitions through business combinations	86,587	2,076	514	209	15,248	104,634
Additions	24,018	80,697	31,119	5,263	114,044	255,141
Disposals	(1,455)	(6,563)	(6,975)	(1,361)	(4,419)	(20,773)
Business disposals	(4,223)	(854)	-	(76)	-	(5,153)
Transfers and reclassifications	9,492	10,282	758	256	(20,788)	-
Effect of movements in exchange rates	19,259	15,909	5,827	1,633	7,882	50,510
At 31 December 2007	<u>326,324</u>	<u>263,491</u>	<u>97,038</u>	<u>25,588</u>	<u>147,507</u>	<u>859,948</u>
At 1 January 2008	326,324	263,491	97,038	25,588	147,507	859,948
Acquisitions through business combinations	54,588	41,270	3,299	1,494	14,814	115,465
Additions	33,036	84,336	24,078	3,028	270,941	415,419
Disposals	(2,645)	(3,840)	(11,310)	(1,158)	(13,584)	(32,537)
Transfer from investment property	175	-	-	-	-	175
Transfers and reclassifications	51,412	44,681	1,699	(2,429)	(95,363)	-
Effect of movements in exchange rates	(80,691)	(69,957)	(18,901)	(4,321)	(48,651)	(222,521)
At 31 December 2008	<u>382,199</u>	<u>359,981</u>	<u>95,903</u>	<u>22,202</u>	<u>275,664</u>	<u>1,135,949</u>
Depreciation and impairment losses						
At 1 January 2007	(17,903)	(32,379)	(15,899)	(6,040)	-	(72,221)
Depreciation charge	(12,149)	(30,912)	(13,633)	(4,336)	-	(61,030)
Acquisitions through business combinations	(4)	(255)	(202)	(25)	-	(486)
Disposals	240	3,447	3,202	509	-	7,398
Business disposals	8	64	-	4	-	76
Transfers and reclassifications	1,003	(1,309)	254	52	-	-
Effect of movements in exchange rates	(1,817)	(3,682)	(1,568)	(608)	-	(7,675)
At 31 December 2007	<u>(30,622)</u>	<u>(65,026)</u>	<u>(27,846)</u>	<u>(10,444)</u>	<u>-</u>	<u>(133,938)</u>
At 1 January 2008	(30,622)	(65,026)	(27,846)	(10,444)	-	(133,938)
Depreciation charge	(17,742)	(41,772)	(17,239)	(4,807)	-	(81,560)
Acquisitions through business combinations	(162)	(32)	(12)	(16)	-	(222)
Disposals	1,296	4,706	4,725	844	-	11,571
Transfers and reclassifications	(111)	(2,012)	17	2,106	-	-
Effect of movements in exchange rates	7,390	15,996	6,548	1,970	-	31,904
At 31 December 2008	<u>(39,951)</u>	<u>(88,140)</u>	<u>(33,807)</u>	<u>(10,347)</u>	<u>-</u>	<u>(172,245)</u>
Net book value						
At 1 January 2007	<u>174,743</u>	<u>129,565</u>	<u>49,896</u>	<u>13,624</u>	<u>35,540</u>	<u>403,368</u>
At 1 January 2008	<u>295,702</u>	<u>198,465</u>	<u>69,192</u>	<u>15,144</u>	<u>147,507</u>	<u>726,010</u>
At 31 December 2008	<u>342,248</u>	<u>271,841</u>	<u>62,096</u>	<u>11,855</u>	<u>275,664</u>	<u>963,704</u>

Depreciation expense of RUR 1,867,134 thousand/USD 75,120 thousand has been charged in cost of goods sold, RUR 28,773 thousand/USD 1,158 thousand in distribution expenses and RUR 110,495 thousand/USD 4,446 thousand in administrative expenses.

(a) Impairment

Property, plant and equipment were tested for impairment; the basis for impairment is disclosed in note 15.

(b) Security

Properties with a carrying amount of RUR 3,279,270 thousand /USD 111,614 thousand are subject to a registered debenture to secure bank loans (31 December 2007: RUR 2,273,439 thousand /USD 92,619 thousand) (refer to note 26).

(c) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2008 the net book value of leased plant and machinery was RUR 3,066,561 thousand/ USD 104,374 thousand (31 December 2007: RUR 2,493,110 thousand/ USD 101,568 thousand). The leased equipment secures the lease obligations. Also properties with a carrying amount of RUR 51,699 thousand / USD 1,760 thousand secure the lease obligations (31 December 2007: RUR 29,838 thousand / USD 1,216 thousand).

15 Intangible assets

'000 RUR	Goodwill	Other	Total
<i>Cost</i>			
Balance at 1 January 2007	572,669	4,044	576,713
Acquisition of subsidiaries	643,178	-	643,178
Additions	-	15,563	15,563
Disposals	-	(842)	(842)
Reclassifications	-	1,926	1,926
Effects of movement in exchange rates	(4,338)	141	(4,197)
Balance at 31 December 2007	1,211,509	20,832	1,232,341
Balance at 1 January 2008	1,211,509	20,832	1,232,341
Acquisition of subsidiaries	3,115,403	678,261	3,793,664
Additions	-	26,680	26,680
Disposals	-	(1,925)	(1,925)
Reclassifications	-	-	-
Effects of movement in exchange rates	-	551	551
Balance at 31 December 2008	4,326,912	724,399	5,051,311

'000 RUR	Goodwill	Other	Total
<i>Amortization and impairment losses</i>			
Balance at 1 January 2007	-	(810)	(810)
Amortization charge	-	(513)	(513)
Acquisition of subsidiaries	-	-	-
Disposals	-	22	22
Reclassifications	-	1	1
Impairment losses during the period	-	-	-
Effects of movement in exchange rates	-	(1,188)	(1,188)
Balance at 31 December 2007	-	(2,488)	(2,488)
Balance at 1 January 2008	-	(2,488)	(2,488)
Amortization charge	-	(42,195)	(42,195)
Acquisition of subsidiaries	-	(1,504)	(1,504)
Disposals	-	1,433	1,433
Impairment losses during the period	(390,986)	-	(390,986)
Effects of movement in exchange rates	-	(83)	(83)
Balance at 31 December 2008	(390,986)	(44,837)	(435,823)
<i>Net book value</i>			
At 1 January 2007	572,669	3,234	575,903
At 31 December 2007	1,211,509	18,344	1,229,853
At 31 December 2008	3,935,926	679,562	4,615,488

'000 USD	Goodwill	Other	Total
Cost			
Balance at 1 January 2007	21,749	154	21,903
Acquisition of subsidiaries	25,172	-	25,172
Additions	-	609	609
Disposals	-	(33)	(33)
Reclassifications	-	75	75
Effects of movement in exchange rates	2,436	43	2,479
Balance at 31 December 2007	<u>49,357</u>	<u>848</u>	<u>50,205</u>
Balance at 1 January 2008	49,357	848	50,205
Acquisition of subsidiaries	125,342	27,288	152,630
Additions	-	1,073	1,073
Disposals	-	(77)	(77)
Reclassifications	-	-	-
Effect of movements in exchange rates	(27,428)	(4,476)	(31,904)
Balance at 31 December 2008	<u>147,271</u>	<u>24,656</u>	<u>171,927</u>
Amortization and impairment losses			
Balance at 1 January 2007	-	(31)	(31)
Amortization charge	-	(20)	(20)
Acquisition of subsidiaries	-	-	-
Disposals	-	1	1
Reclassifications	-	-	-
Impairment losses during the period	-	-	-
Effects of movement in exchange rates	-	(51)	(51)
Balance at 31 December 2007	<u>-</u>	<u>(101)</u>	<u>(101)</u>
Balance at 1 January 2008	-	(101)	(101)
Amortization charge	-	(1,698)	(1,698)
Acquisition of subsidiaries	-	(61)	(61)
Disposals	-	58	58
Impairment losses during the period	(15,730)	-	(15,730)
Effect of movements in exchange rates	2,422	277	2,699
Balance at 31 December 2008	<u>(13,308)</u>	<u>(1,525)</u>	<u>(14,833)</u>
Net book value			
At 1 January 2007	<u>21,749</u>	<u>123</u>	<u>21,872</u>
At 31 December 2007	<u>49,357</u>	<u>747</u>	<u>50,104</u>
At 31 December 2008	<u>133,963</u>	<u>23,131</u>	<u>157,094</u>

Other intangible assets mainly include licences for extraction of sand and crushed granite in Saint-Petersburg and Ural regions.

Intangible assets classified within other, with a carrying amount of RUR 3,382 thousand /USD 115 thousand are subject to a registered debenture to secure bank loans (2007: RUR 2,767 thousand /USD 113 thousand) (refer to note 26).

(a) Impairment testing of goodwill

Goodwill is allocated to the Group's entities or business units when appropriate. For the purpose of impairment testing these units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to each entity or business unit (BU) and the related impairment losses recognised, are as follows:

<u>Entity / Business Unit</u>	<u>Business Segment</u>	<u>Allocated goodwill</u>		<u>Impairment losses</u>		<u>Net book value as at 31 December 2008</u>	
		<u>'000 RUR</u>	<u>'000 USD</u>	<u>'000 RUR</u>	<u>'000 USD</u>	<u>'000 RUR</u>	<u>'000 USD</u>
OAO "Zavod ZhBI-6"	Building Materials	254,172	8,651	(188,583)	(6,419)	65,589	2,232
Aeroc International AS	Building Materials	245,952	8,371	-	-	245,952	8,371
JSC "Aeroc Obuchov"	Building Materials	818,546	27,860	(164,594)	(5,602)	653,952	22,258
LSR Europe GmbH	Real Estate Development	50,093	1,705	-	-	50,093	1,705
OOO "Cement"	Building Materials	621,485	21,153	-	-	621,485	21,153
OAO "Parkon"	Building Materials	17,354	591	-	-	17,354	591
JOINT-STOCK COMPANY "CONSTRUCTION CORPORATION "REVIVAL OF SAINT-PETERSBURG" (formerly OAO SKV SPb)	Real Estate Development	22,451	764	-	-	22,451	764
BU Crushed Granite Ural	Aggregates	128,269	4,366	(37,809)	(1,287)	90,460	3,079
BU Construction Ural	Construction	736,429	25,065	-	-	736,429	25,065
BU Development Ural	Real Estate Development	1,276,844	43,459	-	-	1,276,844	43,459
OOO "Kaskad"	Aggregates	155,317	5,286	-	-	155,317	5,286
		<u>4,326,912</u>	<u>147,271</u>	<u>(390,986)</u>	<u>(13,308)</u>	<u>3,935,926</u>	<u>133,963</u>

The recoverable amount of each entity represents value in use as determined by discounting the future cash flows generated from the continuing use of the assets. The recoverable amounts were determined using the discounted cash flow technique.

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

Building Materials, Aggregates and Construction services segments:

- Cash flows were projected based on budgeted operating results for 2009 year and five - twelve years business plans;
- Plan for 2009-2010 was prepared considering the expected recession in construction industry in 2009;
- The recovery of the market is assumed to start in 2010-2011, and the plants are expected to reach the levels of 2008 in 2011;
- Cash flows for further years were extrapolated assuming 2% further growth in production;
- Discount rate of 24.64% was applied in determining the recoverable amount of the plants. The discount rate was estimated based on the Group weighted average cost of capital, which was based on a possible range of debt leveraging of 25%-45% at a market interest rate of 15.5% p.a.

Construction:

- Cash flows were projected based on budgeted operating results for 2009 and three years business plans;
- Plan for 2009-2010 was prepared based on the actual contract portfolio and the actual prices, while consecutive years were planned with assumption of market recovery in 2010-2011, and the plants are expected to reach the levels of 2008 in 2011;
- Cash flows for further years were assuming 5% further growth in production;
- Discount rate of 17.63% was applied in determining the recoverable amount of the plants. The discount rate was estimated based on the Group weighted average cost of capital, which was based on a possible range of debt leveraging of 25%-45% at a market interest rate of 15.5% p.a.

Real Estate Development and Commercial Real Estate:

- Cash flows were determined for the existing and planned investment projects up to the end of their construction and sale.
- Discount rate of 17.63% was applied in determining the recoverable amount of the assets. The discount rate was estimated based on the Group weighted average cost of capital, which was based on a possible range of debt leveraging of 25%-45% at a market interest rate of 15.5% p.a.

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

An impairment loss was recognised for OAO "Zavod ZhBI-6", JSC "Aeroc Obuchow" and BU Crushed Granite Ural.

The estimates made for impairment test purpose in relation to these two entities and business unit are particularly sensitive in the following areas:

- An increase of one percentage point in the discount rate used would have increased the impairment loss by RUR 68,515 thousand / USD 2,332 thousand.
- A 10% decrease in future planned production would have increased the impairment loss by RUR 294,164 thousand / USD 10,012 thousand.

No impairment loss was recognised in respect of goodwill allocated to Aeroc International AS, LSR Europe GmbH, OOO “Cement”, OAO Parkon, JOINT-STOCK COMPANY "CONSTRUCTION CORPORATION "REVIVAL OF SAINT-PETERSBURG", OOO “Kaskad”, BU Construction and Development Ural as the impairment test demonstrates that for these entities and business units’ values in use are significantly higher than carrying amounts in aggregate and individually.

In determining a total value of RUR 42,106,569 thousand / USD 1,433,152 thousand (compared to a carrying amount of RUR 13,991,941 thousand / USD 476,234 thousand) for these entities and business units, management has used the above assumptions.

16 Investment property under development

'000 RUR	2008			2007		
	Land	Costs capitalised	Total	Land	Costs capitalised	Total
<i>Cost / Fair value</i>						
At 1 January	19,673,093	1,065,242	20,738,335	-	496,852	496,852
Change in fair value recognised directly in the income statement	(15,831,020)	(42,060)	(15,873,080)	6,839,218	973,013	7,812,231
Change in fair value recognised directly in equity	-	-	-	11,321,099	-	11,321,099
Transfer from investment property	-	-	-	281,474	222,708	504,182
Transfer into investment property	-	-	-	-	(1,273,511)	(1,273,511)
Transfer from lease incentives	-	-	-	1,195,466	-	1,195,466
Reclassification into inventories	-	(66,661)	(66,661)	-	-	-
Additions	262	690,813	691,075	35,836	646,180	682,016
Disposal	(1,195)	(26)	(1,221)	-	-	-
At 31 December	3,841,140	1,647,308	5,488,448	19,673,093	1,065,242	20,738,335

'000 USD	2008			2007		
	Land	Costs capitalised	Total	Land	Costs capitalised	Total
Cost / Fair value						
At 1 January	801,472	43,397	844,869	-	18,869	18,869
Change in fair value recognised directly in the income statement	(636,927)	(1,692)	(638,619)	267,663	38,080	305,743
Change in fair value recognised directly in equity	-	-	-	443,068	-	443,068
Transfer from investment property	-	-	-	11,016	8,716	19,732
Transfer into investment property	-	-	-	-	(49,841)	(49,841)
Transfer from lease incentives	-	-	-	46,786	-	46,786
Reclassification into inventories	-	(2,682)	(2,682)	-	-	-
Additions	11	27,793	27,804	1,403	25,289	26,692
Disposal	(48)	(1)	(49)	-	-	-
Effect of movements in exchange rates	(33,769)	(10,748)	(44,517)	31,536	2,284	33,820
At 31 December	130,739	56,067	186,806	801,472	43,397	844,869

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

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

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

The major assumptions used in valuation models and valuation results are as follows:

Project	Expected occupation rate	Discount rate used	Location	Gross buildable area	Capitalised costs of construction	Fair value of land component	Rent rates assumed per sq mtr			
							Offices	Retail	Other	Parking (per lot)
				Sq mtr	'000 RUR	'000 RUR	RUR	RUR	RUR	RUR
TOC na Leningradskom	100%	25%	Vyborg, Lenigradskiy pr. 17	9,283	19,570	108,547	13,200	-	-	-
Kuybisheva	100%	25%	Saint-Petersburg, Kuybisheva str. 13 B	10,276	11,021	227,097	17,600	-	16,000	62,400
Hermitage View House	100%	20%	Saint-Petersburg, Zoologicheskiiy Lane 2-4	19,374	153,962	6,005	20,500	20,500	20,500	90,000
Electric City	100%	30%	Saint-Petersburg, Medikov str. 10	346,924	507,908	3,499,491	18,600	13,000	14,000	63,600
					692,461	<u>3,841,140</u>				
Other Items (Investment property constructed at leased land)					954,847					
					<u>1,647,308</u>					
				Sq mtr	'000 USD	'000 USD	USD	USD	USD	USD
TOC na Leningradskom	100%	25%	Vyborg, Lenigradskiy pr. 17	9,283	666	3,695	449	-	-	-
Kuybisheva	100%	25%	Saint-Petersburg, Kuybisheva str. 13 B	10,276	375	7,730	599	-	545	2,124
Hermitage View House	100%	20%	Saint-Petersburg, Zoologicheskiiy Lane 2-4	19,374	5,240	204	698	698	698	3,063
Electric City	100%	30%	Saint-Petersburg, Medikov str. 10	346,924	17,287	119,110	633	442	477	2,165
					23,568	<u>130,739</u>				
Other items (Investment property constructed at leased land)					32,499					
					<u>56,067</u>					

The properties are expected to be completed in period from 2011 till the beginning of 2013.

Investment properties under development with a carrying amount of RUR 159,967 thousand / USD 5,445 thousand are subject to a registered debenture to secure bank loans (2007: RUR 1,100,979 thousand / USD 44,853 thousand) - refer to note 26.

Sensitivity analysis

A 10% increase in the estimated rental rates would have increased fair values of investment land plots and profit by RUR 1,041,941 thousand / USD 35,464 thousand. A 10% decrease in the estimated rental would have decreased fair values of land plots and profit by RUR 1,032,442 thousand / USD 35,141 thousand on the basis that all other variables remain constant.

A 10% increase in the assumed discount rate would have decreased fair values of land plots and profit by RUR 684,571 thousand / USD 23,300 thousand. A 10% decrease in the assumed discount rate would have increased fair values of land plots and profit by RUR 778,021 thousand / USD 26,481 thousand on the basis that all other variables remain constant.

A 10% increase in the anticipated costs to completion of individual projects would have decreased fair values of land plots and profit by RUR 634,037 thousand / USD 21,580 thousand. A 10% decrease in these costs would have increased fair values of land plots and profit by RUR 644,097 thousand / USD 21,923 thousand on the basis that all other variables remain constant.

All properties are projected to be fully occupied on commissioning. A 10% decrease in the anticipated occupancy of individual projects would have decreased fair values of land plots and profit by RUR 1,032,442 thousand / USD 35,141 thousand.

17 Investment property

'000 RUR	2008	2007
<i>Cost</i>		
At 1 January	2,040,056	1,046,666
Transfer into property, plant and equipment	(4,358)	-
Transfer into investment property under development	-	(504,182)
Transfer from investment property under development	-	1,273,511
Additions	158,914	20,631
Change in fair value	(269,555)	224,460
Disposals	-	(21,030)
At 31 December	<u>1,925,057</u>	<u>2,040,056</u>
'000 USD	2008	2007
<i>Cost</i>		
At 1 January	83,111	39,750
Transfer into property, plant and equipment	(175)	-
Transfer into investment property under development	-	(19,732)
Transfer from investment property under development	-	49,841
Additions	6,394	807
Change in fair value	(10,846)	8,785
Disposals	-	(823)
Effect of movements in exchange rates	(12,962)	4,483
At 31 December	<u>65,522</u>	<u>83,111</u>

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

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

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

The major assumptions used in valuation models and valuation results are as follows:

Project	Occupation rate	Yield	Location	Gross area Sq mtr	Fair value '000 USD	Rental rates assumed per sq meter		
						Offices RUR	Parking (per lot) RUR	
Apollo Business Center	84%	10%	Saint-Petersburg, Dobrolyubova pr.8	8,454	887,027	19,900	98,300	
Gelious Business Center	96%	11%	Saint-Petersburg, Marata str. 47-49	3,909	336,680	13,500	92,700	
Litera Business Center	100%	10%	Saint-Petersburg, Galernaya str. 10	2,379	163,150	13,100	92,700	
Orlov Business Center	50%	6,26%	Saint-Petersburg, Paradnaya str. 7a	4,990	538,200	19,900	98,300	
					<u>1,925,057</u>			
					<u>Sq mtr</u>	<u>'000 USD</u>	<u>USD</u>	<u>USD</u>
Apollo Business Center	84%	10%	Saint-Petersburg, Dobrolyubova pr.8	8,454	30,191	677	3,346	
Gelious Business Center	96%	11%	Saint-Petersburg, Marata str. 47-49	3,909	11,460	459	3,155	
Litera Business Center	100%	10%	Saint-Petersburg, Galernaya str. 10	2,379	5,553	446	3,155	
Orlov Business Center	50%	6,26%	Saint-Petersburg, Paradnaya str. 7a	4,990	18,318	677	3,346	
					<u>65,522</u>			

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

	2008	2007	2008	2007
	'000 RUR	'000 RUR	'000 USD	'000 USD
Rental income from investment property	169,908	49,458	6,836	1,936
Direct operating expenses arising from investment property that generated rental income during the period	9,248	1,066	372	42
Direct operating expenses arising from investment property that did not generate rental income during the period	-	-	-	-

Sensitivity analysis

A 10% increase in rental rates would have increased fair values of investment property and profit by RUR 151,726 thousand / USD 5,164 thousand. A 10% decrease in rental rates would have the equal but opposite effect on the basis that all other variables remain constant.

A 10% decrease in projected occupancy rates would have decreased fair values of investment property and profit by RUR 151,726 thousand / USD 5,164 thousand.

A 10% increase in yield would have decreased fair values of investment property and profit by RUR 214,545 thousand / USD 7,302 thousand. A 10% decrease in initial yield would have increased fair values of investment property and profit by RUR 175,457 thousand / USD 5,972 thousand on the basis that all other variables remain constant.

18 Other investments

	31 December 2008	31 December 2007	31 December 2008	31 December 2007
	'000 RUR	'000 RUR	'000 USD	'000 USD
<i>Non-current</i>				
Available-for-sale investments:				
Stated at cost	10,652	10,181	363	415
Originated loans	113,975	35,587	3,879	1,450
	<u>124,627</u>	<u>45,768</u>	<u>4,242</u>	<u>1,865</u>
<i>Current</i>				
Available-for-sale investments:				
Stated at fair value	84,173	71,410	2,865	2,909
Originated loans	49,475	225,204	1,684	9,175
	<u>133,648</u>	<u>296,614</u>	<u>4,549</u>	<u>12,084</u>

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

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 29.

19 Deferred tax assets and liabilities**(a) Recognised deferred tax assets and liabilities**

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

'000 RUR	Assets		Liabilities		Net	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007
Property, plant and equipment	(178,291)	(37,853)	1,805,821	1,734,612	1,627,530	1,696,759
Intangible assets	(325)	(149)	135,069	5	134,744	(144)
Investment property under development	(9,688)	-	512,031	4,388,802	502,343	4,388,802
Investment property	-	-	265,021	461,159	265,021	461,159
Investments	(2,009)	(595)	-	-	(2,009)	(595)
Inventories	(692,231)	(467,697)	405,723	24,909	(286,508)	(442,788)
Trade and other receivables	(313,966)	(234,453)	15,256	56,524	(298,710)	(177,929)
Assets, held for sale	-	(2,707)	-	-	-	(2,707)
Loans and borrowings	(150,556)	(125,393)	35,758	33,688	(114,798)	(91,705)
Provisions	(9,705)	(3,697)	-	151	(9,705)	(3,546)
Trade and other payables	(285,534)	(353,945)	9,380	(25,872)	(276,154)	(379,817)
Tax loss carry-forwards	(172,558)	(69,035)	-	3,778	(172,558)	(65,257)
Tax (assets)/liabilities	(1,814,863)	(1,295,524)	3,184,059	6,677,756	1,369,196	5,382,232
Set off of tax	938,032	876,193	(938,032)	(876,193)	-	-
Net tax (assets)/liabilities	(876,831)	(419,331)	2,246,027	5,801,563	1,369,196	5,382,232

'000 USD	Assets		Liabilities		Net	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007
Property, plant and equipment	(6,068)	(1,542)	61,463	70,667	55,395	69,125
Intangible assets	(11)	(6)	4,597	-	4,586	(6)
Investment property under development	(330)	-	17,428	178,798	17,098	178,798
Investment property	-	-	9,020	18,787	9,020	18,787
Investments	(68)	(24)	-	-	(68)	(24)
Inventories	(23,561)	(19,054)	13,809	1,015	(9,752)	(18,039)
Trade and other receivables	(10,686)	(9,551)	519	2,303	(10,167)	(7,248)
Assets, held for sale	-	(110)	-	-	-	(110)
Loans and borrowings	(5,124)	(5,108)	1,217	1,372	(3,907)	(3,736)
Provisions	(330)	(151)	-	6	(330)	(145)
Trade and other payables	(9,719)	(14,420)	320	(1,054)	(9,399)	(15,474)
Tax loss carry-forwards	(5,874)	(2,813)	-	154	(5,874)	(2,659)
Tax (assets)/liabilities	(61,771)	(52,779)	108,373	272,048	46,602	219,269
Set off of tax	31,927	35,696	(31,927)	(35,696)	-	-
Net tax (assets)/liabilities	(29,844)	(17,083)	76,446	236,352	46,602	219,269

Temporary difference of RUR 15,173,503 thousand / USD 516,460 thousand (31 December 2007: RUR 8,157,681 thousand / USD 332,340 thousand) relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and the reversal is not expected in the foreseeable future.

(b) Movement in temporary differences during the year

'000 RUR	1 January 2008	Recognised in income	Acquired	Effect of movements in exchange rate	31 December 2008
Property, plant and equipment	1,696,759	(479,917)	410,688	-	1,627,530
Intangible assets	(144)	(26,562)	161,450	-	134,744
Investment property under development	4,388,802	(3,886,458)	(1)	-	502,343
Investment property	461,159	(196,138)	-	-	265,021
Investments	(595)	(1,414)	-	-	(2,009)
Inventories	(442,788)	(220,396)	376,676	-	(286,508)
Trade and other receivables	(177,929)	(113,946)	(6,835)	-	(298,710)
Assets, held for sale	(2,707)	2,707	-	-	-
Loans and borrowings	(91,705)	(23,093)	-	-	(114,798)
Provisions	(3,546)	(4,286)	(1,873)	-	(9,705)
Trade and other payables	(379,817)	114,882	(12,264)	1,045	(276,154)
Tax loss carry-forwards	(65,257)	(68,467)	(29,425)	(9,409)	(172,558)
	<u>5,382,232</u>	<u>(4,903,088)</u>	<u>898,416</u>	<u>(8,364)</u>	<u>1,369,196</u>

'000 USD	1 January 2008	Recognised in income	Acquired	Effect of movements in exchange rate	31 December 2008
Property, plant and equipment	69,125	(19,308)	16,523	(10,945)	55,395
Intangible assets	(6)	(1,069)	6,496	(835)	4,586
Investment property under development	178,798	(156,364)	-	(5,336)	17,098
Investment property	18,787	(7,891)	-	(1,876)	9,020
Investments	(24)	(57)	-	13	(68)
Inventories	(18,039)	(8,868)	15,155	2,000	(9,752)
Trade and other receivables	(7,248)	(4,585)	(275)	1,941	(10,167)
Assets, held for sale	(110)	109	-	1	-
Loans and borrowings	(3,736)	(929)	-	758	(3,907)
Provisions	(145)	(172)	(75)	62	(330)
Trade and other payables	(15,474)	4,622	(493)	1,946	(9,399)
Tax loss carry-forwards	(2,659)	(2,754)	(1,186)	725	(5,874)
	<u>219,269</u>	<u>(197,266)</u>	<u>36,145</u>	<u>(11,546)</u>	<u>46,602</u>

20 Inventories

	31 December 2008	31 December 2007	31 December 2008	31 December 2007
	'000 RUR	'000 RUR	'000 USD	'000 USD
Work in progress, construction of buildings	36,070,796	23,337,355	1,227,716	950,752
Finished goods, construction of buildings	7,487,673	3,218,536	254,853	131,121
Raw materials and consumables	1,843,637	1,398,489	62,751	56,974
Finished goods and goods for resale	2,502,164	1,129,855	85,164	46,030
Work in progress	419,591	526,712	14,281	21,458
Rights to secure lease contracts	1,913,140	3,370,676	65,116	137,320
	<u>50,237,001</u>	<u>32,981,623</u>	<u>1,709,881</u>	<u>1,343,655</u>

Inventories with a carrying amount of RUR 1,874,964 thousand /USD 63,817 thousand are subject to a registered debenture to secure bank loans (2007: RUR 1,008,617 thousand /USD 41,091 thousand) (refer to note 26). There was no write-down of inventories during 2007 and 2008.

21 Trade and other receivables

	31 December 2008	31 December 2007	31 December 2008	31 December 2007
	'000 RUR	'000 RUR	'000 USD	'000 USD
Non-current				
Accounts receivable - trade	1,473	141	50	6
Prepayments to suppliers	889,670	-	30,282	-
Other receivables	315,175	1,049,957	10,727	42,775
	<u>1,206,318</u>	<u>1,050,098</u>	<u>41,059</u>	<u>42,781</u>
Current				
Prepayments for flats	4,425,292	2,232,888	150,621	90,966
Accounts receivable – trade	3,091,735	1,872,150	105,231	76,270
Prepayments to suppliers	1,977,802	2,403,403	67,317	97,913
VAT receivable	1,599,382	1,142,352	54,437	46,539
Deferred expenses	230,823	289,658	7,856	11,801
Notes receivable	411,695	528,071	14,013	21,513
Amounts due from customers for contract work	1,476	-	50	-
Employee receivables	7,847	11,574	267	472
Finance lease receivable	-	26,134	-	1,065
Other receivables	1,520,476	1,021,296	51,751	41,607
	<u>13,266,528</u>	<u>9,527,526</u>	<u>451,543</u>	<u>388,146</u>
Provision for doubtful debtors	(146,447)	(170,208)	(4,984)	(6,934)
	<u>13,120,081</u>	<u>9,357,318</u>	<u>446,559</u>	<u>381,212</u>

Prepayments for flats acquired for resale include RUR 549,220 thousand / USD 18,693 thousand for flats that will be received after 12 months from the balance sheet date (31 December 2007: RUR 308,527 thousand / USD 12,569 thousand).

Receivables with a carrying amount of RUR 44,161 thousand /USD 1,503 thousand are subject to a registered debenture to secure bank loans (2007: RUR 110,531 thousand /USD 4,503 thousand) (refer to note 26).

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables (excluding construction work in progress) are disclosed in note 29.

22 Cash and cash equivalents

	31 December 2008	31 December 2007	31 December 2008	31 December 2007
	'000 RUR	'000 RUR	'000 USD	'000 USD
Petty cash	9,915	7,140	337	291
Current accounts	1,573,213	2,485,668	53,546	101,265
Call deposits	1,662,932	6,105,791	56,600	248,747
Bank promissory notes	-	55,013	-	2,241
Cash and cash equivalents in the balance sheet	3,246,060	8,653,612	110,483	352,544
Bank overdrafts	(57,937)	(60,163)	(1,972)	(2,451)
Cash and cash equivalents in the statement of cash flows	3,188,123	8,593,449	108,511	350,093

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

23 Restricted cash

Restricted cash include the amount of RUR 4,195,919 thousand /USD 142,814 thousand (31 December 2007: RUR 1,114 thousand /USD 45 thousand) which is reserved in connection with confirmed irrevocable letters of credit issued by the Group's bankers on building of Cement Plant in Leningrad Region and the amount of RUR 63,315 thousand /USD 2,155 thousand (31 December 2007: RUR 53,747 thousand / USD 2,190 thousand) which is reserved in connection with confirmed irrevocable letters of credit issued by the Group's bankers on purchase of new equipment.

24 Equity

(a) Share capital

Number of shares unless otherwise stated

	Ordinary shares	
	31 December 2008	31 December 2007
Authorised shares		
Par value	RUR 0.25	RUR 0.25
On issue at beginning of period	85,148,936	85,148,936
Issued during the period and fully paid	8,514,896	-
On issue at end of period, fully paid	93,663,832	85,148,936

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

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

Proceeds from the issue were presented as a restitutable share reserve in the Group's 2007 financial statements. The reserve was transferred to share capital and share premium after appropriate changes had been made to the Company's charter documents. For the purpose of calculating earnings per share the share issuance was taken into account from September 2007, as described in note 25.

(b) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2008 the Company had retained earnings, including the profit for the current period, of RUR 40,251 thousand/ USD 1,370 thousand (as at 31 December 2007: RUR 485,064 thousand/ USD 19,761 thousand).

25 Earnings per share

The calculation of earnings per share is based on profit attributable to the shareholders of the Company divided by the weighted average number of ordinary shares outstanding during the year, refer to note 24 (a). The Company has no dilutive potential ordinary shares.

<i>In thousands of shares</i>	2008	2007
Issued shares at 1 January	93,663,832	85,148,936
Effect of shares issued in September	-	2,125,634
Weighted average number of shares for the year ended 31 December	93,663,832	87,274,570

26 Loans and borrowings

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

	31 December 2008	31 December 2007	31 December 2008	31 December 2007
	'000 RUR	'000 RUR	'000 USD	'000 USD
Non-current				
Secured bank loans	4,917,984	5,796,591	167,390	236,150
Unsecured bank loans	9,342,880	1,307,680	317,998	53,274
Unsecured other loans	15,698	62,222	534	2,535
Secured bond issues	-	287,466	-	11,711
Unsecured bond issues	3,683,520	5,000,000	125,373	203,698
Finance lease liability	903,450	893,970	30,750	36,420
	<u>18,863,532</u>	<u>13,347,929</u>	<u>642,045</u>	<u>543,788</u>
Current				
Secured bank loans	2,071,267	711,422	70,498	28,983
Unsecured bank loans	8,991,489	8,318,476	306,037	338,891
Unsecured other loans	554,329	116,420	18,867	4,742
Secured bond issue	332,485	-	11,317	-
Unsecured bond issue	4,895,000	665,044	166,608	27,094
Finance lease liability	1,107,916	932,013	37,709	37,970
	<u>17,952,486</u>	<u>10,743,375</u>	<u>611,036</u>	<u>437,680</u>

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 RUR	Currency	Nominal interest rate	Year of maturity	31 December 2008		31 December 2007	
				Face value	Carrying amount	Face value	Carrying amount
Secured facility	EUR	4.00 – 12.00%	2009-2014	1,289,465	1,289,465	1,359,856	1,359,856
		9.02 – 11.00%	2009-2011	2,409,193	2,409,193	1,972,518	1,972,518
	USD	8.95 – 16.50%	2009-2011	3,618,052	3,618,052	3,458,685	3,458,685
		2.50 - 6.00%	2009-2014	5,026	5,026	4,420	4,420
Unsecured facility	EUR	3.00 – 10.00%	2009-2014	5,186,611	5,186,611	81,059	81,059
	USD	7.00-10.00%	2009-2011	3,359,665	3,359,665	-	-
	RUR	0 – 15.37%	2009-2014	18,936,640	18,936,640	15,388,783	15,388,783
Finance lease liabilities		10.37 – 42.72%	2009-2014	<u>2,011,366</u>	<u>2,011,366</u>	<u>1,825,983</u>	<u>1,825,983</u>
				<u>36,816,018</u>	<u>36,816,018</u>	<u>24,091,304</u>	<u>24,091,304</u>

'000 USD	Currency	Nominal interest rate	Year of maturity	31 December 2008		31 December 2007	
				Face value	Carrying amount	Face value	Carrying amount
Secured facility	EUR	4.00 – 12.00%	2009-2014	43,889	43,889	55,400	55,400
		9.02 – 11.00%	2009-2011	82,000	82,000	80,359	80,359
	USD	8.95 – 16.50%	2009-2011	123,145	123,145	140,905	140,905
		2.50 - 6.00%	2009-2014	171	171	180	180
Unsecured facility	EUR	3.00 – 10.00%	2009-2014	176,533	176,533	3,302	3,302
	USD	7.00-10.00%	2009-2011	114,351	114,351	-	-
	RUR	0 – 15.37%	2009-2014	644,533	644,533	626,932	626,932
Finance lease liabilities		10.37 – 42.72%	2009-2014	<u>68,459</u>	<u>68,459</u>	<u>74,390</u>	<u>74,390</u>
				<u>1,253,081</u>	<u>1,253,081</u>	<u>981,468</u>	<u>981,468</u>

Covenants and other matters

The Credit Agreements require the Group to comply with certain general, informational and financial covenants, including:

- a negative pledge significantly restricting the Group’s ability, subject to certain exceptions, to create any additional security over its assets without the prior permission of the lender;
- a “no disposals” pledge significantly restricting the Group’s ability to dispose of any of its assets, subject to certain exceptions, without the prior permission of the lender;
- a prohibition restricting the Group ability to make very significant acquisitions without the prior permission of the lender other than acquisitions in its core business;

- a limitation on the Group ability to incur additional debt beyond a certain Total debt / EBITDA ratio, certain Total debt / Tangible Net Worth ratio and a certain EBIT/ gross interest ratio;
- subject to certain exceptions, a prohibition restricting the Group ability to make significant loans, or give credit, guarantees or indemnities to the third party ;
- a prohibition on paying or declaring any dividend or other distribution or interest on any unpaid interest (whether in cash or in kind);
- a liability to provide to the Banks with such financial and other information, the Banks may reasonably require in relation to the loan contracts, including the Group annual audited and interim unaudited consolidated financial statements, prepared in accordance with IFRS.
- As at the balance sheet date the Group was not in breach of any covenants.

Finance lease liabilities are payable as follows:

'000 RUR	31 December 2008			31 December 2007		
	Payments	Interest	Principal	Payments	Interest	Principal
Less than one year	1,382,462	274,546	1,107,916	1,206,057	274,044	932,013
Between one and five years	1,117,238	213,788	903,450	1,120,096	234,855	885,241
More than five years	-	-	-	11,403	2,674	8,729
	<u>2,499,700</u>	<u>488,334</u>	<u>2,011,366</u>	<u>2,337,556</u>	<u>511,573</u>	<u>1,825,983</u>

'000 USD	31 December 2008			31 December 2007		
	Payments	Interest	Principal	Payments	Interest	Principal
Less than one year	47,054	9,345	37,709	49,134	11,164	37,970
Between one and five years	38,027	7,277	30,750	45,632	9,568	36,064
More than five years	-	-	-	465	109	356
	<u>85,081</u>	<u>16,622</u>	<u>68,459</u>	<u>95,231</u>	<u>20,841</u>	<u>74,390</u>

Bank loans are secured by the following:

- Property, plant and equipment with a carrying amount of RUR 3,279,270 thousand /USD 111,614 thousand is pledged as collateral to secure bank loans (2007: RUR 2,273,439 thousand / USD 92,619 thousand) – refer to note 14(b).
- Investment property under development with a fair value of RUR 159,967 thousand / USD 5,445 thousand is pledged as collateral to secure bank loans (2007: RUR 1,100,979 thousand / USD 44,853 thousand) – refer to note 16.
- Inventories with a carrying amount of RUR 1,874,964 thousand /USD 63,817 thousand are pledged as collateral to secure bank loans. (2007: RUR 1,008,617 thousand / USD 41,091 thousand) – refer to note 20.
- Intangibles with a carrying amount of RUR 3,382 thousand /USD 115 thousand are subject to a registered debenture to secure bank loans (2007: RUR 2,767 thousand / USD 113 thousand) – refer to note 15.
- Receivables with a carrying amount of RUR 44,161 thousand /USD 1,503 thousand are subject to a registered debenture to secure bank loans (2007: RUR 110,531 thousand /USD 4,503 thousand) – refer to note 21.

The finance lease liabilities are secured by the leased assets (refer to note 14(c)).

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

- 9.27% of OAO Gatchinsky DSK;
- 100% of Aeroc AS;
- 100% of Aeroc CIA;
- 89.22% of OAO Granit-Kuznechnoe;
- 89.92 % of OAO MTO Arkhproekt;
- 25.95% of OAO Zavod Elektrik;
- 26% of OOO Osobnyak.

27 Provisions

'000 RUR	Site restoration	Environment restoration	Warranty provisions	Total
Current				
Balance at 1 January 2008	682,020	2,504	5,354	689,878
Provisions made during the period	982,729	-	2,777	985,506
Provisions used during the period	(794,185)	-	(2,818)	(797,003)
Change in amount discounted	-	6,355	-	6,355
Exchange difference	-	-	820	820
Balance at 31 December 2008	870,564	8,859	6,133	885,556

Non-current

Balance at 1 January 2008	-	7,565	-	7,565
Provisions made during the period	-	-	-	-
Provisions used during the period	-	-	-	-
Change in amount discounted	-	(5,865)	-	(5,865)
Balance at 31 December 2008	-	1,700	-	1,700

'000 USD	Site restoration	Environment restoration	Warranty provisions	Total
Current				
Balance at 1 January 2008	27,785	102	218	28,105
Provisions made during the period	39,538	-	112	39,650
Provisions used during the period	(31,952)	-	(114)	(32,066)
Change in amount discounted	-	256	-	256
Exchange difference	(5,740)	(56)	(8)	(5,804)
Balance at 31 December 2008	29,631	302	208	30,141

Non-current

Balance at 1 January 2008	-	308	-	308
Provisions made during the period	-	-	-	-
Provisions used during the period	-	-	-	-
Change in amount discounted	-	(236)	-	(236)
Exchange difference	-	(14)	-	(14)
Balance at 31 December 2008	-	58	-	58

(a) Warranty provision

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

(b) Site restoration

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

(c) Environment restoration

The Group records provisions in respect of the Group's obligation to clean up the surrounding area after quarrying sand in forested areas. The damage caused during quarrying is cleaned up after quarrying is completed. The amount of provision is estimated based on the average cost of past restoration works and current information available. The Group expects the resulting outflow of economic benefits over the next five years.

28 Trade and other payables

Non-current payables

	31 December 2008	31 December 2007	31 December 2008	31 December 2007
	'000 RUR	'000 RUR	'000 USD	'000 USD
Accounts payable – trade	35,640	140,868	1,213	5,739
Other payables	1,525	112,525	53	4,584
	<u>37,165</u>	<u>253,393</u>	<u>1,266</u>	<u>10,323</u>

Current payables

	31 December 2008	31 December 2007	31 December 2008	31 December 2007
	'000 RUR	'000 RUR	'000 USD	'000 USD
Prepayments received for flats	24,450,717	14,751,686	832,212	600,978
Accounts payable – trade	3,484,099	1,521,488	118,586	61,985
Advances from customers	3,350,789	1,702,967	114,048	69,378
Notes payable	62,371	88,771	2,123	3,616
Employee-related liabilities	593,507	513,590	20,200	20,923
Other taxes payable	1,150,971	505,538	39,175	20,595
Minority interest in limited liability subsidiaries	91,747	234,856	3,123	9,568
Accounts due to customers for contract work	803,385	338,137	27,344	13,776
Interest payable	477,229	301,169	16,243	12,269
Deferred income	67,860	91,433	2,310	3,725
Payables for shares of the subsidiaries acquired	2,675,383	-	91,060	-
Other payables	1,341,946	594,146	45,675	24,205
	<u>38,550,004</u>	<u>20,643,781</u>	<u>1,312,099</u>	<u>841,018</u>

Prepayments received for flats include RUR 18,148,894 thousand / USD 617,721 thousand for flats, which are expected to be delivered after 12 months from the balance sheet date (2007: RUR 8,858,509 thousand / USD 360,891 thousand).

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 29.

29 Financial risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk.

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

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

(b) Credit risk

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

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. There are no single customers which generate more than 10% of the Group's revenue. However, geographically there is concentration of credit risk as the most significant part of Group's operations is located in Russia.

Most of the Group's customers in the Building Materials, Construction and Aggregates segments have been transacting with the Group for over four years, and losses have occurred infrequently. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group does not have a unified policy for management of credit risk in place. Due to significant differences in operations at different business units specific credit policies are developed at the level of operational companies. Each of the operating companies has established procedures in place to review and collect outstanding receivables. New customers, as well as customers with significant outstanding and overdue balances are reviewed on a regular basis and resulting actions are put in place. All companies involved in the extraction and production of building materials have in place credit control procedures which require them to cancel despatching goods in case of the absence of a signed contract, previous fail to pay or previous violations of contract conditions. Also certain limits for the accounts receivable are established for particular customers.

In the Real Estate Development segment most sales are on prepayment and cash basis, as the customers are individuals.

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

(ii) Investments

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

(iii) Guarantees

The Group's policy is to provide financial guarantees only to its own subsidiaries. At 31 December 2008 no guarantees were outstanding (31 December 2007: none).

Exposure to credit risk

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

	Carrying amount	
	31 December 2008	31 December 2007
'000 RUR		
Available-for-sale financial assets	10,652	10,181
Loans and receivables	7,940,093	6,122,195
Cash and cash equivalents	3,246,060	8,653,612
Restricted cash	4,259,234	54,861
Financial assets held for sale	1,165	4,702
	15,457,204	14,845,551
'000 USD		
Available-for-sale financial assets	363	415
Loans and receivables	270,251	249,415
Cash and cash equivalents	110,483	352,544
Restricted cash	144,969	2,235
Financial assets held for sale	40	191
	526,106	604,800

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

'000 RUR	Carrying amount	
	31 December 2008	31 December 2007
Domestic	2,877,824	1,741,224
Euro-zone countries	12,101	65,228
Other CIS countries	125,013	30,579
	3,014,938	1,837,031

'000 USD	Carrying amount	
	31 December 2008	31 December 2007
Domestic	97,950	70,937
Euro-zone countries	412	2,657
Other CIS countries	4,255	1,246
	102,617	74,840

The Group's most significant customer, GUP "Mosstroyresurs", accounts for RUR 110,377 thousand / USD 3,757 thousand of the trade receivables carrying amount at 31 December 2008 (2007: nil).

All trade receivables for which payment is overdue are fully impaired. The total amount of impaired trade receivables at the reporting date was RUR 78,270 thousand / USD 2,664 thousand (31 December 2007: RUR 35,260 thousand / USD 1,436 thousand). At 31 December 2008 the Group did not have any general provisions on its trade receivables (2007: nil).

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

	2008	2007
	'000 RUR	'000 RUR
Balance at 1 January	(35,260)	(39,407)
Impairment loss recognised	(43,010)	4,147
Balance at 31 December	(78,270)	(35,260)

	2008	2007
	'000 USD	'000 USD
Balance at 1 January	(1,436)	(1,497)
Impairment loss recognised	(1,730)	162
Effect of movements in exchange rates	502	(101)
Balance at 31 December	(2,664)	(1,436)

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

	2008	2007
	'000 RUR	'000 RUR
Balance at 1 January	(134,948)	(95,239)
Impairment loss reversed / (recognised)	66,771	(39,709)
Balance at 31 December	<u>(68,177)</u>	<u>(134,948)</u>

	2008	2007
	'000 USD	'000 USD
Balance at 1 January	(5,498)	(3,617)
Impairment loss recognised	2,686	(1,553)
Effect of movements in exchange rates	492	(328)
Balance at 31 December	<u>(2,320)</u>	<u>(5,498)</u>

(c) Liquidity risk

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

The Group uses cash flow budgets which are prepared for each year and quarter to forecast potential liquidity deficit and identify sources of covering that deficit. As at 31 December 2008 the Group's undrawn short-term credit facilities amount is RUR 4,603,795 thousand / USD 156,696 thousand (31 December 2007: RUR 1,965,295 thousand / USD 80,065 thousand) from Russian, Ukrainian and Estonian Banks. Interest would be payable at the rate of 8.7% to 16.5%.

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

**31 December
2008**

'000 RUR	Average interest rate		Less than 1 year	1-5 years	Over 5 years	Total
	Contractual	Effective				
Secured bank loans:						
RUR*	8.95%-16.5%	10.00%	487,907	3,130,144	-	3,618,051
USD*	9.02% - 11%	9.5%	470,086	705,130	-	1,175,216
	Libor + 6.0% /					
USD	6.22%	9.1%	881,412	352,565	-	1,233,977
EUR*	8.80%-12%	10.8%	175,111	141,416	-	316,527
	Euribor + 0.99%					
EUR	/Euribor + 5.75%	5.5%	56,421	268,046	315,986	640,453
Other*	2.5% - 6.00%	5.8%	329	1,223	3,474	5,026
Unsecured bank loans:						
RUR*	9.85% - 15.37%	12.1%	7,591,130	2,598,119	-	10,189,249
	Libor + 5.25% /					
USD	8.25%	9.3%	1,337,044	2,022,621	-	3,359,665
EUR*	3.0%-4.63%	4.6%	63,315	1,011,743	3,710,397	4,785,455
Unsecured other loans:						
RUR*	0.0%-14.0%	1.9%	153,173	15,066	632	168,871
EUR*	10.0%	10.0%	401,156	-	-	401,156
Unsecured bond issues:						
RUR*	8.35%-13.25%	11.0%	4,895,000	3,683,520	-	8,578,520
Secured bond issues:						
EUR	6m Euribor + 4.5%	8.0%	332,485	-	-	332,485
Finance lease liabilities						
RUR*	10.37 – 42.72%	17.92%	1,107,916	903,450	-	2,011,366
Trade and other payables						
		-	9,945,113	37,165	-	9,982,278
			<u>27,897,598</u>	<u>14,870,208</u>	<u>4,030,489</u>	<u>46,798,295</u>

**31 December
2007**

'000 RUR	Average interest rate		Less than 1 year	1-5 years	Over 5 years	Total
	Contractual	Effective				
Secured bank loans:						
RUR*	8.95%-11.75%	9.48%	103,639	3,315,977	-	3,419,616
USD*	10.4%	10.4%	-	205,192	-	205,192
	Libor + 3.9% /					
USD	Libor + 4.1%	9.36%	-	1,767,326	-	1,767,326
EUR*	8.65%-8.8%	8.69%	-	390,954	-	390,954
	Euribor +					
	0.99% /					
EUR	Euribor + 1.5%	6.04%	352,900	112,938	-	465,838
EEK*	6.0%	6.0%	216	1,078	3,126	4,420
Current portion of secured bank loans:						
EUR*	8.8%	8.8%	215,599	-	-	215,599
RUR*	10.0%	10.0%	39,068	-	-	39,068
Unsecured other loans:						
RUR*	0.0%-16.41%	9.14%	8,068,737	1,267,846	47,156	9,383,739
	1 m Mosprime					
RUR	+ 3%	9.58%	340,000	-	-	340,000
EUR*	5.0%-9.0%	7.71%	26,159	54,900	-	81,059
Unsecured bond issues:						
RUR*	8.35%-10.7%	9.37%	665,044	5,000,000	-	5,665,044
Secured bond issues:						
EUR	6m Euribor + 4.5%	9.63%	-	287,466	-	287,466
Finance lease liabilities						
RUR*	7%-41%	20.8%	932,013	885,241	8,729	1,825,983
Trade and other payables			20,643,781	253,393	-	20,897,174
			<u>31,387,156</u>	<u>13,542,311</u>	<u>59,011</u>	<u>44,988,478</u>

*Fixed rate

**31 December
2008**

'000 USD	Average interest rate		Less than 1 year	1-5 years	Over 5 years	Total
	Contractual	Effective				
Secured bank loans:						
RUR*	8.95%-16.5%	10.00%	16,607	106,538	-	123,145
USD*	9.02%-11.00%	9.5%	16,000	24,000	-	40,000
	Libor + 6.01% /					
USD	6.22%	9.1%	30,000	12,000	-	42,000
EUR*	8.80%-12.00%	10.8%	5,960	4,813	-	10,773
	Euribor + 0.99%					
EUR	/Euribor + 5.75%	5.50%	1,920	9,123	10,755	21,798
Other*	2.50%-6.00%	5.80%	11	42	118	171
Unsecured bank loans:						
RUR*	9.85%-15.37%	12.10%	258,374	88,430	-	346,804
	Libor + 5.25% /					
USD	8.25%	9.3%	45,508	68,843	-	114,351
EUR*	3.0%-4.63%	4.60%	2,155	34,436	126,288	162,879
Unsecured other loans:						
RUR*	0.00%-14.00%	1.9%	5,213	513	22	5,748
EUR*	10.00%	10.00%	13,654	-	-	13,654
Unsecured bond issues:						
RUR*	8.35%-13.25%	11.00%	166,608	125,373	-	291,981
Secured bond issues:						
	6m Euribor +					
EUR	4.5%	8.00%	11,317	-	-	11,317
Finance lease liabilities						
RUR*	10.37%-42%	17.92%	37,709	30,750	-	68,459
Trade and other payables		-	338,495	1,265	-	339,760
			<u>949,531</u>	<u>506,126</u>	<u>137,183</u>	<u>1,592,840</u>

31 December 2007	Average interest rate					
'000 USD	Contractual	Effective	Less than 1 year	1-5 years	Over 5 years	Total
Secured bank loans:						
RUR*	8.95%-11.75%	9.48%	4,222	135,092	-	139,314
USD*	10.4%	10.4%	-	8,359	-	8,359
USD	Libor + 3.9% / Libor + 4.1%	9.36%	-	72,000	-	72,000
EUR*	8.65%-8.8%	8.69%	-	15,927	-	15,927
EUR	Eribor + 0.99% / Euribor + 1.5%	6,04%	14,377	4,601	-	18,978
EEK*	6.0%	6.0%	9	44	127	180
Current portion of secured bank loans:						
EUR*	8.8%	8.8%	8,783	-	-	8,783
RUR*	10.0%	10.0%	1,592	-	-	1,592
Unsecured other loans:						
RUR*	0.0%-16.41%	9.14%	328,716	51,651	1,921	382,288
RUR	1 m Mosprime + 3%	9.58%	13,851	-	-	13,851
EUR*	5.0%-9.0%	7.71%	1,066	2,237	-	3,303
Secured bond issues:						
EUR	6m Euribor + 4.5%	9.63%	-	11,711	-	11,711
Unsecured bond issues:						
RUR*	8.35%-10.7%	9.37%	27,094	203,698	-	230,792
Finance lease liabilities						
RUR*	7%-41%	20.8%	37,970	36,064	356	74,390
Trade and other payables						
			841,018	10,323	-	851,341
			1,278,698	551,707	2,404	1,832,809

* Fixed rate

(d) Currency risk

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

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

Exposure to currency risk

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

31 December 2008 '000 RUR	RUR- denominated	EUR- denominated	USD- denominated	Other- denominated
Trade and other receivables	6,215,682	218,569	1,303	57,412
Secured bank loans	(3,618,052)	(956,979)	(2,409,193)	(5,026)
Unsecured other loans	(10,358,120)	(5,186,611)	(3,359,665)	-
Secured bond issues	-	(332,485)	-	-
Unsecured bond issue	(8,578,520)	-	-	-
Trade payables	(9,612,642)	(113,966)	(5,213)	(250,458)
Gross balance sheet exposure	<u>(25,951,652)</u>	<u>(6,371,472)</u>	<u>(5,772,768)</u>	<u>(198,072)</u>

31 December 2007 '000 RUR	RUR- denominated	EUR- denominated	USD- denominated	Other- denominated
Trade and other receivables	3,984,595	110,135	319	27,895
Secured bank loans	(3,458,685)	(1,072,390)	(1,972,518)	(4,420)
Unsecured other loans	(9,723,739)	(81,059)	-	-
Unsecured bond issues	(5,665,044)	-	-	-
Secured bond issue	-	(287,466)	-	-
Trade payables	(18,719,326)	(10,923)	(1,718)	(74,853)
Gross balance sheet exposure	<u>(33,582,199)</u>	<u>(1,341,703)</u>	<u>(1,973,917)</u>	<u>(51,378)</u>

31 December 2008 '000 USD	RUR- denominated	EUR- denominated	USD- denominated	Other- denominated
Trade and other receivables	211,559	7,439	44	1,954
Secured bank loans	(123,145)	(32,572)	(82,000)	(171)
Unsecured other loans	(352,552)	(176,533)	(114,351)	-
Secured bond issues	-	(11,317)	-	-
Unsecured bonds issue	(291,981)	-	-	-
Trade payables	(327,179)	(3,879)	(177)	(8,525)
Gross balance sheet exposure	<u>(883,298)</u>	<u>(216,862)</u>	<u>(196,484)</u>	<u>(6,742)</u>

31 December 2007 '000 USD	RUR- denominated	EUR- denominated	USD- denominated	Other- denominated
Trade and other receivables	162,330	4,487	13	1,136
Secured bank loans	(140,905)	(43,689)	(80,359)	(180)
Unsecured other loans	(396,141)	(3,302)	-	-
Unsecured bond issues	(230,791)	-	-	-
Secured bonds issue	-	(11,711)	-	-
Trade payables	(762,616)	(445)	(70)	(3,049)
Gross balance sheet exposure	<u>(1,368,123)</u>	<u>(54,660)</u>	<u>(80,416)</u>	<u>(2,093)</u>

The following significant exchange rates applied during the period:

	31 December 2008	31 December 2007
	RUR	RUR
1 USD equals	29.3804	24.5462
1 Euro equals	41.4411	35.9332
1 EEK equals	2.65623	2.2846

Sensitivity analysis

A 10% strengthening of RUR against the above currencies would have increased profit by RUR 1,234,231 thousand / USD 42,009 thousand. A 10% weakening of the RUR against the above currencies would have the equal but opposite effect on the basis that all other variables remain constant.

(e) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

At the reporting date the interest rate profile of the Group's loans and borrowings was:

'000 RUR	Carrying amount	
	31 December 2008	31 December 2007
Fixed rate instruments		
Financial assets	258,275	342,382
Financial liabilities	(31,249,437)	(21,230,674)
	<u>(30,991,162)</u>	<u>(20,888,292)</u>
Variable rate instruments		
Financial liabilities	(5,566,580)	(2,860,630)

'000 USD	Carrying amount	
	31 December 2008	31 December 2007
Fixed rate instruments		
Financial assets	8,791	13,949
Financial liabilities	(1,063,615)	(864,928)
	<u>(1,054,824)</u>	<u>(850,979)</u>
Variable rate instruments		
Financial liabilities	(189,466)	(116,540)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect the income statement.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and the income statement by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2007.

'000 RUR	Profit or loss	
	100 bp increase	100 bp decrease
Year ended 31 December 2008		
Variable rate instruments	(55,666)	55,666
Cash flow sensitivity	(55,666)	55,666
Year ended 31 December 2007		
Variable rate instruments	(28,606)	28,606
Cash flow sensitivity	(28,606)	28,606

'000 USD	Profit or loss	
	100 bp increase	100 bp decrease
Year ended 31 December 2008		
Variable rate instruments	(1,895)	1,895
Cash flow sensitivity	(1,895)	1,895
Year ended 31 December 2007		
Variable rate instruments	(1,165)	1,165
Cash flow sensitivity	(1,165)	1,165

(f) Fair values

The fair value of unquoted equity investments is discussed in note 4. In other cases management believes that the fair value of its financial assets and liabilities approximates their carrying amounts except for loans. As at 31 December 2008 fair value of loans with carrying value of RUR 34,808,651 thousand / USD 1,184,621 thousand equals to RUR 33,589,153 thousand / USD 1,143,250 thousand. As at 31 December 2007 fair value of loans approximated their carrying values. In determining fair values market rates of 15% for loans nominated in Russian roubles and 9% for loans nominated in foreign currencies were used.

30 Commitments

At 31 December 2008, the Group was committed to purchase property, plant and equipment for approximately RUR 7,022,962 thousand / USD 239,036 thousand (31 December 2007: RUR 7,933,119 thousand/ USD 323,191 thousand) net of VAT, including commitment to purchase equipment for a new cement plant for RUR 4,575,097 thousand / USD 155,719 thousand (31 December 2007: RUR 3,854,996 thousand/ USD 157,051 thousand) and commitment to purchase equipment for a new brick-making plant for RUR 1,107,264 thousand/USD 37,687 thousand (31 December 2007: RUR 2,539,507 thousand/USD 103,458 thousand).

31 Contingencies

(a) Insurance

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

(b) Litigation

Except for the arbitration discussed in note 34, litigation includes a number of small claims relating to purchases from domestic customers. Based on experience in resolving such claims, management believes that they will be settled without significant cost to the Group. Accordingly, no provision has been made for such amounts.

(c) Taxation contingencies

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

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

During the year, the Group companies entered into transactions involving other Group companies at prices which management believed were consistent with applicable tax law. However, based on the uncertainty of legislation, the tax authorities could take a different position and attempt to assess additional tax and interest. The potential amount of such assessment cannot be reasonably estimated based on the uncertainty of transfer pricing rules, but could be significant. Management has not made any provision because it believes there will be no outflow of funds relating to any such assessment

(d) Environmental liabilities

The Group is engaged in dredging sand from the sea bed and quarrying sand in forested areas. There is no liability to perform any restoration work in relation to the sea bed after the dredging is complete.

The Group is engaged in crushed stone production in five areas covered by forests. According to existing legislation and the terms of licenses obtained by the Group there is a liability for the Group to restore these sites when quarrying is complete. The costs associated with restoration cannot be determined as, in accordance with existing licences on crushed stone production, the methods of restoration and its cost will be determined in the future based on discussions between the Group and Russian Environment Authorities after the quarrying is complete. Accordingly, no provision has been recognised in the consolidated financial statements for expected expenses on restoration. It is planned that quarrying will be completed for the currently used three areas in the years 2030 and 2178 respectively (refer to note 27).

32 Related party transactions

(a) Control relationships

The Company is controlled by Andrey Molchanov, who is owing 66.4% of the voting shares directly and 6.5% of the voting shares through an affiliated company Streetlink Ltd.

(b) Transactions with management and close family members

The management and their close family members control 13.8% of the voting shares of the Group. (31 December 2007: 13.9%).

(i) Management remuneration

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

	Transaction value year ended		Outstanding balance		Transaction value year ended		Outstanding balance	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007
	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 USD	'000 USD	'000 USD	'000 USD
Sale of goods and services	168,896	17,810	(91,194)	(71,492)	6,799	697	(3,104)	(2,913)
Purchases of goods and services from related parties	-	4,000	-	-	-	157	-	-
Loans received (included into unsecured other loans – refer to note 26) from related parties	466,186	-	478,282	-	18,756	-	16,279	-
Loans given to related parties	11,915	-	10,336	-	479	-	352	-
	<u>646,997</u>	<u>21,810</u>	<u>397,424</u>	<u>(71,492)</u>	<u>26,034</u>	<u>854</u>	<u>13,527</u>	<u>(2,913)</u>

Key management received the following remuneration during the period, which is included in personnel costs (refer to note 10):

	2008 '000 RUR	2007 '000 RUR	2008 '000 USD	2007 '000 USD
Salaries and bonuses	<u>399,147</u>	<u>306,655</u>	<u>16,057</u>	<u>12,001</u>

(ii) Other transactions

Loans to executive directors amounting to RUR 3,434 thousand /USD 146 thousand are included in “employee receivables” (31 December 2007: RUR 1,167 thousand /USD 48 thousand) (refer to note 21). Interest of 8.5% p.a. is payable on these loans. The loans are expected to be repaid within 2 years.

As further described in note 7, during 2007 and 2008 the Group acquired certain companies from entities under common control. In addition, the Group also acquired additional interests in subsidiaries, or disposed of part of its interests, to entities under common control. In accordance with the Group’s accounting policy, differences, if any, between the carrying amount of net assets acquired or disposed of and consideration paid or received are recognised directly in equity as distributions to or contributions from shareholders.

(c) **Transactions with other related parties**

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

(i) **Revenue**

	Transaction value year ended		Outstanding balance		Transaction value year ended		Outstanding balance	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007
	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 USD	'000 USD	'000 USD	'000 USD
Sale of goods and services provided to:								
Companies controlled or significantly influenced by or on behalf of, the Group's ultimate beneficial owner	26,085	596,515	50,970	205,757	1,049	23,346	1,735	8,382
Companies significantly influenced by the Group key management	2,376	19	113,870	-	96	1	3,876	-
	<u>28,461</u>	<u>596,534</u>	<u>164,840</u>	<u>205,757</u>	<u>1,145</u>	<u>23,347</u>	<u>5,611</u>	<u>8,382</u>

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

(ii) *Expenses*

	Transaction value year ended		Outstanding balance		Transaction value year ended		Outstanding balance	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007
	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 USD	'000 USD	'000 USD	'000 USD
Purchase of goods and services from:								
Companies controlled or significantly influenced by or on behalf of, the Group's ultimate beneficial owners	995,542	1,593,222	20,865	116,119	40,054	62,353	710	4,731
Companies significantly influenced by the Group management	62,103	53,509	108,191	9,723	2,499	2,094	3,682	396
	<u>1,057,645</u>	<u>1,646,731</u>	<u>129,056</u>	<u>125,842</u>	<u>42,553</u>	<u>64,447</u>	<u>4,392</u>	<u>5,127</u>

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

(iii) *Loans*

	Transaction value year ended		Outstanding balance		Transaction value year ended		Outstanding balance	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007
	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 USD	'000 USD	'000 USD	'000 USD
Loans received (included into unsecured other loans – refer to note 26):								
Companies significantly influenced by the Group management	1,362,508	90,000	49,000	45,000	54,818	3,522	1,668	1,833
Companies controlled or significantly influenced by or on behalf of, the Group's ultimate beneficial owners	-	253,599	15,066	-	-	9,925	513	-
	<u>1,362,508</u>	<u>343,599</u>	<u>64,066</u>	<u>45,000</u>	<u>54,818</u>	<u>13,447</u>	<u>2,181</u>	<u>1,833</u>
Loans given (included into other investments – originated loans category– refer to note 18):								
Companies significantly influenced by the Group management	560	-	3,101	-	23	-	106	-
Companies controlled or significantly influenced by or on behalf of, the Group's ultimate beneficial owners	264	1,459,234	376	41,457	11	57,109	13	1,689
	<u>824</u>	<u>1,459,234</u>	<u>3,477</u>	<u>41,457</u>	<u>34</u>	<u>57,109</u>	<u>119</u>	<u>1,689</u>
	<u>1,363,332</u>	<u>1,802,833</u>	<u>67,543</u>	<u>86,457</u>	<u>54,852</u>	<u>70,556</u>	<u>2,300</u>	<u>3,522</u>

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

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

(iv) *Other investments*

	Transaction value year ended		Outstanding balance		Transaction value year ended		Outstanding balance	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007
	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 USD	'000 USD	'000 USD	'000 USD
Non-current available-for-sale investments stated at cost (included into other investments – originated loans category– refer to note 18):								
Companies controlled or significantly influenced by or on behalf of, the Group's ultimate beneficial owners	-	-	-	-	-	-	-	-
Companies significantly influenced by the Group management	41,123	-	20,713	-	1,654	-	705	-
	<u>41,123</u>	<u>-</u>	<u>20,713</u>	<u>-</u>	<u>1,654</u>	<u>-</u>	<u>705</u>	<u>-</u>

(v) *Transactions with shares / promissory notes*

Purchase of shares from

	Transaction value year ended		Outstanding balance		Transaction value year ended		Outstanding balance	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007
	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 USD	'000 USD	'000 USD	'000 USD
Non-current available-for-sale investments stated at cost (included into other investments – originated loans category– refer to note 18):								
Companies controlled or significantly influenced by or on behalf of, the Group’s ultimate beneficial owners	44,326	-	50,801	-	1,783	-	1,729	-
Companies significantly influenced by the Group management	68,950	-	68,950	-	2,774	-	2,347	-
	<u>113,276</u>	<u>-</u>	<u>119,751</u>	<u>-</u>	<u>4,557</u>	<u>-</u>	<u>4,076</u>	<u>-</u>

Sale of shares to

	Transaction value year ended		Outstanding balance		Transaction value year ended		Outstanding balance	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007
	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 USD	'000 USD	'000 USD	'000 USD
Non-current available-for-sale investments stated at cost (included into other investments – originated loans category– refer to note 18):								
Companies controlled or significantly influenced by or on behalf of, the Group's ultimate beneficial owners	26,960	-	-	-	1,085	-	-	-
Companies significantly influenced by the Group management	-	-	15,625	-	-	-	532	-
	<u>26,960</u>	<u>-</u>	<u>15,625</u>	<u>-</u>	<u>1,085</u>	<u>-</u>	<u>532</u>	<u>-</u>

33 Significant subsidiaries

<u>Entity</u>	<u>Country of incorporation</u>	<u>Ownership/voting interest 31 December 2008</u>	<u>Ownership/voting interest 31 December 2007</u>
OAO "Gatchinsky DSK"	Russia	100.00%	98.23%
JOINT-STOCK COMPANY "CONSTRUCTION CORPORATION "REVIVAL OF SAINT-PETERSBURG" (formerly OAO SKV SPb)	Russia	100.00%	97.79%
OOO "GDSK"	Russia	100.00%	100.00%
OAO "LSR"	Russia	100.00%	99.99%
OAO NPO "Keramika" (formerly ZAO NPO "Keramika")	Russia	100.00%%	88.091%
OAO "Granit-Kuznechnoye"	Russia	100.00%	95.09%
OAO "Rudas"	Russia	100.00%	100.00%
"Leningrad river port Open Joint-Stock Company"	Russia	100.00%	100.00%
Joint-Stock Company "Scanex"	Russia	100.00%	100.00%
ZAO "Vertikal"	Russia	100.00%	100.00%
OAO "PO "Barrikada"	Russia	88.75%	90.70%
ZAO "DSK "Blok"	Russia	100.00%	100.00%
OAO "UM-260" (formerly ZAO UM-260)	Russia	100.00%	97.11%
OAO "Obyedineniye 45"	Russia	100.00%	100.00%
ZAO "MSR" (formerly ZAO Mosstroyrekonstruktsia)	Russia	100%	100.00%
OAO "GATP-1"	Russia	100.00%	99.90%
JSC "Pobeda LSR" (formerly ZAO "Pobeda LSR")	Russia	99.89%	99.87%
OOO "Aeroc SPb"	Russia	100.00%	100.00%
"AEROC" SIA (formerly Aeroc Poribet SIA)	Latvia	100.00%	100.00%
Aeroc aktsiaselts	Estonia	100.00%	100.00%
LCC "Aeroc" ltd	Ukraine	100.00%	100.00%
Joint-Stock Company "Petrobeton"	Russia	100.00%	100.00%
OOO "Aeroc Kaliningrad"	Russia	100.00%	100.00%
JSC "BEREZAN PICU"	Ukraine	99.99%	99.9925%
UAB "Aeroc"	Lithuania	100.00%	100.00%
OOO "Osobnyak"	Russia	100.00%	100.00%
OOO "Kvartira LuxServis"	Russia	100.00%	100.00%
ZAO "Stroitelny trest № 28"	Russia	79.17%	79.17%
OOO "Stroitelny trest № 28"	Russia	50.00%	50.00%
ZAO "Paradny kvartal" (formerly ZAO	Russia	100.00%	100.00%

Entity	Country of incorporation	Ownership/voting interest 31 December 2008	Ownership/voting interest 31 December 2007
"Naberezhnaya Evropy")			
OOO "Nevsky Portal"	Russia	100.00%	100.00%
OOO "PSG LSR"	Russia	100.00%	100.00%
ZAO "Promyshlenny leasing" (formerly OOO "Promyshlenny leasing")	Russia	100.00%	100.00%
OOO "Martynovka"	Russia	100.00%	100.00%
OAo "NKSM"	Russia	100.00%	97.00%
ZAO NPO "VSR"	Russia	80.00%	80.00%
OOO "SPb GDC "YUNA"	Russia	100.00%	100.00%
DNP "Alakul"*	Russia	-	-
"DNP "Penaty 2"*	Russia	-	-
DNP "Severnoye pomestye"*	Russia	-	-
ZAO "MSR-Butovo"	Russia	100%	100%
OOO "MSR-Invest - 14"	Russia	24%	24%
OOO "MSR-Novostroika - 1"	Russia	24%	24%
OAo "Zavod ZhBI-6"	Russia	57.70%	57.70%
OOO "GDSK Invest Primorsky" (formerly OOO "GDSK Invest-49")	Russia	100.00%	100.00%
ZAO "Zarechye"	Russia	100.00%	100.00%
OOO "LenSpecSMO Promstroyontazh"	Russia	100.00%	100.00%
Limited Liability Company Smolny District	Russia	100.00%	100.00%
OOO "VSMP" (formerly ZAO " VSMP ")	Russia	100.00%	100.00%
OOO "Yakornaya"	Russia	100.00%	100.00%
OOO "BaltStroyKomplekt"	Russia	100.00%	100.00%
Aeroc International AS	Estonia	90.00%	90.00%
ZAO "Obyedineniye 45-M"	Russia	100.00%	100.00%
OOO "LSR-Invest"	Russia	100.00%	100.00%
ZAO "Chifko plus"	Russia	100.00%	100.00%
LSR Europe GmbH	Germany	100.00%	100.00%
Saargemunder Strabe Wohnbau Gmbh & Co. KG	Germany	70.00%	70.00%
Saargemunder Strabe Wohnbau Beteiligungs-GmbH	Germany	70.00%	70.00%
Max-Josephs-Hohe Immobilien und Projektentwicklungs GmbH	Germany	94.80%	94.80%
LSR Vermögensverwaltungs GmbH	Germany	85.00%	-
Oefelestrasse Projektentwicklungs GmbH & Co KG	Germany	85.00%	-
JSC "A Plus Estate"	Russia	100.00%	100.00%
ZAO "INGEOKOM S-Pb"	Russia	100.00%	100.00%
OAo "Stroicorporatciya"	Russia	100.00%	99.87%
Joint-Stock Company "Golden Kazanskaya"	Russia	100.00%	100.00%

Entity	Country of incorporation	Ownership/voting interest 31 December 2008	Ownership/voting interest 31 December 2007
OAO MTO "ARHPROEKT"	Russia	100.00%	99.94%
LLC "LSR - UKRAINE"	Ukraine	100.00%	100.00%
OOO "Velikan-XXI vek"	Russia	100.00%	100.00%
OAO "ZAVOD ELEKTRIK"	Russia	100.00%	97.15%
ZAO "Kikerino-Elektrik"	Russia	100.00%	100.00%
ZAO "ZAVOD "STROIFARFOR"	Russia	95.75%	95.75%
OOO "BSK Invest-1"*	Russia	20.00%	20.00%
OOO "BSK Invest-2"*	Russia	20.00%	20.00%
OOO "BSK Invest-3"*	Russia	20.00%	20.00%
Limited Liability Company "Cement"	Russia	100.00%	100.00%
OOO "Investproekt"	Russia	100.00%	100.00%
ZAO "Kazanskaya, 36"	Russia	100.00%	100.00%
OOO "Ozherel'evskaya keramika"	Russia	100.00%	100.00%
OOO "Okhtinskiy Bereg"	Russia	94.00%	94.00%
Joint-Stock Company "Parkon"	Russia	100.00%	98.50%
Lsr Group Ltd (formerly OOO LSR)	Russia	100.00%	100.00%
LSR Group Ltd (formerly OOO UK LSR)	Russia	100.00%	100.00%
OOO "Ohta 25"	Russia	55.00%	-
OOO "InvestFinBusines"	Russia	100.00%	-
OOO Agentstvo "TRIADA"	Russia	100.00%	-
OOO "Barrikada"	Russia	100.00%	-
OOO "UK "LSR Ural" (former OOO "UK "NOVA GROUP")	Russia	100.00%	-
OOO "Promrezerv"	Russia	100.00%	-
OAO "Betfor"	Russia	92.64%	-
OOO "SMU NOVA-stroy"*	Russia	-	-
OOO "PKU NOVA-StroyProekt"	Russia	100.00%	-
ZAO "NOVA-stroy"	Russia	100.00%	-
OOO "NOVA-stroy"	Russia	100.00%	-
OOO "Granit-Invest"	Russia	100.00%	-
OOO "Uralscheben"	Russia	100.00%	-
OOO "Gagarinskiy Granitniy Karier"	Russia	100.00%	-
OOO "RDSZ"	Russia	100.00%	-
JSC "Aeroc Obuchov"	Ukraine	97.2766%	-
OOO "Kentavr Management"	Russia	100.00%	-
Hiuki Holding LTD *	Cyprus	-	-

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

34 Events subsequent to the balance sheet date

Financing events

On 15th of January 2009 the Group has fully met its liabilities under the loan agreement signed with Deutsche Bank A.G., London Branch in March 2007 by repaying the final tranche of RUR 1,250,000 thousand / USD 42,545 thousand.

On 16th of January 2009 and 5th of February 2009 the Group paid coupons on its bonds issues.

In January 2009 the Group subsidiaries entered into four loan agreements with OAO Sberbank. The amount of overdraft and revolving credit lines granted is no more than RUR 337,000 thousand / USD 11,470 thousand.

In January 2009 one of the Group subsidiaries entered into a loan agreement with OAO VTB Severo-Zapad. The total amount of revolving credit line granted is no more than RUR 100,000 thousand / USD 3,404 thousand.

In April 2009 one of the Group subsidiaries entered into a loan agreement with OAO Bank Saint-Petersburg. The total amount of the revolving credit line granted is no more than EUR 21,000 thousand / USD 30,779 thousand.

Operating events

In February 2009 the Group entered into litigation with CERIC SA in regards to the cancellation of the agreement for the purchase of the equipment for the new brick-making plant and return of the funds, reserved under the irrevocable letter of credit in the amount of RUR 63,315 thousand /USD 2,155 thousand and the advances, issued to CERIC SA. Substantive prosecution of the case will be considered in the Arbitrary Court of Stockholm in July 2009, therefore at the date of the audit opinion it is not possible to estimate the possible outcome for the Group, and accordingly no provision in regards to this case has been recognised in the Consolidated Financial Statements as at the balance sheet date.

35 Supplementary disclosures

The following Group entities are included in Segments and Business unit disclosures:

Segment	Business unit	Entity
Construction	Construction	OAO "Gatchinsky DSK"
		ZAO "DSK "Blok"
	Construction Ural	OAO "Betfor"
		OOO "SMU NOVA-stroy"
		OOO "PKU NOVA-StroyProekt"
Real Estate Development	Gated Communities	DNP "Alakul"
		"DNP "Penaty 2"
		DNP "Severnoye pomestye"
		ZAO "Zarechye"
		OOO "Osobnyak"
	Business Class and Mass Market Real Estate	ZAO "ZAVOD "STROIFARFOR"
		OAO "LSR"
		OAO "NPO Keramika"

Segment	Business unit	Entity	
		OOO "GDSK Invest Primorsky" (formerly OOO "GDSK Invest-49")	
		OOO "GDSK"	
		OOO "Nevsky Portal"	
		OOO "Okhtinskiy Bereg"	
	Real Estate in Western Europe		LSR Europe GmbH
			Max-Josephs-Hohe Immobilien-und Projektentwicklungs GmbH
			LSR Vermögensverwaltungs GmbH
			Oefelestrasse Projektentwicklungs GmbH & Co KG
			Saargemunder Strabe Wohnbau Beteiligungs-GmbH
	Real Estate Ural		Saargemunder Strabe Wohnbau GmbH & Co. KG
			OOO "Investproekt"
			OOO "Promrezerv"
			ZAO "NOVA-stroy"
	Real Estate in Moscow		OOO "NOVA-stroy"
			ZAO "MSR" (formerly ZAO Mosstroyrekonstruktsia)
			OOO Agentstvo "TRIADA"
			OOO "Velikan-XXI vek"
			OOO "InvestFinBusines"
			OOO "Kentavr Management"
			ZAO "MSR-Butovo"
			OOO "MSR-Novostroika - 1"
	OOO "MSR-Invest - 14"		
	Elite Real Estate		ZAO "INGEOKOM S-Pb"
			ZAO "Kikerino-Elektrik"
			ZAO NPO "Vyborgstroyrekonstruktsiya"
			ZAO "Paradny kvartal" (formerly ZAO "Naberezhnaya Evropy")
			OAO "ZAVOD ELEKTRIK"
			JOINT-STOCK COMPANY "CONSTRUCTION CORPORATION "REVIVAL OF SAINT-PETERSBURG" (formerly OAO SKV SPb)
			OAO "Stroicorporatciya"
			OOO "Martynovka"
			Limited Liability Company Smolny District
			OOO "SPB GDC "YUNA"
			OOO "LenSpecSMO PromstroyMontazh"
Other	OOO "Kvartira LuxServis"		
Aggregates	Sand	OOO "Vsevolozhskoye SMP"	
		"Leningrad river port Open Joint-Stock Company"	
		OAO "Rudas"	
	Crushed Granite		OAO "Granit-Kuznechnoye"
			OOO "Granit-Invest"
	Crushed Granite Ural		OOO "Uralscheben"
OOO "Gagarskiy Granitniy Karier"			
		OOO "Rezhevskiy Drobilno-Sortirovochniy Zavod"	
Building Materials	Other	OOO "BaltStroyKomplekt"	
		OOO "Ohta 25"	
		OOO "BSK Invest-1-3"	

Segment	Business unit	Entity
	Ready-mix Concrete	ZAO "Vertikal"
		OOO "Yakornaya"
		ZAO "Obyedineniye 45-M"
		OOO "Obyedineniye 45"
	Aerated Concrete	UAB "Aeroc"
		Aeroc aktsiaselts (formerly Aeroc AS)
		Aeroc International AS
		"AEROC" SIA (formerly Aeroc Poribet SIA)
		Joint-Stock Company "Petrobeton"
		Joint-Stock Company "Scanex"
		JSC "BEREZAN PICU"
		OOO "Aeroc Kaliningrad"
		OOO "Aerok SPb"
		JSC "Aeroc Obuchow"
	LCC "Aeroc" ltd (formerly Aeroc Ukraine)	
	Reinforced Concrete	OOO "Zavod ZhBI-6"
		OOO "NKSM"
		Joint-Stock Company "Parkon"
		OOO "Barrikada"
	Bricks	OOO "PO "Barrikada"
		Joint-Stock Company "Pobeda LSR" (formerly ZAO Pobeda LSR)
Cement	OOO "Ozherel'evskaya keramika"	
	ZAO "Chifko plus"	
Commercial Real Estate	Commercial Real Estate	Limited Liability Company "Cement"
		JSC "A Plus Estate"
Construction Services	Transportation	OOO "GATP-1"
	Pile Foundation Construction	ZAO "Stroitelny trest № 28"
		OOO "Stroitelny trest № 28"
Tower Cranes	OOO "UM-260" (formerly ZAO UM-260)	
Other Entities	Other entities	Joint-Stock Company "Golden Kazanskaya"
		ZAO "Kazanskaya, 36"
		ZAO "Promyshlenny leasing" (formerly OOO "Promyshlenny leasing")
		OJSC LSR Group
		OOO MTO "ARHPROEKT"
		Lsr Group Ltd (formerly OOO LSR)
		OOO "LSR-Invest"
		LLC "LSR - UKRAINE"
		OOO "PSG LSR"
		Hiuki Holding LTD
	Other entities Ural	OOO "UK "LSR Ural"
		OOO "Nova-Group"

For the 12 months ended 31 December 2008 ('000 RUR)	Construction	Construction Ural	Construction	Brick	Reinforced Concrete	Ready-mix Concrete	Aerated Concrete	Cement	Other	Eliminations	Building Materials
Revenue from external customers	8 053 470	1 598 878	9 652 348	2,770,199	5,475,336	5,563,375	2,553,605	1,061,005	1,039,560	-	18,463,080
Inter-group revenue	2 926 493	540 217	3 466 710	68,367	856,834	168,298	36,150	1,405,825	206,806	(1,513,242)	1,229,038
Total revenue	10 979 963	2 139 095	13 119 058	2,838,566	6,332,170	5,731,673	2,589,755	2,466,830	1,246,366	(1,513,242)	19,692,118
Operating profit	2 436 434	263 457	2 699 891	950,744	1,269,111	353,001	174,416	(41,287)	194,930	(9,127)	2,891,788
Depreciation/Amortization	267 516	153 552	421 068	87,519	207,148	266,105	135,547	8,582	12,570	-	717,471
Change in fair value of investment property	-	-	-	-	-	-	-	-	-	-	-
EBITDA*	2 703 950	417 009	3 120 959	1,038,263	1,476,259	619,106	309,963	(32,705)	207,500	(9,127)	3,609,259

For the 12 months ended 31 December 2008	Sand	Crushed Granite	Crushed Granite Ural	Eliminations	Aggregates	Tower Cranes	Transportation	Pile Foundation and Construction	Eliminations	Construction Services
Revenue from external customers	4,194,097	2,961,226	46,382	-	7,201,705	1,171,812	71,554	819,663	-	2,063,029
Inter-group revenue	358,956	983,625	9,793	(34,459)	1,317,915	162,829	364,995	163,304	(1,839)	689,289
Total revenue	4,553,053	3,944,851	56,175	(34,459)	8,519,620	1,334,641	436,549	982,967	(1,839)	2,752,318
Operating profit	1,712,970	955,061	(34,459)	-	2,633,572	436,020	7,896	130,501	-	574,417
Depreciation/Amortization	301,516	196,775	14,985	-	513,276	188,361	62,690	26,039	-	277,090
Change in fair value of investment property	-	-	-	-	-	-	-	-	-	-
EBITDA*	2,014,486	1,151,836	(19,474)	-	3,146,848	624,381	70,586	156,540	-	851,507

For the 12 months ended 31 December 2008	Elite Real Estate	Business Class and Mass Market Real Estate	Gated Communities	Real Estate in Moscow	Real Estate in Western Europe	Real Estate Ural	Other	Eliminations	Development	Commercial Real Estate
Revenue from external customers	3,982,754	5,163,383	143,314	503,660	294,639	2,001,966	68,766	-	12,158,482	169,908
Inter-group revenue	2,292	16,517	2,400	254	-	10,462	59,984	(32,662)	59,247	10,754
Total revenue	3,985,046	5,179,900	145,714	503,914	294,639	2,012,428	128,750	(32,662)	12,217,729	180,662
Operating profit	(13,695,375)	1,585,520	3,355	238,843	2,331	332,296	13,235	(3,098)	(11,522,893)	(545,424)
Depreciation/Amortization	20,419	1,994	490	5,844	364	611	1,250	-	30,972	1,165
Change in fair value of investment property	(15,493,797)	-	-	-	-	-	-	-	(15,493,797)	(648,838)
EBITDA*	1,818,841	1,587,514	3,845	244,687	2,695	332,907	14,485	(3,098)	4,001,876	104,579

For the 12 months ended 31 December 2008	Other	Eliminations	Unallocated Expenses	Consolidated
Revenue from external customers	104,527	-	-	49,813,079
Inter-group revenue	-	(6,772,953)	-	-
Total revenue	104,527	(6,772,953)	-	49,813,079
Operating profit	-	(726,573)	(1,408,782)	(5,404,004)
Depreciation/Amortization	87,555	-	-	2,048,597
Change in fair value of investment property	-	-	-	(16,142,635)
Impairment losses on goodwill	-	-	(390,985)	(390,985)
EBITDA*	87,555	(726,573)	(1,017,797)	13,178,213

*EBITDA= Operating Result + Depreciation/amortisation - Change in fair value of Investment Property+ impairment losses recognised during the reporting period

For the 12 months ended 31 December 2008 ('000 USD)	Construction	Construction Ural	Construction	Brick	Reinforced Concrete	Ready-mix Concrete	Aerated Concrete	Cement	Other	Eliminatio ns	Building Materials
Revenue from external customers	324,014	64,328	388,342	111,453	220,288	223,831	102,739	42,687	41,825	-	742,823
Inter-group revenue	117,741	21,735	139,476	2,751	34,473	6,771	1,454	56,560	8,321	(60,882)	49,448
Total revenue	441,755	86,063	527,818	114,204	254,761	230,602	104,193	99,247	50,146	(60,882)	792,271
Operating profit	98,025	10,599	108,624	38,251	51,060	14,202	7,017	(1,661)	7,843	(367)	116,345
Depreciation/Amortization	10,763	6,178	16,941	3,521	8,334	10,706	5,453	345	507	-	28,866
Change in fair value of investment property	-	-	-	-	-	-	-	-	-	-	-
EBITDA*	108,788	16,777	125,565	41,772	59,394	24,908	12,470	(1,316)	8,350	(367)	145,211

For the 12 months ended 31 December 2008	Sand	Crushed Granite	Crushed Granite Ural	Eliminati ons	Aggregates	Tower Cranes	Transportation	Pile Foundation and Construction	Eliminations	Construction Services
Revenue from external customers	168,741	119,139	1,865	-	289,745	47,145	2,879	32,978	-	83,002
Inter-group revenue	14,442	39,574	394	(1,386)	53,024	6,551	14,685	6,570	(74)	27,732
Total revenue	183,183	158,713	2,259	(1,386)	342,769	53,696	17,564	39,548	(74)	110,734
Operating profit	68,918	38,425	(1,387)	-	105,956	17,542	318	5,250	-	23,110
Depreciation/Amortization	12,131	7,917	603	-	20,651	7,578	2,522	1,048	-	11,148
Change in fair value of investment property	-	-	-	-	-	-	-	-	-	-
EBITDA*	81,049	46,342	(784)	-	126,607	25,120	2,840	6,298	-	34,258

For the 12 months ended 31 December 2008	Elite Real Estate	Business Class and Mass Market Real Estate	Gated Communities	Real Estate in Moscow	Real Estate in Western Europe	Real Estate Ural	Other	Eliminations	Development	Commercial Real Estate
Revenue from external customers	160,238	207,738	5,766	20,264	11,854	80,545	2,766	-	489,171	6,836
Inter-group revenue	92	665	97	10	-	421	2,413	(1,314)	2,384	433
Total revenue	160,330	208,403	5,863	20,274	11,854	80,966	5,179	(1,314)	491,555	7,269
Operating profit	(551,004)	63,790	135	9,609	94	13,369	533	(125)	(463,599)	(21,944)
Depreciation/Amortization	822	80	20	235	15	25	49	-	1,246	47
Change in fair value of investment property	(623,360)	-	-	-	-	-	-	-	(623,360)	(26,105)
EBITDA*	73,178	63,870	155	9,844	109	13,394	582	(125)	161,007	4,208

For the 12 months ended 31 December 2008	Other	Eliminations	Unallocated Expenses	Consolida ted
Revenue from external customers	4,204	-	-	2,004,123
Inter-group revenue	-	(272,497)	-	-
Total revenue	4,204	(272,497)	-	2,004,123
Operating profit	-	(29,232)	(56,679)	(217,419)
Depreciation/Amortization	3,522	-	-	82,421
Change in fair value of investment property	-	-	-	(649,465)
Impairment losses on goodwill	-	-	(15,730)	(15,730)
EBITDA*	3,522	(29,232)	(40,949)	530,198

*EBITDA= Operating Result + Depreciation/amortisation - Change in fair value of Investment Property + impairment losses recognised during the reporting period

OJSC LSR Group

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

For the 12 months ended 31 December 2007 (*000 RUR)	Construction	Brick	Reinforced Concrete	Ready-mix Concrete	Aerated Concrete	Cement	Other	Eliminations	Building Materials
Revenue from external customers	4,281,348	2,300,921	4,948,120	4,807,451	1,539,671	687,868	1,209,249	-	15,493,280
Inter-group revenue	1,489,301	103,379	607,709	283,131	41,346	1,130,838	171,840	(1,357,437)	980,806
Total revenue	5,770,649	2,404,300	5,555,829	5,090,582	1,581,017	1,818,706	1,381,089	(1,357,437)	16,474,086
Operating profit	624,776	688,186	1,231,435	313,961	331,789	16,907	181,546	4,744	2,768,568
Depreciation/Amortization	211,908	74,841	174,255	175,945	111,431	2,460	10,365	-	549,297
Fair value adjustment of investment property	-	-	-	-	-	-	-	-	-
EBITDA	836,684	763,027	1,405,690	489,906	443,220	19,367	191,911	4,744	3,317,864

For the 12 months ended 31 December 2007	Sand	Crushed Granite	Eliminations	Aggregates	Tower Cranes	Transportation	Pile Foundation and Construction	Eliminations	Construction Services
Revenue from external customers	2,738,882	1,791,638	-	4,530,520	841,226	171,391	606,598	-	1,619,215
Inter-group revenue	236,085	782,886	(26,498)	992,473	122,767	365,710	289,592	(136)	777,933
Total revenue	2,974,967	2,574,524	(26,498)	5,522,993	963,993	537,101	896,190	(136)	2,397,148
Operating profit	983,381	603,331	-	1,586,712	300,335	359	154,956	-	455,650
Depreciation/Amortization	257,861	155,848	-	413,709	122,397	69,727	28,723	-	220,847
Fair value adjustment of investment property	-	-	-	-	-	-	-	-	-
EBITDA	1,241,242	759,179	-	2,000,421	422,732	70,086	183,679	-	676,497

For the 12 months ended 31 December 2007	Elite Real Estate	Business Class and Mass Market Real Estate	Gated Communities	Real Estate in Moscow	Real Estate in Western Europe	Other	Eliminations	Development	Commercial Real Estate
Revenue from external customers	3,092,125	4,522,185	86,759	1,229,897	815,456	68,329	-	9,814,751	83,055
Inter-group revenue	311,453	30,000	3,600	662	-	49,738	(38,329)	357,124	10,433
Total revenue	3,403,578	4,552,185	90,359	1,230,559	815,456	118,067	(38,329)	10,171,875	93,488
Operating profit	8,137,289	777,839	479	315,289	71,636	108	(17,704)	9,284,936	1,209,581
Depreciation/Amortization	14,498	2,569	803	1,664	245	829	-	20,608	328
Fair value adjustment of investment property	6,839,218	-	-	-	-	-	-	6,839,218	1,197,473
EBITDA	1,312,569	780,408	1,282	316,953	71,881	937	(17,704)	2,466,326	12,436

For the 12 months ended 31 December 2007	Other	Eliminations	Unallocated Expenses	Consolidated
Revenue from external customers	15,437	-	-	35,837,606
Inter-group revenue	-	(4,608,070)	-	-
Total revenue	15,437	(4,608,070)	-	35,837,606
Operating profit	-	(623,801)	(926,648)	14,379,774
Depreciation/Amortization	136,969	-	-	1,553,666
Fair value adjustment of investment property	-	-	-	8,036,691
EBITDA	136,969	(623,801)	(926,648)	7,896,749

* EBITDA= Operating Result + Depreciation/amortisation - Fair value adjustment of Investment Property + impairment losses recognised during the reporting period

For the 12 months ended 31 December 2007 ('000 USD)	Construction	Brick	Reinforced Concrete	Ready-mix Concrete	Aerated Concrete	Cement	Other	Eliminations	Building Materials
Revenue from external customers	167,557	90,050	193,652	188,147	60,257	26,921	47,326	-	606,353
Inter-group revenue	58,286	4,046	23,784	11,081	1,618	44,257	6,724	(53,125)	38,385
Total revenue	225,843	94,096	217,436	199,228	61,875	71,178	54,050	(53,125)	644,738
Operating profit	24,452	26,933	48,194	12,287	12,985	662	7,105	186	108,352
Depreciation/Amortization	8,293	2,929	6,820	6,886	4,361	96	406	-	21,498
Fair value adjustment of investment property	-	-	-	-	-	-	-	-	-
EBITDA	32,745	29,862	55,014	19,173	17,346	758	7,511	186	129,850

For the 12 months ended 31 December 2007	Sand	Crushed Granite	Eliminations	Aggregates	Tower Cranes	Transportation	Pile Foundation and Construction	Eliminations	Construction Services
Revenue from external customers	107,190	70,119	-	177,309	32,923	6,708	23,739	-	63,370
Inter-group revenue	9,240	30,639	(1,037)	38,842	4,805	14,313	11,333	(5)	30,446
Total revenue	116,430	100,758	(1,037)	216,151	37,728	21,021	35,072	(5)	93,816
Operating profit	38,486	23,612	-	62,098	11,754	14	6,065	-	17,833
Depreciation/Amortization	10,092	6,099	-	16,191	4,790	2,729	1,124	-	8,643
Fair value adjustment of investment property	-	-	-	-	-	-	-	-	-
EBITDA	48,578	29,711	-	78,289	16,544	2,743	7,189	-	26,476

For the 12 months ended 31 December 2007	Elite Real Estate	Business Class and Mass Market Real Estate	Gated Communities	Real Estate in Moscow	Real Estate in Western Europe	Other	Eliminations	Development	Commercial Real Estate
Revenue from external customers	121,015	176,982	3,395	48,134	31,914	2,675	-	384,115	3,250
Inter-group revenue	12,189	1,174	141	26	-	1,947	(1,500)	13,977	408
Total revenue	133,204	178,156	3,536	48,160	31,914	4,622	(1,500)	398,092	3,658
Operating profit	318,465	30,442	19	12,339	2,804	4	(693)	363,380	47,339
Depreciation/Amortization	567	101	31	65	10	33	-	807	13
Fair value adjustment of investment property	267,663	-	-	-	-	-	-	267,663	46,865
EBITDA	51,369	30,543	50	12,404	2,814	37	(693)	96,523	487

For the 12 months ended 31 December 2007	Other	Eliminations	Unallocated Expenses	Consolidated
Revenue from external customers	604	-	-	1,402,558
Inter-group revenue	-	(180,344)	-	-
Total revenue	604	(180,344)	-	1,402,558
Operating profit	-	(24,414)	(36,266)	562,774
Depreciation/Amortization	5,360	-	-	60,805
Fair value adjustment of investment property	-	-	-	314,528
EBITDA	5,360	(24,414)	(36,266)	309,051

* EBITDA= Operating Result + Depreciation /amortisation - Fair value adjustment of Investment Property + impairment losses recognised during the reporting period