JSC OPIN
and Subsidiaries

Independent Auditors' Report

Consolidated Financial Statements
For the Year Ended 31 December 2006

JSC OPIN AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

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JSC OPIN AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Joint Stock Company Open Investments ("JSC OPIN") and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2006 and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

On behalf of Group's management the consolidated financial statements for the year ended 31 December 2006 were authorized for issue on 23 March 2007 by:

Sergey V. Bachin

General Director of JSC OPIN

Moscow
23 March 2007

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of JSC OPIN:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of JSC OPIN and subsidiaries (the "Group"), which comprise of the consolidated balance sheet as of 31 December 2006, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated 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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

23 March 2007

Moscow

CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2006

	Notes	31 December 2006 '000 USD	31 December 2005 '000 USD
ASSETS			
NON-CURRENT ASSETS:			
Goodwill	4	633	633
Intangible assets	5	122	62
Property, plant and equipment, net	6	93,967	65,465
Capital advances	7	463,237	41,520
Investment property	8	141,049	49,271
Land under construction, including land improvements	9	525,903	294,317
Available-for-sale investments		-	10
Value added tax recoverable		24,692	7,606
Deferred tax assets	19	6,836	586
		1,256,439	459,470
CURRENT ASSETS:			
Land held for sale	10	34,419	34,658
Inventories		598	355
Advances paid		8,344	7,725
Value added tax recoverable		3,701	6,470
Receivables from customers under construction contracts	37	11,006	21,160
Trade accounts receivable	37	1,134	1,116
Other receivables and prepaid expenses	11, 37	2,878	5,685
Loans issued	12, 37	23,560	3,690
Cash reserved at banks under currency control regulation		-	3,005
Cash and cash equivalents	13, 37	313,400	55,428
		399,040	139,292
TOTAL ASSETS		1,655,479	598,762
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	14	338,035	119,797
Additional paid-in-capital	15	713,172	19,024
Land under construction revaluation reserve	16	113,232	69,368
Retained earnings		97,282	36,147
Equity attributable to the shareholders of the parent company		1,261,721	244,336
Minority interest	17	-	5,901
		1,261,721	250,237
NON-CURRENT LIABILITIES:			
Deferred income tax liabilities	19	112,212	59,276
Long-term finance lease payable	20	10,539	-
Long-term accounts payable	37	-	8,840
Long-term loans	21, 37	45,590	221,402
		168,341	289,518
CURRENT LIABILITIES:			
Short-term loans and accrued interest	22	154,737	3,414
Short-term finance lease payable	20	285	-
Trade and other accounts payable	23	12,045	17,791
Tax liability, other than income tax		694	932
Current income tax liability		279	844
Payables to customers under construction contracts	37	50,399	29,854
Advances received from customers for land plots	37	6,978	6,172
		225,417	59,007
TOTAL EQUITY AND LIABILITIES		1,655,479	598,762

The notes on pages 9 to 42 form an integral part of these consolidated financial statements. Statement of management's responsibilities for the preparation and approval of the consolidated financial statements is presented on page 1. Independent auditors' report is presented on page 2-3.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	Year ended 31 December 2006 '000 USD	Year ended 31 December 2005 '000 USD
REVENUE			
Revenue under construction contracts	24, 37	45,490	67,710
Hotel revenue		20,027	16,831
Land sold	37	11,282	436
Rental income from investment property		3,355	2,896
Revenue on rendering other services	37	5,435	5,255
		85,589	93,128
COST OF SALES			
Cost of construction contracts	25	(25,035)	(42,315)
Cost of hotel services	26	(12,209)	(11,365)
Cost of land sold		(9,445)	(436)
Cost of rental services	27	(569)	(437)
Cost of other services	28	(4,328)	(3,857)
		(51,586)	(58,410)
GROSS PROFIT		34,003	34,718
Selling, general and administrative expenses	29, 37	(19,418)	(12,877)
Expense under share based payment program	15	(5,015)	-
Interest income	32, 37	14,257	1,309
Interest expense	33, 37	(11,534)	(4,694)
Gain on change in fair value of investment property	8	43,482	5,411
Gain on disposal of subsidiaries	36	-	30
Net gain/(loss) on foreign currency operations		15,334	(1,895)
Other income	30	1,829	42
Other expenses	31, 37	(1,750)	(484)
PROFIT BEFORE INCOME TAX		71,188	21,560
INCOME TAX	19	(13,278)	(7,484)
NET PROFIT		57,910	14,076
Attributable to:			
Shareholders of the parent company		58,108	14,094
Minority interest	17	(198)	(18)
		57,910	14,076
EARNINGS PER SHARE in USD (basic and diluted)	34	10.07	3.93

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JSC OPIN AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006

'000 USD	Share capital	Additional paid-in-capital	Land under construction revaluation reserve	Retained earnings	Equity attributable to the shareholders of the parent company	Minority interest	Total equity
Balance as of 31 December 2004	**119,797**	**19,024**	**23,247**	**20,482**	**182,550**	**-**	**182,550**
Net profit	-	-	-	14,094	14,094	(18)	14,076
Decrease in deferred tax liability due to change in tax base of assets	-	-	-	1,571	1,571	-	1,571
Increase in minority interest due to change in investment in subsidiary	-	-	(2,642)	-	(2,642)	5,284	2,642
Revaluation surplus (Note 16)	-	-	48,763	-	48,763	635	49,398
Balance as of 31 December 2005	**119,797**	**19,024**	**69,368**	**36,147**	**244,336**	**5,901**	**250,237**
Net profit	-	-	-	58,108	58,108	(198)	57,910
Revaluation surplus (Note 16)	-	-	61,350	-	61,350	6,562	67,912
Release of revaluation surplus on disposed assets (Note 16)	-	-	(3,027)	3,027	-	-	-
Issue of shares (Note 14 and 15)	232,889	731,823	-	-	964,712	-	964,712
Purchase of treasury shares (Note 14 and 15)	(14,651)	(42,690)	-	-	(57,341)	-	(57,341)
Expense under share based payment program (Note 15)	-	5,015	-	-	5,015	-	5,015
Change in investment in subsidiary (Note 35)	-	-	(14,459)	-	(14,459)	(12,265)	(26,724)
Balance as of 31 December 2006	**338,035**	**713,172**	**113,232**	**97,282**	**1,261,721**	**-**	**1,261,721**

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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	Year ended 31 December 2006 000'USD	Year ended 31 December 2005 000'USD
OPERATING ACTIVITIES:			
Profit before income tax		71,188	21,560
Adjustments for:			
Depreciation and amortization expense		2,412	1,800
Gain on property, plant and equipment disposal		(6)	-
Gain on investment property disposal		(1,550)	-
Interest income		(14,257)	(1,309)
Interest expense		11,534	4,694
Gain on disposal of subsidiaries		-	(30)
Expense under share based payment program		5,015	-
Gain on change in fair value of investment property		(43,482)	(5,411)
Operating cash flow before movements in working capital		**30,854**	**21,304**
Decrease in land held for sale		9,445	436
(Increase)/decrease in inventories		(243)	55
Decrease / (increase) in receivables from customers under construction contracts		10,154	(17,306)
Decrease / (increase) in other receivables and prepaid expenses		3,459	(11,068)
Increase in trade accounts receivables		(18)	(433)
Increase in value added tax recoverable		(14,306)	(7,205)
Increase in advances paid		(619)	(2,769)
Increase in long-term accounts payable		2,932	8,840
Increase in trade and other accounts payable		2,484	3,784
Increase in payable to customers under construction contracts		16,826	6,987
Increase in advances received from customers for land plots		4,525	2,453
(Decrease) / increase in tax liability		(253)	242
Cash provided by operations		65,240	5,320
Interest paid		(12,699)	(5,994)
Income tax paid		(7,920)	(841)
Net cash provided by / (used in) operating activities		**44,621**	**(1,515)**
INVESTING ACTIVITIES:			
Decrease of accounts payable on acquisition of subsidiaries	23	(11,057)	-
Acquisition of subsidiaries, net of cash received	35	(109,409)	(95,330)
Disposal of subsidiaries, net of cash disposed	36	-	125
Loans issued		(30,095)	(13,753)
Loans repaid		5,070	14,151
Interest received		7,910	1,421
Purchase of available-for-sale investments		-	(10)
Proceeds from sale of investment property		3,350	-
Purchase of investment property		(1,222)	-
Proceeds from sale of property, plant and equipment		21	-
Purchase of property, plant and equipment and other non-current assets		(432,349)	(48,584)
Land and land improvements		(99,731)	(58,252)
Net cash used in investing activities		**(667,512)**	**(200,232)**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	Year ended 31 December 2006 000'USD	Year ended 31 December 2005 000'USD
FINANCING ACTIVITIES:			
Proceeds from issuance of shares		961,270	-
Release of cash reserved at banks under currency control regulation		3,005	-
Reduction of finance lease liability		(83)	-
Re-purchase of treasury shares		(57,341)	-
Proceeds from loans		75,000	238,790
Cash reserved at banks under currency control regulation		-	(3,005)
Repayment of loans		(102,266)	(36,803)
Net cash from financing activities		**879,585**	**198,982**
EFFECT OF FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		1,278	(165)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		257,972	(2,930)
CASH AND CASH EQUIVALENTS, beginning of the year	13	55,428	58,358
CASH AND CASH EQUIVALENTS, end of the year	13	313,400	55,428

Interest expense capitalized by the Group during the year ended 31 December 2006 amounted to USD 13,350 thousand. Capitalized interest expense in the amount of USD 1,658 thousand was unpaid as of 31 December 2006.

Interest expense capitalized by the Group during the year ended 31 December 2005 amounted to USD 5,069 thousand. Capitalized interest expense in the amount of USD 375 thousand was unpaid as of 31 December 2005.

Property, plant and equipment acquired under finance lease during the year ended 31 December 2006 amounted to USD 10,696 thousand.

The notes on pages 9 to 42 form an integral part of these consolidated financial statements. Statement of management's responsibilities for the preparation and approval of the consolidated financial statements is presented on page 1. Independent auditors' report is presented on page 2-3.

1. NATURE OF THE BUSINESS

JSC OPIN (the "Company") is a Moscow-based real estate development, management and investment company. It was incorporated in Moscow, Russian Federation, on 4 September 2002 as an Open Joint Stock Company under the laws of the Russian Federation. The Company's business strategy focuses on developing, managing and disposing of investment grade Class A and Class B office buildings, residential housing, and commercial real estate. The principal operating office of the Company is as follows: Novoslobodskaya str., 23, Moscow, 127055, Russian Federation.

The Company is the parent company of a group of entities consolidated within these financial statements (the "Group").

The principal activities and countries of incorporation of the entities of the Group as of 31 December 2006 and 2005 are as follows:

Operating entity	Project	Principal activity	Investment share as of 31 December 2006	Investment share as of 31 December 2005	Country of incorporation
Growth Technologies (Russia) Limited	Group's projects	Providing consulting services in connection with investment in real estate market; Co-investing in real estate projects	100%	100%	Cyprus
Pavlovo LLC	Pavlovo	Investing in, developing, managing and disposing Pavlovo project assets	100%	100%	Russia
Pavlovo Podvorye LLC	Pavlovo Podvorye	Investing in, developing, managing and disposing Pavlovo Podvorye project assets	100%	100%	Russia
Stroy Invest Group LLC	Pavlovo II	Investing in, developing, managing and disposing Pavlovo II project assets	100%	100%	Russia
Sakharova Business Plaza LLC	Sakharov Business Plaza project	Land lease holding company. Investing in, developing, managing and disposing Sakharov Business Plaza project assets	100%	60%	Russia
Bank Tower LLC	Sakharov Business Plaza project	Investor and future owner of a part of Sakharov Business Plaza	100%	-	Russia
Sakharov Office Park LLC	Sakharov Business Plaza project	Investor and future owner of a part of Sakharov Business Plaza	100%	100%	Russia
Investproject Group LLC	Class A Office Center	Investing in, developing, managing and disposing of a Class A Office Center's assets	100%	100%	Russia

Operating entity	Project	Principal activity	Investment share as of 31 December 2006	Investment share as of 31 December 2005	Country of incorporation
Yacht-club "Pestovsky" LLC	Pestovo	Investing in, developing, managing and disposing of Pestovo project assets	100%	100%	Russia
Estate Management LLC	Pestovo and other Group's project	Development, sale and property management of Pestovo project assets and future project assets	100%	100%	Russia
Invest Group LLC	Group's projects	Investing in, developing, managing and disposing of future project assets	100%	100%	Russia
OI Management Company LLC	Group's projects	Investing in, developing, managing and disposing of a future project assets	100%	100%	Russia
ExpoDom LLC	Group's real property	Providing property management and maintenance services	100%	100%	Russia
IR Development Ltd	Group's development projects	Providing technical supervision and construction management services	100%	100%	Russia
Pestovo LLC	Pestovo	Investing in, developing, managing and disposing of Pestovo project assets	100%	100%	Russia
Open Investments - Saint Petersburg LLC	Group's projects in Saint-Petersburg	Investing in, developing, managing and disposing of future Saint-Petersburg projects' assets	100%	100%	Russia
Zhilaya i Commercheskaya Nedvizhimost LLC	Group's project	Investing in, developing, managing and disposing of future project assets	100%	100%	Russia
JSC Hotel Novoslobodskaya	Novotel Moscow Center Hotel	Providing hotel services	100%	100%	Russia
Stroy Group LLC	Pavlovo II	Investing in, developing, managing and disposing Pavlovo II project assets	100%	100%	Russia
Proekt Capital LLC	Martemianovo	Investing in, developing, managing and disposing Martemianovo project assets	100%	100%	Russia
Stroy Servis Group LLC	Martemianovo	Investing in, developing, managing and disposing Martemianovo project assets	100%	100%	Russia
Martemianovo LLC	Martemianovo	Investing in, developing, managing and disposing Martemianovo project assets	100%	100%	Russia

Operating entity	Project	Principal activity	Investment share as of 31 December 2006	Investment share as of 31 December 2005	Country of incorporation
Amalia LLC	Pavlovo II	Investing in, developing, managing and disposing Pavlovo II project assets	100%	100%	Russia
OPIN Plaza LLC	OPIN Plaza	Investing in, developing, managing and disposing of a Class A Office Center's assets	100%	100%	Russia
Krasnaya Gorka LLC	Samara	Investing in, developing, managing and disposing Samara project assets	100%	100%	Russia
Belyi Parus LLC	Sochi Hotel and Residential Complex	Investing in, developing, managing and disposing Sochi Hotel and Residential Complex assets	100%	100%	Russia
Invest Nedvizhimost LLC	Novorizhskiy	Investing in, developing, managing and disposing Novorizhskiy project assets	100%	100%	Russia
Lukino LLC	Novorizhskiy	Investing in, developing, managing and disposing Novorizhskiy project assets	100%	100%	Russia
Proekt Story LLC	Novorizhskiy	Investing in, developing, managing and disposing Novorizhskiy project assets	100%	100%	Russia
CP Martemianovo LLC	Martemianovo	Investing in, developing, managing and disposing Martemianovo project assets	100%	-	Russia
Stroy Park LLC	Group's project	Investing in, developing, managing and disposing of future project assets	100%	-	Russia
Onigomati Investment Limited	Group's project	Providing consulting services in connection with investment in real estate market; Co-investing in real estate projects	100%	-	Cyprus
Eko-Center LLC	Gorki-10	Investing in, developing, managing and disposing Gorki-10 project assets	100%	-	Russia
Lukino-Invest LLC	Novorizhskiy	Investing in, developing, managing and disposing Novorizhskiy project assets	100%	-	Russia
Novorizhskiy LLC	Novorizhskiy	Investing in, developing, managing and disposing Novorizhskiy project assets	100%	1%	Russia

Operating entity	Project	Principal activity	Investment share as of 31 December 2006	Investment share as of 31 December 2005	Country of incorporation
Capital Industry LLC	Pavlovo II	Investing in, developing, managing and disposing Pavlovo II project assets	100%	-	Russia
Eko-Polis LLC	Pavlovo II	Investing in, developing, managing and disposing Pavlovo II project assets	100%	-	Russia
Instroy LLC	Pavlovo II	Investing in, developing, managing and disposing Pavlovo II project assets	100%	-	Russia
Istok LLC	Bolshoye Pestovo	Investing in, developing, managing and disposing Bolshoye Pestovo project assets	100%	-	Russia
ExpoDom – Podmoskovye LLC	Group's real property	Providing property management and maintenance services	100%	-	Russia
Zemelnyi Capital LLC	Group's project	Investing in, developing, managing and disposing of future project assets	100%	-	Russia
Express LLC	Group's project	Investing in, developing, managing and disposing of future project assets	100%	-	Russia

In addition the Group owns 100% of the shares of Closed Unit Investment Fund Novy Dom ("New House") managed by LLC Management Company Rosbank.

As of 31 December 2006 and 2005 the shareholders' structure of the Company was as follows:

Shareholder	31 December 2006	31 December 2005
Motherlane Properties Limited	57.84%	61.47%
Treasury shares	2.73%	0.00%
Others	39.43%	38.53%
Total	**100.00%**	**100.00%**

Ultimate owners of the Group are Mr. Vladimir O. Potanin and Mr. Mikhail D. Prokhorov. Each of them indirectly holds 28.92% shares of the Company.

2. PRESENTATION OF FINANCIAL STATEMENTS

Basis of presentation – The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). International Financial Reporting Standards include standards and interpretations approved by the International Accounting Standards Board ("IASB"), including International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements are presented in thousands of United States Dollars ("USD"), except for earnings per share amounts and elsewhere where indicated.

All entities of the Group, except for Growth Technologies (Russia) Limited and Onigomati Investment Limited maintain their accounting records in Russian Roubles ("RUR") in accordance with the accounting and reporting regulations of the Russian Federation. Growth Technologies (Russia) Limited and Onigomati Investment Limited maintain their accounting records in USD and in accordance with IFRS.

The Group's management has decided to present and measure these consolidated financial statements in US Dollars (the Group's functional currency) for the following reasons:

- The majority of the Group's transactions are denominated or completed in US Dollars;
- Owing to the nature of the Group's business, most of management's economic and operational decisions are based on US Dollars;
- Management believes that US Dollars reporting will better reflect the economic substance of the underlying events and circumstances relevant to the Group.

Russian statutory accounting principles and procedures differ substantially from those generally accepted under IFRS. Accordingly, these consolidated financial statements, which have been prepared from the Russian statutory accounting records for the entities of the Group domiciled in the Russian Federation, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

In translating financial statements of the entities domiciled in the Russian Federation into US Dollars for incorporation into the consolidated financial statements, the Group follows translation policy in accordance with IAS No. 21 "The Effects of Changes in Foreign Exchange Rates" ("IAS 21"):

- Foreign currency monetary assets and liabilities are translated using the closing rate;
- Non-monetary assets and liabilities measured in a foreign currency are translated using the exchange rate at the date of the transaction;
- Income and expense items are translated using the exchange rate at the date of the transaction;
- All resulting exchange differences are recorded as gains or losses on foreign currency operations in the consolidated income statement.

The relevant exchange rate of the Central Bank of the Russian Federation used in translating the financial statements of the entities domiciled in the Russian Federation into US Dollars was USD 1 = 26.3311 RUR as of 31 December 2006 and USD 1 = 28.7825 RUR as of 31 December 2005.

The translation of RUR denominated assets and liabilities into USD as of 31 December 2006 and 2005 does not indicate that the Group could realize, or settle in USD, the translated value of these assets and liabilities as well as to distribute the disclosed amount of equity to shareholders.

The consolidated financial statements of the Group are prepared on the historical cost basis, except for:

- Fair value of subsidiaries acquired in accordance with IFRS No. 3 "Business Combinations" ("IFRS 3");
- Valuation of land under construction in accordance with IAS No. 16 "Property, Plant and Equipment" ("IAS 16");
- Valuation of investment property in accordance with IAS No. 40 "Investment property" ("IAS 40");
- Valuation of financial instruments in accordance with IAS No. 39 "Financial Instruments: Recognition and Measurement" ("IAS 39").

Use of estimates and assumptions – The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Due to the inherent uncertainty in making those estimates, actual results reported in future periods could differ from such estimates.

Key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

	31 December 2006 '000 USD
Investment property	141,049
Land under construction	404,353

Investment property and land under construction are measured at the revalued amounts and the date of the latest appraisal was 31 December 2006.

Critical judgment in applying the Group's accounting policies – In the process of applying the Group's accounting policies, which are described in Note 3, management has made the following judgment that has the most significant effect on the amounts recognized in the consolidated financial statements (apart from those involving estimations, which are dealt with above):

Revenue recognition: Note 25 describes the expenditures incurred by the Group with respect to construction contracts concluded with the Group's customers for the construction of houses on land owned by the Group. Title to those houses and the land has not been transferred to the Group's customers as of the date of these consolidated financial statements. Following negotiation of the terms of these construction contacts, a schedule of work was agreed, which will involve additional Group expenditure until 2008. In light of the specifics attributable to construction contracts, management was required to consider whether it was appropriate to recognize revenue from these transactions of USD 45,490 thousand in the current period, in line with the Group's general policy of recognizing revenue from construction contracts.

In making its judgment, management considered the detailed criteria for the recognition of revenue from construction contracts set out in IAS No.11 "Construction Contracts" and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the houses and the land. Following a detailed review of the Group's construction contracts, the directors are satisfied that recognition of the revenue in the current year is appropriate, in conjunction with recognition of attributable construction costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation – The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The ownership interest of the Company in the subsidiaries as of 31 December 2006 and 2005 is presented in Note 1.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the consolidated income statement in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interest of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill – Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is recognized as an asset and reviewed for impairment annually. Any impairment is recognized immediately in the consolidated income statement and is not subsequently reversed.

On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition – Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenue can be measured reliably. Sales are recognized net of value added tax.

Revenue from the sales of land is recognized when legal title passes to the buyer.

The Group concludes contracts with its clients for construction of houses on land owned by the Group. A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use. The Group concludes fixed price contracts in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

Contract revenue comprises the initial amount of revenue agreed in the construction contract and variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue; and they are capable of being reliably measured.

Contract costs comprise costs that relate directly to the specific construction contract; costs that are attributable to contract activity in general and can be allocated to the contract; and other costs as are specifically chargeable to the customer under the terms of the construction contract.

When the outcome of a construction contract can be estimated reliably, contract revenue and associated contract costs are recognized as revenue and expenses, respectively, by reference to the stage of completion of the contract activity at the balance sheet date, measured as the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. An expected loss on the construction contract is recognized as an expense immediately.

Interest income and expense – Interest income and expense are recognized on an accrual basis using effective interest rate method. Loan origination fees, if significant, are deferred (together with related direct costs) and recognized as an adjustment to the loan's effective yield.

Leasing – Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Group as lessor – Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Group as lessee – Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease payable.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Share-based payments – The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant (being the fair value of the share less the purchase price). The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Share capital and additional paid-in-capital – Share capital is recognized at cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution. Treasury shares is recorded at cost. Gains and losses on sales of treasury shares are charged or credited to share premium.

External costs directly attributable to the issue of new shares, other than in a business combination, are deducted from equity net of any related income taxes.

Dividends on ordinary shares are recognized in shareholders' equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under IAS No. 10 "Events After the Balance Sheet Date" and disclosed accordingly.

Retirement and other benefit obligations – The Group does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

Contingencies – Contingent liabilities are not recognized in the consolidated financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Taxation – Taxes on income are computed in accordance with the laws of the Russian Federation and Cyprus. Deferred taxes, if any, are provided on items recognized in different periods for financial reporting purposes and income tax purposes, using the balance sheet liability method at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled. Deferred tax liabilities, if any, which result from temporary differences, are provided for in full. Deferred tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realized.

Deferred tax assets and deferred tax liabilities are offset when:

- The Group has a legally enforceable right to set off current tax assets against current tax liabilities;
- The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

The Russian Federation also has various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated income statement.

Intangible assets – Intangible assets are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives, which is on average 2-5 years.

Property, plant and equipment – Property, plant and equipment is carried at historical cost, except for owner-occupied property transferred from investment property, less accumulated depreciation and any accumulated impairment loss. Capitalized cost includes major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalization are charged to the consolidated income statement as incurred.

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation.

Depreciation of property, plant and equipment is designed to write off assets over their useful economic lives and is calculated on a straight line basis at the following annual prescribed rates:

Buildings	2.5%
Fittings and fixtures	6.7-10%
Machinery and equipment	20%
Transport	20%
Furniture and office equipment	20%

The carrying amounts of property, plant and equipment are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property, plant and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated income statement.

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

Impairment loss – If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable value. The difference, being an impairment loss, is recognized as an expense in the consolidated income statement for the year in which it arises.

Capital advances – Capital advances represent amounts paid to vendors for capital construction, acquisition of property, plant and equipment, land plots and investment property. They are carried at cost.

Land under construction – Land under construction represents land, which is in the process of development by the Group. Management elected to follow the alternative treatment and, subsequent to initial recognition, such land is carried at a revalued amount determined by independent appraisal, being its fair value at the date of the revaluation. Management plans to perform revaluation of land under construction with sufficient regularity such that the carrying amount does not differ materially from what which would be determined using fair value at the reporting date.

When an asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to equity as revaluation reserve. However, the increase is recognized in the consolidated income statement to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized directly in the consolidated income statement. However, the decrease shall be debited directly to equity under revaluation reserve to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

If, after the development process, management's intentions related to a certain land parcel is changed such parcel is transferred to the land held for sale category and its carrying amount at the date of transfer is considered as its cost as of that date.

Land held for sale – Land held for sale represents land parcels containing houses constructed under contracts and with the intention of being sold once the construction is completed. Land held for sale is stated at the lower of cost or fair value in accordance with IFRS No. 5 "Non-current Assets Held for Sale and Discontinued Operations" ("IFRS 5").

Investment property – Investment property is a property (land or building – or part of a building – or both) held by the Group to earn rentals or for capital appreciation or both, as well as property held for a currently undetermined future use. Investment property is originally recorded at cost. Subsequent expenditure relating to an investment property is added to the carrying amount of the investment property when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing investment property, will flow to the enterprise. All other subsequent expenditures are recognized as an expense in the period in which they are incurred.

The Group elected to use the fair value model to measure investment property subsequent to initial recognition. Therefore investment property is stated at fair value.

For a transfer from investment property carried at fair value to owner-occupied property or property held for sale, the property's fair value at the date of transfer is considered as deemed cost for subsequent accounting in accordance with IAS 16 and IFRS 5.

Inventories – Inventories are stated at the lower of cost or net realizable value.

Recognition and measurement of financial instruments – The Group recognizes financial assets and liabilities on its consolidated balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Offset of financial assets and liabilities – Financial assets and liabilities are offset and reported net on the consolidated balance sheet when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

Trade and other accounts receivable – Trade and other accounts receivable are stated at their net realizable value after deducting impairment provisions (if any).

Cash and cash equivalents – Cash include petty cash, cash held on current bank accounts and short-term deposits with banks. Cash equivalents include short-term investments that are readily convertible to known amount of cash and which are subject to insignificant risk of changes in value.

Borrowings – All loans are initially recorded at the proceeds received, net of direct transaction costs. Subsequently loans and borrowings are measured at amortized cost, which is calculated by taking into account any discount or premium on settlement.

Originated loans – Loans originated by the Group are financial assets that are created by the Group by providing money to a borrower or by participating in loan facility, other than those that are originated with the intent to be sold immediately or in the short term, which are classified as held-for-trading. Originated loans are carried at amortized cost, less any provision for impairment losses.

Loans originated by the Group at rates below market are discounted to fair value using the effective interest method.

Borrowing costs – Management elected to follow the alternative treatment allowed by IAS No.23 “Borrowing Costs”. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized as an expense in the period in which they are incurred.

Trade and other accounts payable – Liabilities for trade and other accounts payable are stated at cost.

Provisions – Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Business and geographic segments – For management purposes the Group is organized into four major business segments: residential property, commercial property development, commercial property and hotel operations. The operations of all segments are based in the Russian Federation.

Inter-segment transactions: segment revenue, segment expenses and segment performance include transfers between business segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar services. Those transfers are eliminated in consolidation.

Reclassifications – The following reclassifications have been made to the consolidated financial statements for the year ended 31 December 2005 to conform to the presentation for the year ended 31 December 2006 as management considers that the current period presentation provides a better view of the consolidated financial statements:

Nature of reclassification	Amount ‘000 USD	Balance sheet caption as per the previous report	Balance sheet caption as per current report
Advances received from customers for land plots	3,719	Advances received for land	Payable to customers under construction contracts

Adoption of new and revised standards effective after the reporting date – The Group has carried out an assessment of the effect of changes on its consolidated financial position and results of operations reported under IFRS which would become effective for accounting periods beginning after 31 December 2006.

In accordance with the provisions of IFRS No. 7 "Financial Instruments: Disclosures" ("IFRS 7") effective from 1 January 2007 the Group should present additional information regarding financial instruments. The Group has assessed the influence of requirements under IFRS 7 and has developed a plan to introduce systems to provide the appropriate level of disclosures.

In accordance with the provisions of IAS No.1 "Presentation of Financial Statements" effective from 1 January 2007 the Group should present additional information regarding managing capital. The Group assessed the influence of requirements under IAS 1 and developed a plan for systems to provide an appropriate level of disclosure.

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective:

Standards and Interpretations	Effective date
IFRIC No. 7 "Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies"	Effective for annual periods beginning on or after 1 March 2006
IFRIC No. 8 "Scope of IFRS 2"	Effective for annual periods beginning on or after 1 May 2006
IFRIC No. 9 "Reassessment of Embedded Derivatives"	Effective for annual periods beginning on or after 1 June 2006
IFRIC No. 10 "Interim Financial Reporting and Impairment"	Effective for annual periods beginning on or after 1 November 2006

The Group anticipates that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the consolidated financial statements of the Group.

4. GOODWILL

	'000 USD
At 31 December 2005	633
Change for the period	-
At 31 December 2006	**633**

5. INTANGIBLE ASSETS

Intangible assets as of 31 December 2006 and 2005 consisted of the following:

'000 USD	Computer software	Trademarks, licences and logotypes	Total
Cost			
At 31 December 2005	46	17	63
Additions	56	41	97
At 31 December 2006	102	58	160
Accumulated amortisation			
At 31 December 2005	-	1	1
Charge for the period	33	4	37
At 31 December 2006	33	5	38
Carrying amount			
At 31 December 2005	**46**	**16**	**62**
At 31 December 2006	**69**	**53**	**122**

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of 31 December 2006 and 2005 consisted of the following:

'000 USD	Land and buildings	Fittings and fixtures	Transport, machinery and equipment	Furniture and office equipment	Construc-tion in progress	Total
Cost						
At 31 December 2005	48,140	4,624	1,869	986	12,076	67,695
Additions	10,951	102	261	362	14,484	26,160
Transfer from investment property (Note 8)	4,684	-	-	-	-	4,684
Transfer from land under construction, including land improvements (Note 9)	-	-	-	-	48	48
Putting into operation	430	-	-	-	(430)	-
Transfers	(592)	-	592	-	-	-
Disposals	-	-	(21)	(29)	-	(50)
At 31 December 2006	63,613	4,726	2,701	1,319	26,178	98,537
Accumulated depreciation						
At 31 December 2005	1,161	209	658	202	-	2,230
Charge for the period	1,357	293	503	222	-	2,375
Disposals	-	-	(6)	(29)	-	(35)
At 31 December 2006	2,518	502	1,155	395	-	4,570
Net Book Value						
At 31 December 2005	**46,979**	**4,415**	**1,211**	**784**	**12,076**	**65,465**
At 31 December 2006	**61,095**	**4,224**	**1,546**	**924**	**26,178**	**93,967**

Construction in progress principally includes construction of the A. I. Raikin Retail and Entertainment Center and infrastructure of Pavlovo Cottage Community.

As of 31 December 2006 a building with a net book value of USD 35,158 thousand has been pledged as collateral under the loan received from JSCB Savings bank of the Russian Federation (Note 21).

During the year ended 31 December 2006 the Group capitalized interest of USD 314 thousand in construction in progress.

During the year ended 31 December 2005 the Group capitalized interest of USD 82 thousand in construction in progress.

7. CAPITAL ADVANCES

Capital advances as of 31 December 2006 and 2005 consisted of the following:

	31 December 2006 '000 USD	31 December 2005 '000 USD
Advance payment for the acquisition of land plots	382,044	2,290
Other capital advances	81,193	39,230
Total	**463,237**	**41,520**

During the year ended 31 December 2006 the Group capitalized interest of USD 4,304 thousand in advances paid for capital expenses.

During the year ended 31 December 2005 the Group capitalized interest of USD 398 thousand in advances paid for capital expenses.

8. INVESTMENT PROPERTY

'000 USD	Buildings	Land plots	Land plots with buildings	Total
At 31 December 2005	19,671	11,000	18,600	49,271
Acquisition of subsidiaries (Note 35)	-	40,336	-	40,336
Additions	-	614	608	1,222
Transfer from land under construction, including land improvements (Note 9)	-	-	13,222	13,222
Transfer to property, plant and equipment (Note 6)	(4,684)	-	-	(4,684)
Disposals	-	-	(1,800)	(1,800)
Change in fair value	7,563	21,049	14,870	43,482
At 31 December 2006	**22,550**	**72,999**	**45,500**	**141,049**

The fair value of Group's investment property has been arrived at on the basis of valuation carried out by independent appraisers. The valuation, which conforms to International Valuation Standards, was arrived at primarily by applying the income capitalisation method.

As of 31 December 2006 land plots with buildings with a book value of USD 19,800 thousand have been pledged as collateral under the loan received from JSCB ROSBANK (Note 21).

9. LAND UNDER CONSTRUCTION, INCLUDING LAND IMPROVEMENTS

As of 31 December 2006 and 2005 land under construction, including land improvements consisted of:

'000 USD	Land plots	Land improvements	Total
At 31 December 2005	251,529	42,788	294,317
Revaluation surplus	89,303	-	89,303
Additions	14,077	107,163	121,240
Acqusition of subsidiaries (Note 35)	61,741	1,316	63,057
Transfer to land held for sale (Note 10)	(9,206)	-	(9,206)
Transfer to investment property (Note 8)	(3,091)	(10,131)	(13,222)
Transfer to cost of construction contracts (Note 25)	-	(19,538)	(19,538)
Transfer to property, plant and equipment (Note 6)	-	(48)	(48)
At 31 December 2006	**404,353**	**121,550**	**525,903**

Land is recorded at revalued amount determined by independent appraiser, arrived at primarily by applying the income capitalisation method. Existing improvements are accounted for at cost.

During the year ended 31 December 2006 the Group capitalized interest in land under construction, including land improvements of USD 8,732 thousand.

During the year ended 31 December 2005 the Group capitalized interest in land under construction, including land improvements of USD 4,589 thousand.

10. LAND HELD FOR SALE

Land held for sale as of 31 December 2006 and 2005 consisted of the following:

	'000 USD
At 31 December 2005	34,658
Transfer from land under construction (Note 9)	9,206
Transfer to cost of land sold	(9,445)
At 31 December 2006	**34,419**

11. OTHER RECEIVABLES AND PREPAID EXPENSES

Other receivables and prepaid expenses as of 31 December 2006 and 2005 consisted of the following:

	31 December 2006 '000 USD	31 December 2005 '000 USD
Prepaid expenses	606	422
Prepaid current income tax	822	224
Other receivables	1,130	606
Other taxes prepaid	320	2
Receivables on transactions with promissory notes	-	4,431
Total	**2,878**	**5,685**

12. LOANS ISSUED

Unsecured loans issued as of 31 December 2006 and 2005 consisted of:

	Interest rate	Currency	31 December 2006 '000 USD	31 December 2005 '000 USD
Nekomercheskoe Partnyorstvo "Blagoustroystvo Kottedzhnogo posyolka "Pestovo"	7.5%	RUR	18,869	-
Blauenlaumer Technologies Limited	7.1%	USD	3,016	-
Agroreserve LLC	7.3%	RUR	1,675	-
Bank Tower LLC	3.0%	RUR	-	2,318
Bank Tower LLC	10.0%	RUR	-	1,350
Penati 1	14.3%	RUR	-	22
Total			**23,560**	**3,690**

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of 31 December 2006 and 2005 consisted of the following:

	31 December 2006 '000 USD	31 December 2005 '000 USD
Short-term bank deposits	295,086	32,217
Cash in banks, in RUR	17,763	16,728
Cash in banks, in other currencies	537	6,474
Petty cash	14	9
Total	**313,400**	**55,428**

14. SHARE CAPITAL

	31 December 2006
Authorized	
31 December 2005: Ordinary shares at par value of RUR 1,000 each	**4,875,488**
31 December 2006: Ordinary shares at par value of RUR 1,000 each	**9,750,976**
Treasury shares	
31 December 2005: Ordinary shares at par value of RUR 1,000 each	**-**
31 December 2006: Ordinary shares at par value of RUR 1,000 each	**266,000**
	'000 USD
Issued and fully paid	
31 December 2005: 3,590,000 ordinary shares at par value of RUR 1,000 each	119,797
Issue of shares: 6,160,976 ordinary shares at par value of RUR 1,000 each	227,905
Purchase of treasury shares: 399,000 ordinary shares	(14,651)
Sale of treasury shares under share based payment program: 133,000 ordinary shares	4,984
31 December 2006: 9,484,976 ordinary shares at par value of RUR 1,000 each	**338,035**

The extraordinary general meeting of the Company's shareholders held on 14 November 2005 approved a capital increase, whereby up to 1,285,488 new ordinary shares each with a nominal value of 1,000 RUR would be issued through an open subscription. The offering price was equal to the Rouble equivalent of USD 70 per share at the exchange rate of the Central Bank of the Russian Federation as of the date of placement. Shareholders were granted pre-emptive rights of purchase, pro rata to their existing shareholdings. On 26 January 2006 the Company registered a prospectus for the additional issue of shares with the Federal Financial Markets Services ("FFMS"). On 24 March 2006 the Company summarized the results of the pre-emptive rights participation and placed 1,251,424 ordinary shares to existing shareholders. The remaining 34,064 shares were placed through an open subscription. The proceeds from the additional issue of shares were approximately USD 90 million. The issue was registered with the FFMS on 27 April 2006.

On 31 January 2006, the FFMS sanctioned circulation of 361,000 shares outside of Russia in addition to the sanction (3 November 2004) of 716,000 shares.

The extraordinary general meeting of the Company's shareholders held on 26 June 2006 approved a capital increase, whereby up to 4,875,488 new ordinary shares each with a nominal value of 1,000 RUR would be issued through an open subscription. On 10 August 2006 the Company registered a prospectus for the additional issue of 4,875,488 shares with the FFMS. The FFMS sanctioned circulation of 2,335,841 additional shares outside of Russia. In September – October 2006 the Company received approximately USD 881 million proceeds from shareholders and on 5 October 2006 submitted a notice on the results of the additional release of securities to the FFMS.

Treasury shares represent the cost of shares held by the Group to satisfy options under the Group's share based payment program (Note 18).

15. ADDITIONAL PAID-IN-CAPITAL

Additional paid-in-capital as of 31 December 2006 and 2005 consisted of the following:

'000 USD	Share premium	Under-writing fees	Legal and consulting services	Share based payment	Total
At 31 December 2005	22,876	(3,349)	(503)	-	19,024
Issue of new shares (net of income tax of USD 4,215 thousand)	743,559	(11,837)	(1,509)	-	730,213
Acquisition of treasury shares	(42,690)	-	-	-	(42,690)
Sale of treasury shares under share based payment program	1,610	-	-	-	1,610
Recognition of expense under share based payment program (note 18)	-	-	-	5,015	5,015
At 31 December 2006	**725,355**	**(15,186)**	**(2,012)**	**5,015**	**713,172**

16. LAND UNDER CONSTRUCTION REVALUATION RESERVE

	2006 '000 USD	2005 '000 USD
At 31 December	69,368	23,247
Revaluation surplus on land	82,741	64,845
Deferred tax liabilities arising on revaluation of land (Note 19)	(21,391)	(16,082)
Release of revaluation reserve on disposed assets	(3,983)	-
Release of deferred tax liability on revaluation reserve of disposed assets	956	-
Increase in minority interest due to change in investment in subsidiary (Note 36)	-	(2,642)
Decrease in revaluation reserve due to change in investment in subsidiary (Note 35)	(14,459)	-
At 31 December	**113,232**	**69,368**

17. MINORITY INTEREST

	2006 '000 USD	2005 '000 USD
At the beginning of the year	5,901	-
Minority interest in net loss from subsidiary for the year	(198)	(18)
Minority interest in subsidiary's revaluation surplus for the year	6,562	5,284
(Decrease) / increase in minority interest due to change in investment in subsidiary (Note 35)	(12,265)	635
At the end of the year	**-**	**5,901**

18. SHARE BASED PAYMENT PROGRAM

The Group has established share based payment program. The Group grants an annual opportunity to certain employees to purchase the Company's ordinary shares at a fixed price equal to USD 49.75 per share exercisable on the condition that the employee remains in the Group's employ for at least one year after the exercise date. Fair value at grant date was USD 75.93 per share. The number of shares that can be purchased by employees during 2006-2008 amounts to 133,000 per year.

	31 December 2006 shares
Outstanding at the beginning of the year	-
Granted during the year	399,000
Repaid during the year	(133,000)
Outstanding at the end of the year	**266,000**
Exercisable at the end of the year	**-**

The Group recognized a total share based payment cost of USD 5,015 thousand for the year ended 31 December 2006 (Note 15). The weighted average remaining contractual life is 1.8 years.

19. INCOME TAXES

The Group provides for taxes based on the statutory tax accounts maintained and prepared in accordance with Russian statutory tax regulations which may differ from IFRS. The statutory tax rate effective in the Russian Federation, the legal jurisdiction of the majority of the Group's entities, was 24% in 2006 and 2005. The federal tax rate for dividend income in the Russian Federation was 15% if received from foreign subsidiaries and 9% if received from Russian legal entities.

The Group is subject to certain permanent tax differences due to the fact that certain expenses are not deductible and certain income is not taxable under local tax regulations.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2006 and 2005 relate mostly to different methods of income and expense recognition as well as to the recorded values of certain assets.

Temporary differences as of 31 December 2006 and 2005 comprised:

	31 December 2006 '000 USD	31 December 2005 '000 USD
Deferred assets:		
Loss carry forward	12,383	8,966
Property, plant and equipment	7,839	2,674
Other payables and accrued expenses	19,320	1,773
Other receivables and prepaid expenses	1,543	430
Effect of foreign currency translation of other assets	21,180	495
Total deferred assets	**62,265**	**14,338**
Deferred liabilities:		
Land under construction and land held for sale	359,983	187,465
Payables to customers under construction contracts	21,834	34,455
Other receivables and prepaid expenses	7,959	2,098
Investment property	113,620	29,566
Property, plant and equipment	554	4,719
Effect of foreign currency translation of other assets	12	576
Total deferred liabilities	**503,962**	**258,879**
Net deferred liabilities	(441,697)	(244,541)
Deferred income tax liability (at tax rate)	(112,212)	(59,276)
Deferred income tax asset (at tax rate)	6,836	586
Net deferred income tax liability	**(105,376)**	**(58,690)**

The relationship between the income tax expense and the Group's accounting profit for the years ended 31 December 2006 and 2005 is explained as follows:

	Year ended 31 December 2006 '000 USD	Year ended 31 December 2005 '000 USD
Profit before income taxes	**71,188**	**21,560**
Statutory tax rate	24%	24%
Theoretical income tax at the statutory tax rate	17,085	5,174
Tax on dividends from Russian subsidiary	171	-
Tax on income from sale of interest in Russian subsidiary to Cyprus subsidiary	1,050	1,571
Tax effect of other permanent differences	(5,028)	739
Income tax expense	**13,278**	**7,484**
Income tax expense		
Deferred income tax expense	5,963	5,936
Current income tax expense	7,315	1,548
Total	**13,278**	**7,484**
Current income tax expense		
Current income tax benefit charged to equity (Note 15)	(477)	-
Current income tax charged to consolidated income statement	7,315	1,548
Total	**6,838**	**1,548**

Deferred income tax liabilities	Year ended 31 December 2006 '000 USD	Year ended 31 December 2005 '000 USD
At the beginning of the year	59,276	12,801
Decrease in deferred tax liability charged directly to retained earnings	-	(1,571)
Increase in the deferred income tax liability charged to consolidated income statement	7,753	6,053
Increase in deferred income tax liability charged to equity (Note 16)	21,391	16,082
Acqusition of subsidiaries (Note 35)	23,792	25,916
Disposal of subsidiary	-	(5)
At the end of the year	**112,212**	**59,276**

Deferred income tax assets	Year ended 31 December 2006 '000 USD	Year ended 31 December 2005 '000 USD
At the beginning of the year	586	469
Acquisition of subsidiaries (Note 35)	722	-
Increase in deferred income tax assets charged directly to equity (Note 15)	3,738	-
Increase in deferred income tax assets credited to consolidated income statement	1,790	117
At the end of the year	**6,836**	**586**

20. FINANCE LEASE PAYABLE

In July 2006 the Group signed an agreement with the City of Moscow represented by the Department of State and Municipal Property for the lease of the remaining 20% of the Novotel Hotel premises for 15 years. The effective interest rate is 13% per annum.

	Minimum lease payments		**Present value of minimum lease payments**	
	31 December 2006 '000 USD	**31 December 2005 '000 USD**	**31 December 2006 '000 USD**	**31 December 2005 '000 USD**
No later than one year	1,678	-	285	-
Later than one year and not later than five years	6,713	-	1,583	-
Later than five years	15,523	-	8,956	-
	23,914	-	10,824	-
Less future finance charges	(13,090)	-	-	-
Present value of minimum lease payments	10,824	-	10,824	-
Included in the consolidate financial statements as:				
Long-term finance lease payable			10,539	-
Short-term finance lease payable			285	-
Total			**10,824**	**-**

21. LONG-TERM LOANS

Long-term loans as of 31 December 2006 and 2005 consisted of the following:

	Currency	**Interest rate**	**31 December 2006 '000 USD**	**31 December 2005 '000 USD**
JSCB ROSBANK	USD	11%	25,000	50,000
JSCB Savings bank of the Russian Federation	USD	11%	20,750	23,500
AOZT SPKh "Menzhinets"	RUR	0.5%	794	-
ING Bank N.V.	USD	9.125%	-	150,000
Prepaid credit account maintenance fees	USD		(954)	(2,098)
Total			**45,590**	**221,402**

In July 2006 the Group and JSCB Rosbank entered into a loan agreement for an aggregate principal amount of USD 25.0 million, at an annual interest rate of 11%. The maturity date is July 2011. As of December 2006 land plots with buildings with a book value of USD 19,800 thousand have been pledged as collateral under the loan (Note 8).

As of 31 December 2006 the shares of JSC Hotel Novoslobodskaya and a building with a net book value of USD 35,158 thousand have been pledged as collateral under the loan received from JSCB Savings bank of the Russian Federation (Note 6).

The loan from AOZT SPKh "Menzhinets" was discounted to fair value using the effective interest method of 14%.

Long-term loans as of 31 December 2006 and 2005 are repayable as follows:

	31 December 2006 '000 USD	31 December 2005 '000 USD
Within one year	152,750	1,500
In the second year	2,046	150,652
In the third to fifth years inclusive	43,544	70,750
Less: current portion of long-term loans (Note 22)	(152,750)	(1,500)
Total	**45,590**	**221,402**

In September 2006 the Group repaid the loan from JSCB ROSBANK in the amount of USD 50 million prior to maturity.

22. SHORT-TERM LOANS AND ACCRUED INTEREST

Short-term loans and accrued interest as of 31 December 2006 and 2005 consisted of the following:

	Interest rate	31 December 2006 '000 USD	31 December 2005 '000 USD
Current portion of long-term loan from JSCB Savings bank of the Russian Federation (Note 21)	11.0%	2,750	1,500
ING Bank N.V. (Note 21)	9.125%	150,000	-
Other loans		-	743
Accrued interest on long-term and short-term loans		2,055	2,062
Prepaid interest on loans		(68)	(891)
Total		**154,737**	**3,414**

The loan received from ING Bank N.V. matures in November 2007 and is unsecured.

In July 2006 the Group, ING Bank (Eurasia) ZAO and ING Bank N.V. entered into a loan agreement for an aggregate principal amount of USD 50.0 million, at an annual interest rate of LIBOR plus 2% (with an increase to LIBOR plus 3.25% in October 2006). The maturity date was April 2007. The loan has no collateral. In October 2006 the Group has fully repaid the loan prior to maturity.

23. TRADE AND OTHER ACCOUNTS PAYABLE

Trade and other accounts payable as of 31 December 2006 and 2005 consisted of the following:

	31 December 2006 '000 USD	31 December 2005 '000 USD
Trade payables to suppliers and service providers	7,268	3,696
Accounts payable to employees	3,727	1,543
Accounts payable on acquisition of subsidiaries	-	11,057
Advances received	924	1,277
Other accounts payable and accrued expenses	126	218
Total	**12,045**	**17,791**

24. REVENUE UNDER CONSTRUCTION CONTRACTS

Revenue under construction contracts for the years ended 31 December 2006 and 2005 consisted of the following:

	Year ended 31 December 2006 '000 USD	Year ended 31 December 2005 '000 USD
Revenue under contracts for construction of cottages	39,897	56,727
Revenue under contracts for construction of infrastructure and other assets	5,593	10,983
Total	**45,490**	**67,710**

25. COST OF CONSTRUCTION CONTRACTS

Cost of construction contracts for the years ended 31 December 2006 and 2005 consisted of the following:

	Year ended 31 December 2006 '000 USD	Year ended 31 December 2005 '000 USD
Cost of contracts for construction of cottages (Note 9)	19,538	31,334
Cost of contracts for construction of infrastructure and other assets	5,497	10,981
Total	**25,035**	**42,315**

26. COST OF HOTEL SERVICES

Cost of hotel services for the years ended 31 December 2006 and 2005 consisted of the following:

	Year ended 31 December 2006 '000 USD	Year ended 31 December 2005 '000 USD
Payroll	3,165	2,516
Management fees	1,997	1,698
Materials	1,455	1,342
Depreciation	1,427	1,186
Property tax	857	844
Payroll taxes	607	475
Commissions	354	344
Bank fees for processing credit cards	328	271
Laundry expenses	281	238
Repairs and maintenance	260	892
Insurance	235	138
Communication and TV expenses	139	162
Consulting services	130	182
Security expenses	115	79
Decoration expenses	52	31
Other	807	967
Total	**12,209**	**11,365**

27. COST OF RENTAL SERVICES

Cost of rental services for the years ended 31 December 2006 and 2005 consisted of the following:

	Year ended 31 December 2006 '000 USD	Year ended 31 December 2005 '000 USD
Property tax	232	255
Public utilities	100	73
Repairs and maintenance	84	46
Rent expense	70	54
Other	83	9
Total	**569**	**437**

28. COST OF OTHER SERVICES

Cost of other services for the years ended 31 December 2006 and 2005 consisted of the following:

	Year ended 31 December 2006 '000 USD	Year ended 31 December 2005 '000 USD
Professional services	3,078	3,034
Bank charges	289	216
Payroll	194	175
Repairs and maintenance	75	116
Rent expense	53	37
Security expenses	50	69
Depreciation	11	4
Other	578	206
Total	**4,328**	**3,857**

29. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for years ended 31 December 2006 and 2005 consisted of the following:

	Year ended 31 December 2006 '000 USD	Year ended 31 December 2005 '000 USD
Payroll	8,404	4,971
Brokerage fees	1,517	1,615
Advertising	1,287	668
Depreciation and amortization	974	610
Audit and other consulting services	871	978
Payroll taxes	781	376
Other operating taxes	773	970
Landscaping	726	581
Security expenses	419	192
Repairs and maintenance	409	57
Property tax	381	286
Bank charges	312	193
Insurance	292	318
Travel expenses	243	49
Communications expenses	159	44
Rent expense	142	92
Public utilities	91	52
Representation expenses	81	49
Management fees	25	30
Other expenses	1,531	746
Total	**19,418**	**12,877**

30. OTHER INCOME

Other income for the years ended 31 December 2006 and 2005 consisted of the following:

	Year ended 31 December 2006 '000 USD	Year ended 31 December 2005 '000 USD
Gain on investment property disposal	1,550	-
Gain on property, plant and equipment disposal	6	-
Other income	273	42
Total	**1,829**	**42**

31. OTHER EXPENSES

Other expenses for the years ended 31 December 2006 and 2005 consisted of the following:

	Year ended 31 December 2006 '000 USD	Year ended 31 December 2005 '000 USD
Loss on currency sale and purchase transactions	599	213
Other expenses	1,151	271
Total	**1,750**	**484**

32. INTEREST INCOME

Interest income for the years ended 31 December 2006 and 2005 consisted of the following:

	Year ended 31 December 2006 '000 USD	Year ended 31 December 2005 '000 USD
Interest on bank deposits	7,801	697
Interest on loans issued	983	341
Other interest income	5,473	271
Total	**14,257**	**1,309**

33. INTEREST EXPENSE

Interest expense for the years ended 31 December 2006 and 2005 consisted of the following:

	Year ended 31 December 2006 '000 USD	Year ended 31 December 2005 '000 USD
Interest on bank loans	22,801	9,523
Cost of maintenance of credit accounts	1,395	191
Interest on financial lease	686	-
Interest on other loans	2	49
Total borrowing costs	24,884	9,763
Less: amounts included in the cost of qualifying assets (Note 6, 7 and 9)	(13,350)	(5,069)
Total	**11,534**	**4,694**

34. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Basic			Diluted		
	Weighted average number of shares outstanding during the period	Net profit for the period attributable to sharehol-ders of the parent company ('000 USD)	Earnings per share (in USD)	Weighted average number of shares outstanding during the period	Net profit for the period attributable to sharehol-ders of the parent company ('000 USD)	Earnings per share (in USD)
Year ended 31 December 2006	5,773,172	58,108	10.07	5,773,172	58,108	10.07
Year ended 31 December 2005	3,590,000	14,094	3.93	3,590,000	14,094	3.93

35. ACQUISITION OF SUBSIDIARIES

In June 2006 the Group acquired a 100% interest in Eko-Center LLC for USD 30.9 million, which was paid in cash. This transaction has been accounted for using the purchase method of accounting.

In June 2006 the Group acquired a 100% interest in Onigomati Investment Limited for USD 1 thousand, which was paid in cash. This transaction has been accounted for using the purchase method of accounting. No goodwill was recognized on this transaction as the consideration given was equal to the fair value of the identifiable assets and liabilities at the date of the acquisition.

In July 2006 the Group acquired a 99% interest in Novorizhskiy LLC together with its 100% subsidiary Lukino-Invest LLC for USD 10.8 million, which was paid in cash. Prior to the acquisition the Group held a 1% interest in Novorizhskiy LLC, carried at a cost of USD 10 thousand, and had a loan issued to those companies in the amount of USD 1.9 million. This transaction has been accounted for using the purchase method of accounting.

In October 2006 the Group acquired a 100% interest in Capital Industry LLC, Eko-Polis LLC and Instroy LLC for USD 21.6 million, which was paid in cash. Prior to the acquisition the Group had loans issued to those companies in the amount of USD 1 million. This transaction has been accounted for using the purchase method of accounting.

In October 2006 the Group acquired a 100% interest in Bank Tower LLC (Note 37) for total consideration of USD 40.9 million, of which USD 36.8 million was paid in cash and USD 4.1 million represented loans issued by the Group prior to the acquisition. As a result the Group increased the share in the charter capital of Sakharova Business Plaza LLC from 60% to 100%. This transaction has been accounted for using the purchase method of accounting.

On 31 December 2006 the Group acquired a 100% interest in Istok LLC for USD 14.1 million, which was paid in cash. This transaction has been accounted for using the purchase method of accounting.

At the dates of the acquisitions:

	'000 USD
Net assets acquired:	
Investment property (Note 8)	40,336
Land under construction, including land improvements (Note 9)	63,057
Cash and cash equivalents	4,735
Capital advances	9
Deferred tax asset (Note 19)	722
Value added tax recoverable	11
Long-term loans	(794)
Other receivables and prepaid expenses	54
Deferred tax liabilities (Note 19)	(23,792)
Trade and other accounts payable	(1,573)
Tax liabilities, other than income tax liabilities	(15)
Short-term loans and accrued interest	(6)
Current income tax	(4)
Total	**82,740**
Decrease in minority interest (Note 17)	12,265
Decrease in revaluation reserve (Note 16)	14,459
Decrease in long-term accounts payable	11,772
Consideration given:	
Satisfied by cash	(114,144)
Loans issued	(7,082)
Available for sale investment	(10)
Total	**121,236**
Net cash outflow arising on acquisition:	
Cash consideration	(114,144)
Cash and cash equivalents acquired	4,735
Cash paid on acquisition of subsidiaries, net of cash received	**(109,409)**

36. DISPOSAL OF SUBSIDIARIES

In August 2005 the Group sold its 100% ownership interest in Bank Tower LLC. As a result, the Group decreased the share in the charter capital of Sakharova Business Plaza LLC from 100% to 60%.

At the date of the disposal:

	'000 USD
Negative net assets disposed:	
Land under construction, including land improvements	578
Value added tax recoverable	77
Other receivables and prepaid expenses	2,991
Cash and cash equivalents	51
Long-term loans	(3,812)
Short-term loans	(2,301)
Trade accounts payable	(75)
Deferred tax liabilities	(5)
	(2,496)
Minority interest in revaluation reserve of subsidiary	2,642
Gain on disposal of subsidiaries	30
Satisfied by cash	176
Net cash inflow arising on disposal:	
Cash consideration	176
Cash and cash equivalents disposed	(51)
	125

37. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", represent:

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Group (includes holding companies, subsidiaries and fellow subsidiaries);

(b) associates – enterprises in which the Group has significant influence and which are neither a subsidiary nor a joint venture of the investor;

(c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group;

(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group (also non-executive directors and close members of the families of such individuals);

(e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group;

(f) parties with joint control over the Group;

(g) joint ventures in which the Group is a venture; and

(h) post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party to the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding with related parties as of 31 December 2006 and 2005:

	31 December 2006		**31 December 2005**	
'000 USD	**Related party transactions**	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Trade accounts receivable (entities with joint control or significant influence over the entity)	-	1,134	73	1,116
Prepaid interest on loans (entities with joint control or significant influence over the entity)	68	68	891	891
Receivables from customers under construction contracts (key management personnel of the entity or its parent)	89	11,006	-	21,160
Other receivables and prepaid expenses (entities with joint control or significant influence over the entity)	172	2,878	122	5,685
Loans issued (entities with joint control or significant influence over the entity)	-	23,560	3,668	3,690
Long-term accounts payable (entities with joint control or significant influence over the entity)	-	-	8,840	8,840
Long-term loans (entities with joint control or significant influence over the entity)	25,000	45,590	50,000	221,402
Payables to customers under construction contracts (key management personnel of the entity or its parent)	561	50,399	381	29,854
Advances received from customers for land plots (key management personnel of the entity or its parent)	944	6,978	2,453	6,172
Accounts payable to employees (key management personnel of the entity)	946	3,727	803	1,543
Advances received (entities with joint control or significant influence over the entity)	-	924	268	1,277
Cash and cash equivalents (entities with joint control or significant influence over the entity	175,026	313,400	53,393	55,428

Included in the consolidated income statement for the years ended 31 December 2006 and 2005 are the following amounts which arose due to transactions with related parties:

	31 December 2006		31 December 2005	
'000 USD	**Related party transactions**	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Revenue under construction contracts	1,442	45,490	568	67,710
(entities with joint control or significant influence over the entity)	1,401	-	-	-
(key management personnel of the entity or its parent)	41	-	568	67,710
Revenue from land sold (key management personnel of the entity or its parent)	1,866	11,282	-	436
Revenue on rendering other services (entities with joint control or significant influence over the entity)	423	5,435	260	5,255
Commission on received bank guarantee (entities with joint control or significant influence over the entity)	289	289	216	216
Bank charges (entities with joint control or significant influence over the entity)	238	312	85	193
Interest income (entities with joint control or significant influence over the entity)	6,672	14,257	29	1,309
Interest expense (entities with joint control or significant influence over the entity)	338	11,534	851	4,694
Other expenses (entities with joint control or significant influence over the entity)	-	1,750	92	484
Management fees (entities with joint control or significant influence over the entity)	25	25	30	30
Key management personnel compensation:				
Payroll and related taxes	4,740	13,151	2,815	8,532
Insurance	143	527	46	457
	4,883	**13,678**	**2,861**	**8,989**

During the year ended 31 December 2006 the Group received a loan from a related party amounting to USD 25,000 thousand. During the year ended 31 December 2006 the Group repaid the loan from a related party amounting to USD 50,000 thousand.

During the year ended 31 December 2006 the Group accrued loan interest of USD 5,515 thousand, of which USD 338 thousand is recorded as interest expense and USD 5,177 are capitalized in the cost of long-term assets. During the year ended 31 December 2006 the Group paid interest to a related party of USD 4,692 thousand.

During the year ended 31 December 2006 the Group paid commission of USD 204 thousand on a bank guarantee received.

During the year ended 31 December 2006 the Group acquired a 100% interest in Bank Tower LLC from a related party for total consideration of USD 40.9 million (Note 35).

During the year ended 31 December 2005 the Group received loans from related parties amounting to USD 78,223 thousand. During the year ended 31 December 2005 the Group repaid a loan from related party amounting to USD 25,000 thousand. During the year ended 31 December 2005 the Group accrued loan interest in the amount of USD 4,584 thousand of which USD 851 thousand was recorded as interest expense and USD 3,733 thousand was capitalized in the cost of long-term assets. During the year ended 31 December 2005 the Group paid interest to a related party of USD 5,475 thousand.

During the year ended 31 December 2005 the Group paid commission of USD 294 thousand on a bank guarantee received.

38. BUSINESS SEGMENTS

Financial information relating to the Group's consolidated segments is as follows for the years ended 31 December 2006 and 2005:

'000 USD	Residential property	Commercial property development	Commercial property	Hotel operations	Others	Eliminations	Group total Year ended 31 December 2006
REVENUE							
External sales	55,398	-	3,355	20,027	6,809	-	85,589
Inter-segment sales	-	-	626	43	25	(694)	-
Total revenue	55,398	-	3,981	20,070	6,834	(694)	85,589
RESULT							
Segment profit before income tax	56,430	-	12,012	7,182	1,180	-	76,804
Unallocated expenses, net							(5,616)
Profit before income tax							71,188
Segment capital additions	610,308	54,743	-	10,780	-	-	675,831
Unallocated capital additions							235
Capital additions							676,066
Segment depreciation expense	465	-	-	1,415	-	-	1,880
Unallocated depreciation expense							495
Depreciation expense							2,375

'000 USD	Residential property	Commercial property development	Commercial property	Hotel operations	Others	Eliminations	Group total Year ended 31 December 2005
REVENUE							
External sales	68,068	-	2,896	16,831	5,333	-	93,128
Inter-segment sales	-	-	429	31	1,379	(1,839)	-
Total revenue	68,068	-	3,325	16,862	6,712	(1,839)	93,128
RESULT							
Segment profit before income tax	21,721	-	4,363	3,716	1,339	-	31,139
Unallocated expenses, net							(9,579)
Profit before income tax							21,560
Segment capital additions	194,565	36,123	11,465	109	-	-	242,262
Unallocated capital additions							24
Capital additions							242,286
Segment depreciation expense	291	-	-	1,186	-	-	1,477
Unallocated depreciation expense							323
Depreciation expense							1,800

Financial information relating to the Group's consolidated segments is as follows as of 31 December 2006 and 2005:

'000 USD	Residential property	Commercial property development	Commercial property	Hotel operations	Others	Group total 31 December 2006
OTHER INFORMATION						
Segment assets	1,021,600	183,975	37,419	52,438	481	1,295,913
Unallocated assets						359,692
Eliminations						(126)
Total assets						1,655,479
Segment liabilities	285,986	63,579	8,871	24,886	1,628	384,950
Unallocated liabilities						8,934
Eliminations						(126)
Total liabilities						393,758

'000 USD	Residential property	Commercial property development	Commercial property	Hotel operations	Others	Group total 31 December 2005
OTHER INFORMATION						
Segment assets	369,501	81,670	32,903	40,503	1,085	525,662
Unallocated assets						78,122
Eliminations						(5,022)
Total assets						598,762
Segment liabilities	212,046	47,717	6,531	23,776	2,003	292,073
Unallocated liabilities						61,474
Eliminations						(5,022)
Total liabilities						348,525

39. COMMITMENTS AND CONTINGENCIES

Capital commitments – As of 31 December 2006 material commitments of the Group for capital expenditures outstanding under concluded contracts approximated USD 289 million. The Group has early termination rights for all concluded capital construction contracts.

Operating leases – The Group's future minimum rental payments under non-cancellable operating leases in effect as of 31 December 2006 and 2005 are presented in the table below.

	31 December 2006 '000 USD	31 December 2005 '000 USD
Not later than 1 year	364	257
Later than 1 year but not later than 5 years	667	318
Later than 5 years	3,430	94
Total operating lease	**4,461**	**669**

Commitment under long-term contracts – In May 2005 the Group won the tender for participation as a general designer (vendor) under the government contract for the feasibility study of investments into the construction of the Central Ring Road of the Moscow region. The tender was organized by the Federal state enterprise "Directorate of the state customer for the realization of the subprogram "Highways" of the federal target program "Modernization of the Russian Transport System (2002-2010 years)" of the Federal Highway Agency. For participation in the tender and further realization of this project an international consortium was organized by the Company's subsidiary

IR Development Ltd (as a Lead Manager), JSC Lengiprotrans and OBERMEYER Planen Beraten GmbH. The government contract with the Federal state enterprise “Highways of Russia” of the Federal Highway Agency of the Ministry of Transport of the Russian Federation for the feasibility study was signed by IR Development Ltd on behalf of the international consortium on 14 June 2005. The total contract amount comprises RUR 279,855 thousand, including VAT. The Group recognized revenue of USD 4,241 thousand for the year ended 31 December 2006. As of 31 December 2006 total cumulative revenue recognized under the contract amounted to USD 8,610 thousand.

To secure the principal commitment of IR Development Ltd under the government contract, on 15 June 2005 the Group obtained an irrevocable bank guarantee from JSCB ROSBANK amounting to RUR 279,855 thousand (USD 10,628 thousand at the exchange rate of the Central Bank of the Russian Federation as of 31 December 2006). The guarantee was valid until 15 August 2006 (Note 37). Quarterly bank commission comprised 1% of the guarantee amount. Pavlovo LLC served as a counter guarantor under the bank guarantee.

Timonino land acquisition – In April 2006 the Board of Directors approved the Group’s participation in the Timonino project, which includes the acquisition of approximately 137 hectares of land at Kievskoye Shosse. As of 31 December 2006 the Group made advance payments under the project of USD 48 million (Note 7).

Bolshoye Pestovo land acquisition – In September 2006 the Board of Directors approved the Group’s participation in the Bolshoye Pestovo project, which includes the acquisition of up to approximately 1,000 hectares of land in the Moscow region near Pestovo reservoir. As of 31 December 2006 the Group made advance payments under the project of USD 200 million (Note 7).

New land acquisition program – In December 2006 the Board of Directors approved the Group’s participation in a new land acquisition program. Total approved spending for land acquisition in the Moscow, Tver and Yaroslavl regions approximates USD 395 million. As of 31 December 2006 the Group made advance payments under the program of USD 31 million (Note 7).

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxes – Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed by the tax authorities of making arbitrary judgment of business activities, if a particular treatment, based on management’s judgment of the Group’s business activities, was to be challenged by the tax authorities, the Group may by assessed additional taxes, penalties and interest and these could be significant. While the Group believes it has complied with all applicable regulations and requirements, these regulations and requirements are not always clearly written, are continually updated, are often ambiguous and may be retrospective in effect, and it is often difficult to predict future interpretations by regulatory authorities, and the outcomes of such interpretations. The management of the Group considers that the probability of any material sanctions being undertaken by local authorities against the Group is remote, and believes that no material fines or penalties will become payable. Tax years remain open to review by the tax authorities for three years.

Pensions and retirement plans – Employees receive pension benefits from the Russian Federation in accordance with the laws and regulations of the country. As of 31 December 2006 and 2005, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating environment – The Group’s principal business activities are within the Russian Federation. Laws and regulations affecting business environment in the Russian Federation are subject to rapid changes and the Group’s assets and operations could be at risk due to negative changes in the political and business environment.

40. SUBSEQUENT EVENTS

The general meeting of the Company's shareholders held on 22 January 2007 approved a capital increase, whereby up to 1,798,063 new ordinary shares each with a nominal value of 1,000 RUR would be issued through an open subscription. Shareholders are granted pre-emptive rights of purchase, pro rata to their existing shareholdings. The offering price will be determined by the meeting of the Company's shareholders after the termination of the pre-emptive rights period and should not exceed the Rouble equivalent of USD 180.75 per share at the exchange rate of the Central Bank of the Russian Federation as of the date of the meeting. On 6 March 2007 the Company registered a prospectus for the additional issue of shares with the FFMS.

In January 2007 the Group acquired a 100% interest in Capital Service LLC and Invest Polis LLC together with their 100% subsidiary Regional development LLC for USD 85 million. Regional development LLC owns approximately 1,237 hectares of land in Tver region. As of 31 December 2006 the Group made advance payments for the whole amount (Note 7).

In February 2007 the Group acquired a 100% interest in Extern LLC for USD 12 million. Extern LLC holds rights for approximately 0.8 hectares of land located in Sochi. As of 31 December 2006 the Group made advance payments for the whole amount (Note 7).

41. RISK MANAGEMENT POLICIES

Management of risk is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to operating risk, credit risk exposures, market movements in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks follows.

Credit risk – The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group does not hedge its credit risk.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one counterparty/customer, or groups of customers. Prior to entering into material contracts the Group undertakes due diligence procedure, which include checking the financial condition and creditworthiness of the counterparty, its experience, expertise and reputation in the subject area of co-operation. The Group also obtains a legal opinion from its in-house or from independent legal counsel regarding the validity and enforceability of contracts and other material documentation in connection with the subject transaction. The Group's aggregate credit exposure to particular counterparty/customer, or groups of customers once established by the Group's Investment Committee are subject to quarterly review and approval by the Investment Committee.

The Group's counterparties/customers are mainly contractors, buyers/sellers of property, tenants and banks. For each group the Group has developed additional procedures to mitigate credit risk.

Contractors: The Group seeks additional credit risk mitigation instruments, including safety deposits, completion and performance guarantees, issued by top-rated banks, and the use of professional advisors, providing quality control and technical supervision.

*Buyers/Sellers of Propert*y: Financial guarantees (bank guarantees, letters of credit or similar bank instruments) or advance performance of counterparty's obligations are usually required from each potential buyer/seller.

Tenants: The Group carries out due diligence procedures. Contracts with tenants include a safety deposit in the amount of lease payments for 1-6 months, which management believes provides sufficient amount to cover the costs and realize planned profit during any re-marketing period.

Banks and financial institutions: the Group undertakes due diligence procedure on banks and financial institutions, which are service providers for the Group, to ensure their creditworthiness. The Investment Committee establishes limits for aggregate credit exposure to banks and financial institutions. Such limits are subject to quarterly review. The Group maintains accounts with several banks to ensure the flexibility of its risk management policy implementation.

Currency risk – Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group minimizes, to the extent possible any disproportion between the currencies of its major income and expense items, and between its assets and liabilities. The Group currently maintains the US dollar as the currency for most of its contracts with service providers, tenants, buyers and sellers of property, and debt instruments outstanding. If due to the Russian Law any settlement shall be in Russian Roubles, the Group still sets prices and values in US Dollars and performs the settlements in Russian Rouble equivalents, calculated on the basis of US Dollar price or value using the prevailing exchange rate of the Central Bank of the Russian Federation. The Group does not hedge its currency risk.

Interest rate risk – Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments.

All the Group's debt instruments outstanding as of 31 December 2006 are fixed rate. The Group plans to continue borrowing at a fixed rate in the future. For any future borrowing at variable interest rate the Group will consider the possibility of hedging its interest risk.

Funding (cash flow) risk – Funding (cash flow) risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has established budgeting and cash flow planning procedures to ensure it has adequate cash available to meet its payment obligations in due course.

The Management controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the financial markets for current liquidity support and cash flow management.

The Group recognizes the capital intensive nature and modest liquidity of real estate. Therefore, the Group uses its best efforts to fund a significant portion of future cash needs through long-term borrowings and to maintain a high proportion of equity financing. The Group also tries to partially finance the development of its residential projects by receiving advance payments under construction contracts.

42. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management considers that the fair value of financial instruments held by the Group did not materially differ from their carrying amounts.