



Offering of 10,643,618 Ordinary Shares

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in the form of Shares and Global Depositary Receipts Offer Price Range: \$72.50 per Share and \$14.50 per Global Depositary Receipt

This prospectus relates to an offering (the “**Offering**”) by Hiuki Holding Limited, a limited liability company organized under the laws of Cyprus (“**HHL**”), Mr. Andrey Molchanov, Mr. Mikhail Romanov, Mr. Georgy Vedernikov, Mr. Igor Levit and Mr. Yevgeny Yatsyshin (together, the “**Selling Shareholders**”), of 1,721,607 shares (the “**Shares**”) and of 44,610,055 global depositary receipts (“**GDRs**”) representing ordinary shares, each with a nominal value of 0.25 rubles (“**Ordinary Shares**”), of OJSC LSR Group (the “**Company**”) with five GDRs representing an interest in one Ordinary Share. We are seeking the approval of the United Kingdom Financial Services Authority (the “**FSA**”) in accordance with the prospectus rules (the “**Prospectus Rules**”) of the FSA made under section 73A of the Financial Services and Markets Act 2000 (“**FSMA**”) only in relation to the offering of the GDRs. We have not applied for any such approval of the FSA in relation to the offering of the Shares.

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The Shares and the GDRs are being offered in the United States to certain qualified institutional buyers (“**QIBs**”) as defined in, and in reliance on, Rule 144A (“**Rule 144A**”) under the US Securities Act of 1933 (the “**Securities Act**”) and outside the United States and the Russian Federation in offshore transactions in reliance on Regulation S under the Securities Act (“**Regulation S**”). The Shares are also being offered in the Russian Federation to certain investors in reliance on Regulation S. See “*Subscription and Sale*”.

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One of the Selling Shareholders, Mr. Andrey Molchanov, has granted to the Underwriters (as defined under “*Subscription and Sale*”) an option (the “**Over-allotment Option**”) exercisable on one or more occasions within 30 days after the announcement of the Offer Price, to purchase up to an additional 851,489 Ordinary Shares in the form of GDRs at the Offer Price, solely to cover over-allotments, if any, in the Offering. See “*Subscription and Sale*”.

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Immediately following the Offering, the Company will offer to HHL in a closed subscription (the “**Closed Subscription**”) 8,514,896 newly issued Ordinary Shares (the “**New Shares**”). The price per New Share in the Closed Subscription will be equal to the Offer Price net of the portion of fees and expenses incurred in connection with the Offering.

The Company’s existing Ordinary Shares have been admitted to list “**I**” on the Moscow Interbank Currency Exchange (“**MICEX**”) and the Russian Trading System Stock Exchange (“**RTS**”), but are not actively traded. Prior to the Offering, there has been no market for the GDRs.

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This document, upon approval by the FSA, comprises a prospectus relating to the Company prepared in accordance with the Prospectus Rules. Application has been made (1) to the FSA, in its capacity as competent authority under the FSMA, for a listing of up to 68,119,160 GDRs, consisting of up to 44,610,055 GDRs to be issued on or about November 15, 2007 (the “**Closing Date**”), up to 4,257,445 GDRs to be issued in connection with the Over-allotment Option described above and up to 19,251,660 additional GDRs to be issued from time to time against the deposit of Ordinary Shares (to the extent permitted by law) with Deutsche Bank Trust Company Americas, as depositary (the “**Depositary**”), to be admitted to the official list of the FSA (the “**Official List**”) and (2) to the London Stock Exchange plc (the “**London Stock Exchange**”), for such GDRs to be admitted to trading under the symbol LSRG on the London Stock Exchange’s market for listed securities through the International Order Book (“**IOB**”). The IOB is regulated for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive). Conditional trading in the GDRs through the IOB is expected to commence on an if-and-when-issued basis on or about November 9, 2007. Admission to the Official List and unconditional trading on the IOB (“**Admission**”) is expected to take place on or about the Closing Date. **All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.** Application has also been made to have the GDRs designated eligible for The PORTAL Market of the Nasdaq Stock Market, Inc. (“**PORTAL**”).

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

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

The Shares and the GDRs are offered by the Underwriters when, as and if delivered to and accepted by the Underwriters and subject to their right to reject orders in whole or in part. The GDRs will be issued in global form. The GDRs offered and sold in the United States (the “**Rule 144 GDRs**”) will be evidenced by a Master Rule 144A Global Depositary Receipt Certificate the “**Master Rule 144A GDR Certificate**” registered in the name of Cede & Co., as nominee for The Depositary Trust Company (“**DTC**”), and the GDRs offered and sold outside the United States will be evidenced by a Master Regulation S Global Depositary Receipt Certificate (the “**Master Regulation S GDR Certificate**”) and, together with the Master Rule 144A GDR Certificate, the “**Master GDR Certificates**”) registered in the name of BT Globenet Nominees Limited, a nominee for Deutsche Bank AG, London Branch (“**Deutsche Bank**”), as common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System (“**Euroclear**”), and Clearstream Banking, société anonyme (“**Clearstream**”). Except as described here, beneficial interests in the Master GDR Certificates will be shown as, and transfers thereof will be effected only through DTC with respect to the Rule 144A GDRs and Euroclear and Clearstream, Luxembourg with respect to the Regulation S GDRs. It is expected that delivery of the GDRs will be made against payment therefor in US dollars in same day funds through the facilities of DTC, Euroclear and Clearstream on or about the Closing Date. See “*Settlement and Delivery*”.

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Joint Global Coordinators

CREDIT SUISSE

DEUTSCHE BANK

Joint Bookrunners

ABN AMRO ROTHSCHILD

CREDIT SUISSE

DEUTSCHE BANK

Co-Lead Manager

URALSIB FINANCIAL CORPORATION

Prospectus dated November 9, 2007

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IMPORTANT INFORMATION

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

The Underwriters and Uralsib (as defined under “*Subscription and Sale*”) make no representation, express or implied, nor accept any responsibility, with respect to the accuracy or completeness of any of the information in this prospectus. This prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company, the Selling Shareholders, the Underwriters or Uralsib that any recipient of this prospectus should subscribe for or purchase the Shares and GDRs. Each potential subscriber or purchaser of Shares and GDRs should determine for itself the relevance of the information contained in this prospectus and its subscription or purchase of GDRs should be based upon such investigation, as it deems necessary.

This prospectus, including the financial information included herein, is in compliance with the Prospectus Rules of the FSA, which comply with the provisions of Directive 2003/71/EC (“**Prospectus Directive**”) for the purpose of giving information with regard to the Company, the Selling Shareholders and the GDRs.

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

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

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

You should not consider any information in this prospectus to be investment, legal or tax advice. You should consult your own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding purchasing the Shares and GDRs. None of the Company, the Selling Shareholders, the Underwriters or Uralsib makes any representation to any offeree or purchaser of the Shares and GDRs regarding the legality of an investment in the Shares and GDRs by such offeree or purchaser under appropriate investment or similar laws.

The Underwriters and Uralsib are acting exclusively for the Company and no one else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offering.

In connection with the Offering, the Underwriters and Uralsib and any of their respective affiliates acting as an investor for its or their own account(s) may subscribe for or purchase, as the case may be, Shares and GDRs and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of the Company or other related investments in connection with the Offering or otherwise. Accordingly, references in this prospectus to the Shares and GDRs being issued, offered, subscribed or otherwise dealt with should be read as including any issue or offer to, or subscription or dealing by, the Underwriters and Uralsib and any of their respective affiliates

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acting as an investor for its or their own account(s). The Underwriters do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Company may withdraw the Offering at any time, and the Company, the Selling Shareholders and the Underwriters reserve the right to reject any offer to purchase the Shares and GDRs, in whole or in part, and to sell to any prospective investor less than the full amount of the Shares and GDRs sought by such investor.

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

STABILIZATION

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

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NOTICE TO CERTAIN INVESTORS

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

NOTICE TO PROSPECTIVE INVESTORS IN POLAND

This prospectus has neither been approved by the Polish Financial Supervision Commission nor has been “passport” into Poland pursuant to the European passport commission mechanism set out in the Prospectus Directive and as such it may not be published or distributed to the public in the Republic of Poland. Consequently, neither the Shares nor the GDRs may be publicly offered for sale, purchase or exchange in the Republic of Poland, other than in compliance with the Act.

The Shares and the GDRs may not be publicly offered for sale, purchased or exchanged in Poland before the completion of the actions specified above.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED ARAB EMIRATES

This prospectus is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose.

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By receiving this prospectus, the person or entity to whom it has been issued understands, acknowledges and agrees that this prospectus has not been approved by the U.A.E. Central Bank, the U.A.E. Ministry of Economy and Planning or any other authorities in the U.A.E., nor has the placement agent, if any, received authorization or licensing from the U.A.E. Central Bank, the U.A.E. Ministry of Economy and Planning or any other authorities in the United Arab Emirates to market or sell securities within the United Arab Emirates. No marketing of any financial products or services has been or will be made from within the United Arab Emirates and no subscription to any securities, products or financial services may or will be consummated within the United Arab Emirates. It should not be assumed that the placement agent, if any, is a licensed broker, dealer or investment advisor under the laws applicable in the United Arab Emirates, or that it advises individuals resident in the United Arab Emirates as to the appropriateness of investing in or purchasing or selling securities or other financial products. The interests in the Shares and the GDRs may not be offered or sold directly or indirectly to the public in the United Arab Emirates. This does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law, Federal Law No. 8 of 1984 (as amended) or otherwise.

By receiving this prospectus, the person or entity to whom it has been issued understands, acknowledges and agrees that the Shares and the GDRs have not been and will not be offered, sold or publicly promoted or advertised in the Dubai International Financial Centre other than in compliance with laws applicable in the Dubai International Financial Centre, governing the issue, offering or sale of securities. The Dubai Financial Services Authority has not approved this prospectus nor taken steps to verify the information set out in it, and has no responsibility for it.

NOTICE TO NEW HAMPSHIRE RESIDENTS

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

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Statements. The Company’s audited consolidated financial statements as of and for the years ended December 31, 2005 and 2006 and the reviewed consolidated interim financial statements for the six months ended June 30, 2006 and 2007 included in this prospectus beginning on page F-2 have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board, in effect at the time of preparing these consolidated financial statements.

The Company’s audited special purpose consolidated financial statements as of and for the year ended December 31, 2004 (the “**Special Purpose Consolidated Financial Statements**”) have been compiled in accordance with the measurement and disclosure requirements of IFRS and have been prepared solely for inclusion in this prospectus. We adopted IFRS as our reporting framework as of January 1, 2005 and, as a consequence, certain components of the Special Purpose Consolidated Financial Statements have been valued on bases that would render them consistent with their respective values as at January 1, 2005. In particular, “*Property, Plant and Equipment*” has been recorded as at December 31, 2004 in the Special Purpose Consolidated Financial Statements revalued amounts on the basis of independent appraisals adjusted for impairment as at January 1, 2005, the date we adopted IFRS as our reporting framework. All other assets and liabilities are recorded at historical cost or fair value, tested for impairment and written down as appropriate. In preparing the income statement for the year ended December 31, 2004, certain items which impact the “*Property, Plant and Equipment*” line item of the balance sheet such as depreciation and disposal of property, plant and equipment have been calculated arithmetically to achieve the resulting balance sheet amount at December 31, 2004. For example, “depreciation expense” in the Special Purpose Consolidated Financial Statements was calculated by arithmetically “rolling back” the estimated useful

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economic life remaining as at January 1, 2005 by one year to January 1, 2004 and adjusting for any acquisitions and disposals during 2004 to derive the depreciation expense for 2004. Certain other provisions and impairments of goodwill require judgmental estimation; however, these judgmental estimates are fully consistent with the guidance provided by IFRS in performing the impairment test or valuing provisions generally.

The basis of preparation of the Special Purpose Consolidated Financial Statements is described in note 2(a) therein and is included in this prospectus beginning on page F-64. The Special Purpose Consolidated Financial Statements compiled as set out above may differ significantly from financial statements prepared for 2004 had we adopted IFRS as our reporting framework as at January 1, 2004 and had independent valuations of our assets been conducted on that date instead of January 1, 2005.

Non-IFRS information. We have included certain measures in this prospectus that are not measures defined by IFRS. These include EBITDA and EBITDA margin. We have included these measures for the reasons described below; however, these measures should not be used instead of, or considered as alternatives to, our historical financial results based on IFRS.

We define EBITDA as profit/(loss) for the period before financial income/(expenses), income tax expense, depreciation and amortization and changes in fair value of investment property. We believe that the presentation of EBITDA enhances an investor's understanding of our financial performance. Our management uses EBITDA to assess our operating performance because it believes that EBITDA is an important supplemental measure of our operating performance and because EBITDA is a measure incorporated into certain of our financial ratios in our loan instruments. In addition, our management believes that EBITDA is frequently used by securities analysts, investors and other interested parties in the evaluation of companies that operate in our industry. EBITDA is not a presentation made in accordance with IFRS and our use of the term EBITDA may vary from others in our industry. EBITDA has limitations as an analytical tool, and should not be considered in isolation, or as a substitute for financial information as reported under IFRS. For example, EBITDA does not reflect the effect of financial income/(expenses), income tax expense, depreciation and amortization or changes in fair value of investment property on our operating performance. EBITDA should not be considered as an alternative to net profit or any other performance measures derived in accordance with IFRS or as alternative to cash flow from operating activities or as measures of our liquidity. In particular, EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

Our functional currency is the ruble, as it reflects the economic substance of our underlying events and circumstances. Our presentation currency is also the ruble. Solely for the convenience of the reader, certain amounts included in this prospectus have been translated from rubles into US dollars, as set forth under "*Currencies and Exchange Rates*".

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

References. Unless the context otherwise requires, all references in the prospectus to the "Company" are to OJSC LSR Group and none of its subsidiaries and all references in this prospectus to "we," "our," "us" and the "group" refer collectively to the Company and its consolidated subsidiaries.

Market Data. Market data used in this prospectus, including statistics in respect of our competitors' sales volumes and market share, has been extracted from official and industry sources and other sources we believe to be reliable including, without limitation, in the sections headed "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Industry*" and "*Business*". Such information, data and statistics may be approximations or estimates or use rounded numbers. We have relied on the accuracy of this information without independent verification. We confirm that this information has been accurately reproduced and that as far as we are aware and are able to ascertain from information published by these third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. We note that neither these independent sources nor the Underwriters or Uralsib accept liability for the accuracy of any such information and prospective investors are advised to consider such information with caution.

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In particular, we have cited: the Central Bank of the Russian Federation ("**CBR**"), OOO DTZ Debenham Zadelhof ("**DTZ**"), Economist Intelligence Unit, Jones Lang LaSalle, the Moscow Research Forum Office Building Classification, Reshenie Independent Market Research Agency ("**Reshenie**"), the Federal State

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Statistics Service (“Rosstat”), *Peterburgskaya Nedvizhimost* (“St. Petersburg Realty” or “SPb Realty”) and Standard & Poor’s (“S&P”), as sources in this prospectus under the caption “Industry”; DTZ under the caption “Business”, and Rosstat and CBR under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, which, in each case, are independent sources. We confirm that this information has been accurately reproduced and that as far as we are aware and are able to ascertain from information published by these third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

In addition, some of the information contained in this document has been derived from the official data of Russian government agencies. The official data published by Russian federal, regional and local governments are substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this prospectus are, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The veracity of some official data released by the Russian government may be questionable.

Real Estate Market Values. All real estate market values presented herein are from the report of DTZ, an independent appraiser, dated October 8, 2007 (hereinafter referred to as “Market Value”). A summary of this report is included as Annex A to this prospectus and referred to herein as the “Valuation Report”. The Market Value of the development as assessed by DTZ is the estimated value of the planned development at completion, less all costs up to completion (including a profit margin for the developer), less any minority stake in the project. DTZ appraised 49 projects at various stages of development. Our portfolio of properties and our development projects are together referred to herein as “properties”. The properties were valued as of June 30, 2007. The valuations and a complete discussion of the valuation methodology and other assumptions and methodologies are contained in the Valuation Report and elsewhere in the prospectus. See the Valuation Report and “Business—Valuation of our Properties”.

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CURRENCIES AND EXCHANGE RATES

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

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

Years ended December 31,	Rubles per US dollar			
	High	Low	Average ⁽¹⁾	Period end
2002	31.86	30.14	31.34	31.78
2003	31.89	29.25	30.69	29.45
2004	29.45	27.75	28.82	27.75
2005	29.00	27.46	28.29	28.78
2006	28.48	26.18	27.19	26.33

Month ended	Rubles per US dollar	
	High	Low
May 2007	25.92	25.69
June 2007	26.05	25.78
July 2007	25.73	25.39
August 2007	25.84	25.34
September 2007	25.69	24.94
October 2007	25.06	24.70
November 2007 (through November 8)	24.68	24.51

(1) The average of the exchange rates for each day during the year.

The Ruble/US dollar exchange rate as quoted by the CBR on November 8, 2007 was RUB 24.51=\$1.00.

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Although both our functional and reporting currency is the ruble, we have also presented our consolidated results of operations in US dollars in our audited consolidated financial statements and unaudited interim consolidated financial statements included elsewhere in this prospectus since we believe that this currency is useful for the users of our consolidated financial statements. The US dollar amounts representing income statement and statement of cash flows data have been translated from the ruble amounts at the annual average rates of RUB 27.19 = \$1.00 for the year ended December 31, 2006 and RUB 26.08 = \$1.00 for the six month period ended June 30, 2007. The US dollar amounts representing balance sheet data as of December 31, 2006 and June 30, 2007 have been translated from the ruble amounts at rates at December 31, 2006 and at June 30, 2007 of RUB 26.33 = \$1.00 and RUB 25.82 = \$1.00, respectively. No representation is made that the ruble or US dollar amounts in this prospectus could have been converted into US dollars or rubles, as the case may be, at any particular rate or at all.

LIMITATION ON ENFORCEMENT OF CIVIL LIABILITIES

Our presence and that of the Selling Shareholders outside the United States and the United Kingdom may limit your legal recourse against us. We are incorporated under the laws of the Russian Federation; HHL, which is one of the Selling Shareholders, owned by Mr. Georgy Verdernikov, a member of our senior management, is incorporated in the Republic of Cyprus, and the other Selling Shareholders, Mr. Andrey Molchanov, Mr. Mikhail Romanov, Mr. Georgy Vedernikov, Mr. Igor Levit and Mr. Yevgeny Yatsyshin, are citizens of the Russian Federation. See “*Directors, Management and Corporate Governance*”. All of our directors and executive officers named in this prospectus reside outside the United States and the United Kingdom, principally in the Russian Federation. All our assets and almost all of the assets of our directors and executive officers are located outside the United States and the United Kingdom, principally in the Russian Federation. As a result, you may not be able to effect service of process within the United States or the United Kingdom upon us, the Selling Shareholders or our respective directors and executive officers or to enforce US or UK court judgments obtained against us, the Selling Shareholders or our respective directors and executive officers in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of US securities laws. In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon US or UK securities laws.

Judgments rendered by a court in any jurisdiction outside the Russian Federation are likely to be recognized by courts in the Russian Federation if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country in which the judgment is rendered, and/or a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgments.

There is no treaty between the United States and the Russian Federation or the United Kingdom and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. However, we are aware of at least one instance in which Russian courts have recognized and enforced an English court judgment, on the basis of a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. The courts determined that such treaties constituted grounds for the recognition and enforcement of the relevant English court judgment in Russia. In the absence of established court practice, however, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognize and enforce an English court judgment on these grounds. In addition, Russian courts have limited experience in the enforcement of foreign court judgments. These limitations may deprive you of effective legal recourse for claims related to your investment in the Shares or GDRs. Under the terms of the Deposit Agreements (as defined below), owners of GDRs agree that any dispute, controversy or cause of action against us and/or the Depositary arising out of the GDRs, the Deposit Agreements or any transaction contemplated therein, the Shares or other deposited securities will be referred to and resolved by arbitration in accordance with the rules of the LCIA (formerly, the London Court of International Arbitration) in proceedings in London, England, as more fully described in the Deposit Agreements. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards, but it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including limited experience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favor of foreign investors, Russian courts’ inability to enforce such orders and corruption. The possible need to re-litigate in the Russian Federation a judgment obtained in a foreign court on the merits may also significantly delay the

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enforcement of such judgment. Under Russian law, certain amounts may be payable by the claimant upon the initiation of any action or proceeding in any Russian court. These amounts in many instances depend on the amount of the relevant claim.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus are not historical facts and are “forward-looking” within the meaning of Section 27A of the Securities Act and Section 21E of the US Securities Exchange Act of 1934 (the “**Exchange Act**”). Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words “believe,” “expect,” “anticipate,” “intend,” “estimate,” “forecast,” “project,” “will,” “may,” “should” and similar expressions identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements appear in a number of places in this prospectus including, without limitation, “*Risk Factors*,” “*Business*” and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”, and include statements regarding:

- strategies, outlook and growth prospects;
- future plans, expectations, projections and potential for future growth;
- plans or intentions relating to acquisitions;
- future revenues and performance;
- integration of our businesses, including recently acquired businesses;
- liquidity, capital resources and capital expenditures;
- growth in demand for our properties;
- economic outlook and industry trends;
- developments of our markets;
- the impact of regulatory initiatives;
- our competitive strengths and weaknesses; and
- the strengths of our competitors.

The forward-looking statements in this prospectus are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management’s examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and which are beyond our control and we may not achieve or accomplish these expectations, beliefs or projections. In addition to these important factors and matters discussed elsewhere herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

- changes in political, social, legal or economic conditions in Russia, including significant declines in Russia’s gross domestic product (“**GDP**”);
- changes in the policies of the government of the Russian Federation, including the President and his administration, the Prime Minister, government ministers and their offices and the Prosecutor General and his office;
- changes in the policies or leadership of the city governments of St. Petersburg or Moscow;
- increased interest rates and operating costs, including the supply of, and the price for, building materials in Russia;
- our ability to service our existing indebtedness;
- our ability to fund our future operations and capital needs through borrowing or otherwise;
- our ability to implement successfully any of our business strategies;
- decreased sales prices of real estate, building materials or aggregates;

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- our ability to obtain necessary regulatory approvals;
- changes in customer preferences;
- our ability to identify properties to acquire and successfully complete acquisitions and developments;
- changes in the regulation of real estate and the environment;
- competition in the marketplace;
- changes in real property or other tax rates;
- changes in accounting standards or practices;
- inflation, fluctuation in exchange rates and the availability of foreign currencies;
- the impact of general business and global economic conditions; and
- our success in identifying other risks relating to our business and managing the risks of the aforementioned factors.

The foregoing list is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Except to the extent required by law, neither we, nor any of our agents, employees or advisors intend or have any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained in this prospectus.

AVAILABLE INFORMATION

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

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PROSPECTUS SUMMARY

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

The following summary information should be read as an introduction to the more detailed information appearing elsewhere in this prospectus, including our financial statements and the accompanying notes beginning on page F-2 and the Valuation Report included in Annex A to this prospectus. Information with respect to the real estate valuations set forth in this prospectus is subject to certain qualifications and assumptions, as discussed under "Presentation of Market Values" and in the Valuation Report. Any decision to invest in the Shares or GDRs should be based on consideration of the prospectus as a whole, including the information discussed in "Cautionary Note Regarding Forward-looking Statements" and "Risk Factors," and not solely on this summarized information.

We are one of the leading real estate development, construction and building materials companies in St. Petersburg and the Leningrad region. We operate in a number of complementary segments, including as the market leader in St. Petersburg in:

- the development of elite residential real estate projects. We are also the second largest developer of residential real estate in St. Petersburg; and
- the production of prefabricated concrete panels and the construction of mass-market class large panel housing developments;

and as the market leader in St. Petersburg and the Leningrad region in:

- the production of building materials such as reinforced and ready-mix concrete, bricks and aerated concrete for use in construction projects;
- the extraction and processing of aggregates such as sand and crushed granite; and
- the provision of tower crane services and the transportation of building materials.

Our complementary business segments enable us to produce and manufacture a large proportion of the materials, and provide a number of the services, required to undertake our real estate development projects. However, the greatest share of our sales from these activities are from supplying other construction companies.

We manage and operate our businesses principally through two divisions:

- our Real Estate Development, Commercial Real Estate and Construction Division, which represented 35% of our consolidated revenues in 2006 (before inter-segment eliminations); and
- our Building Materials, Aggregates and Construction Services Division, which represented 64% of our consolidated revenues in 2006 (before inter-segment eliminations).

In our Real Estate Development, Commercial Real Estate and Construction Division, we identify and develop real estate projects in the elite, business, mass market, gated community and commercial segments of the real estate market from concept to completion. Our activities include identifying opportunities in the Russian property market and performing feasibility studies, which are undertaken using in-house expertise and some external consultants. In addition, we prepare business plans and procure designs from architectural firms. We also obtain the required construction permits and other permissions, engage general contractors and oversee construction, raise financing and engage in marketing activities. For the year ended 2006, our elite and mass market development sub-segments represented 54% and 46%, respectively, of total revenues in our Development segment. The construction business segment in this division manufactures concrete panels and constructs large panel housing developments and pile foundations. The commercial real estate segment is responsible for the management and leasing of office and retail complexes that we develop. Our portfolio of real estate development projects includes 34 completed projects to date and 32 projects at various stages of development. We also have a number of potential projects currently under consideration. Our sizeable land bank as of June 30, 2007 consisted of approximately 965 hectares of land, including approximately 239 hectares attributed to seven plots of land yet to be acquired pursuant to preliminary sale and purchase agreements, located in the Krasnogvardeisky

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district of St. Petersburg (the “**Ruch'i Development**”). We estimate that approximately 7.8 million square meters of net sellable and leasable residential and commercial real estate (excluding parking space) can be developed on this land.

Our Building Materials, Aggregates and Construction Services Division produces and sells a variety of building material products, including reinforced concrete products, ready-mix concrete, bricks and aerated concrete. This division also mines, extracts and processes the aggregate raw materials such as sand, clay and crushed granite for use as building materials and in the production of building products. The construction services segment of this division provides tower crane services and operates a fleet of vehicles for the transportation of building materials. As of the date of this prospectus, we have 19 production facilities in St. Petersburg and the Leningrad region that produce our building material products and 18 active quarries from which we extract our aggregates and clay. Although historically our center of operations has been in St. Petersburg and the surrounding Leningrad region, we have recently started to expand into other regions of Russia, including Moscow and the Moscow region. We have five building materials production facilities in Moscow producing reinforced and ready mix concrete, and a production facility in each of Estonia and Latvia that produce aerated concrete. As of June 30, 2007, we had 14,909 employees.

For the year ended December 31, 2006 and for the six months ended June 30, 2007, we had revenues of RUB 21,110.8 million and RUB 16,062.0 million, respectively, and as of June 30, 2007 we had total assets of RUB 50,955.4 million.

Current Trading and Prospects

Our prospects for the full year ending December 31, 2007 remain in line with our expectations.

Competitive Strengths

We believe that we benefit from the following competitive strengths:

- Leading position in a rapidly growing development market;
- Largest and most diversified building materials company in the Northwest region of Russia;
- Synergies between two complementary businesses;
- Large and diversified land bank;
- Well balanced, yet focused business model; and
- Strong management team.

Strategy

Our strategy is to:

- Focus on the successful execution of our real estate development projects;
- Expand and diversify our land bank;
- Optimize the use of our real estate assets;
- Increase pre-fabricated panel production capacity to capture mass market demand growth;
- Capitalize on leading positions in the building materials sector to further increase our market share;
- Modernize and increase the efficiency of our operations;
- Exploit new opportunities and expand into promising markets; and
- Undertake selective acquisitive growth.

Risk Factors

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

- cyclicity of the Russian real estate market;

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- risks inherent to the real estate market;
- operating in highly competitive industries;
- real estate appraisals may vary over time and may not reflect actual market values;
- increases in operating, development and other expenses;
- our ability to obtain adequate funding in the future;
- delays or disruptions to our construction processes;
- our ability to locate and acquire development land at attractive prices and on favorable terms;
- limited availability, quality and reliability of market data relating to property value and market conditions which could prevent us from accurately forecasting market prices and property value;
- the limit of our geographical reach within our real estate and building materials markets;
- our ability to effectively integrate our acquisitions;
- our possible liabilities to acquired entities;
- strain on our limited resources in a rapidly growing and changing operating environment;
- our ability to ensure proper oversight, reporting and control of the business;
- ability to recruit adequate personnel;
- our ability to prepare accurate financial statements without a fully staffed IFRS division;
- our ability to effectively execute our expansion strategy in Moscow;
- delays in projects under land leases or “investment contracts” entered into with governmental authorities and fluctuations in rents;
- government regulations imposed upon us due to our market share in certain building materials markets;
- the time-consuming and cumbersome process of acquiring legal title to land in Russia;
- our dependence on a third party supplier for cement;
- any deterioration of our relationships with governmental authorities;
- our ability to obtain administrative approvals and comply with regulations pertaining to our business;
- modifications to any applicable technical standards;
- increased energy costs or interruption in gas, electricity or other utilities;
- imposition of zoning restrictions and local opposition to our construction projects;
- challenges to our ownership interests or lease rights in land;
- governmental authorities seeking to retain an interest in a development under our investment contracts;
- complexity in the financing process due to the Pre-Sale Law (as defined below);
- applicability of historical preservation laws to certain developments;
- inflation;
- inaccurate estimates of our mineral reserves or production;
- seasonality in demand for building materials;
- replacement of existing products with substitutes;
- risk and hazards associated with our production facilities and equipment;
- product liability claims and adverse publicity;
- ability to obtain appropriate insurance coverage;

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- lack of customary insurance cover appropriate by international standards;
- environmental liabilities;
- non-approval of, or challenges to, interested party transactions;
- losses, liabilities or sanctions if certain transactions or payments are successfully challenged;
- liability for back taxes, interest and penalties;
- our majority shareholder's interests may differ from other holders of GDRs;
- our shareholding structure may differ from what is currently contemplated, if the Closed Subscription is not completed;
- price of the GDRs may be highly volatile as there has been no prior active public trading market;
- future sales of Ordinary Shares or GDRs may affect the market price of the GDRs;
- Shares may be de-listed from MICEX or RTS, FSFM permission for the GDR program may be revoked, and the GDR facilities may be terminated;
- Shares may be seized in legal proceedings in Russia against the Depositary;
- voting rights of Shares represented by GDRs are limited by the Deposit Agreements and Russian law;
- Shares may not be able to be deposited in the GDR program or Russian regulatory policy may change with respect to the placement and circulation of the Shares outside Russia;
- inability to obtain benefits under income tax treaties in respect of Russian withholding taxes on dividends paid via the Depositary;
- withholding tax at source for non-resident investors;
- adverse US federal income tax consequences to US investors;
- inability to repatriate earnings from distributions made on the Shares and GDRs;
- inadequate infrastructure in Russia;
- political and governmental instability in Russia;
- potential instability in upcoming elections;
- economic instability in Russia;
- fluctuations in the global economy;
- the underdeveloped Russian banking system and risk of another banking crisis;
- crime and corruption in Russia;
- unpredictable foreign investment restrictions;
- risk of social and labor unrest and a rise in nationalism or violence;
- weakness relating to the legal system and legislation creates uncertainty for investment and business activity;
- lack of developed corporate and securities laws and regulations in Russia;
- limited independence and experience of the judiciary, difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims;
- unlawful, selective or arbitrary government action;
- liability for our subsidiaries' obligations under Russian shareholder liability legislation;
- limited minority shareholder protection in Russia;
- lack of a central rigorously regulated share registration system in Russia;
- difficulties in ascertaining title to real property in Russia;

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- different corporate governance standards in Russia compared with Western Europe and the United States;
- Russian legal entities may be forced into liquidation for formal non-compliance with requirements of Russian law;
- additional costs from shareholder rights provisions under Russian law;
- the complexity, uncertainty, unfavorable enforcement of Russian tax legislation;
- tax audits carried out by Russian tax authorities;
- difficulty recovering value added tax from Russian tax authorities; and
- possible pricing adjustments and additional tax liabilities under Russian transfer pricing legislation.

The foregoing is not a comprehensive list of the risks and uncertainties to which the Company, the Shares and GDRs are subject. You should carefully consider all the information in this prospectus, including the information under “*Risk Factors*” prior to making an investment in the Shares or GDRs.

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Summary Consolidated Financial and Operating Information

The summary consolidated financial information set forth below shows our historical consolidated financial information and other operating information as of and for the years ended December 31, 2005 and 2006 and as of and for the six months ended June 30, 2006 and 2007. The summary consolidated financial information set forth below also shows the Special Purpose Consolidated Financial Statements as of and for the year ended December 31, 2004. The summary consolidated financial information has been derived from our consolidated financial statements included elsewhere in this prospectus and should be read in conjunction with “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”.

See also “*Presentation of Financial and Other Information*” for important information about the financial information presented herein.

	Years ended December 31,				Six months ended June 30,		
	2004	2005	2006	2006	2006	2007	2007
	(in RUB thousands)			(in \$ thousands)	(in RUB thousands)		(in \$ thousands)
Consolidated Financial Statements Data							
Revenues	7,530,926	13,085,517	21,110,751	776,553	9,336,450	16,062,031	615,812
Cost of sales	(6,461,625)	(9,371,320)	(13,796,464)	(507,498)	(6,152,181)	(10,257,445)	(393,266)
Gross profit	1,069,301	3,714,197	7,314,287	269,055	3,184,269	5,804,586	222,546
Distribution expenses	(169,469)	(693,999)	(1,702,328)	(62,620)	(608,228)	(815,343)	(31,260)
Administrative expenses	(793,874)	(1,890,586)	(3,051,103)	(112,234)	(1,459,502)	(2,013,155)	(77,183)
Changes in fair value of investment property	—	—	130,106	4,786	—	5,022,347	192,555
Impairment of goodwill	(717,071)	—	—	—	—	—	—
Other expenses	(124,706)	(101,167)	(56,159)	(2,066)	(82,346)	(142,998)	(5,483)
Results from operating activities	(735,819)	1,028,445	2,634,803	96,921	1,034,193	7,855,437	301,175
Financial income	40,465	140,148	213,796	7,864	178,104	87,734	3,364
Financial expenses	(370,351)	(787,236)	(1,089,615)	(40,081)	(491,169)	(782,127)	(29,986)
Profit before income tax	(1,065,705)	381,357	1,758,984	64,704	721,128	7,161,044	274,553
Income tax expense	10,776	(118,184)	(658,039)	(24,206)	(220,802)	(1,702,508)	(65,274)
Net profit from continuing operations	—	263,173	1,100,945	40,498	500,326	5,458,536	209,279
Loss from discontinued operations, net of income tax	—	(149,814)	—	—	—	—	—
Net profit for the period	(1,054,929)	113,359	1,100,945	40,498	500,326	5,458,536	209,279
Attributable to:							
Shareholders of the Company	(1,059,818)	10,563	984,514	36,215	454,177	5,400,757	207,064
Minority interest	4,889	102,796	116,431	4,283	46,149	57,779	2,215
	<u>(1,054,929)</u>	<u>113,359</u>	<u>1,100,945</u>	<u>40,498</u>	<u>500,326</u>	<u>5,458,536</u>	<u>209,279</u>

	Years ended December 31,				Six months ended June 30,	
	2004	2005	2006	2006	2007	2007
	(in RUB thousands)			(in \$ thousands)	(in RUB thousands)	(in \$ thousands)
Consolidated Balance Sheet Data						
Cash and cash equivalents	158,282	776,045	1,608,222	61,077	945,053	36,607
Total assets	15,368,034	22,012,718	38,741,329	1,471,314	50,955,393	1,973,776
Loans and borrowings, non-current	1,817,229	1,500,559	8,721,215	331,213	12,086,497	468,174
Loans and borrowings, current	2,854,582	5,639,038	5,730,721	217,641	5,676,617	219,885
Total equity	<u>2,431,201</u>	<u>3,015,005</u>	<u>5,139,687</u>	<u>195,194</u>	<u>11,465,640</u>	<u>444,126</u>

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	Years ended December 31,				Six months ended June 30,		
	2004	2005	2006	2006	2006	2007	2007
	(in RUB thousands)			(in \$ thousands)	(in RUB thousands)		(in \$ thousands)

Consolidated Statement of Cash Flows Data

Cash flows from/(utilized by) operating activities	(809,520)	(31,400)	557,376	20,504	(351,566)	(288,531)	(11,062)
Cash flows utilized by investing activities	(2,028,878)	(1,575,625)	(6,036,587)	(222,055)	(2,105,764)	(3,082,734)	(118,192)
Cash flows from (utilized by) financing activities	2,864,505	2,220,721	6,294,911	231,557	2,494,593	2,701,330	103,568

	Years ended December 31,				Six months ended June 30,		
	2004	2005	2006	2006	2006	2007	2007
	(in RUB thousands)			(in \$ thousands)	(in RUB thousands)		(in \$ thousands)

Other Financial Data

Operating profit margin ⁽¹⁾	—	8%	12%	12%	11%	49%	49%
EBITDA ⁽²⁾	(253,681)	1,933,474	3,625,428	133,362	1,598,937	3,457,238	132,550
EBITDA margin ⁽³⁾	—	15%	17%	17%	17%	22%	22%

- (1) We define operating profit margin as operating profit divided by revenue.
- (2) We define EBITDA as profit/(loss) for the period before financial incomes and expenses, income tax expense, depreciation and amortization and changes in fair value of investment property. Our management uses EBITDA to assess our operating performance because it believes EBITDA is an important supplemental measure of our operating performance and because EBITDA is a measure incorporated into certain of our financial ratios in our loan instruments. EBITDA should not be considered as an alternative to net profit or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of our liquidity. Also, other companies in our industry may calculate EBITDA differently or may use it for different purposes than we do, limiting its usefulness as a comparative measure. The following provides a reconciliation of net profit/(loss) to EBITDA for the periods indicated:

	Years ended December 31,				Six months ended June 30,		
	2004	2005	2006	2006	2006	2007	2007
	(in RUB thousands)			(in \$ thousands)	(in RUB thousands)		(in \$ thousands)
Net profit for the period	(1,054,929)	263,173	1,100,945	40,498	500,326	5,458,536	209,279
Changes in fair value of investment property	—	—	(130,106)	(4,786)	—	(5,022,347)	(192,555)
Depreciation and amortization	482,138	905,029	1,120,731	41,227	564,744	624,148	23,930
Financial expense	370,351	787,236	1,089,615	40,081	491,169	782,127	29,986
Financial income	(40,465)	(140,148)	(213,796)	(7,864)	(178,104)	(87,734)	(3,364)
Income tax expense	(10,776)	118,184	658,039	24,206	220,802	1,702,508	65,274
EBITDA	<u>(253,681)</u>	<u>1,933,474</u>	<u>3,625,428</u>	<u>133,362</u>	<u>1,598,937</u>	<u>3,457,238</u>	<u>132,550</u>

- (3) We define EBITDA margin as EBITDA divided by revenues.

Capitalization and Net Indebtedness

As at June 30, 2007, our capitalization was RUB 23,552.1 million and our net indebtedness was RUB 16,818.1 million.

Summary of the Offering

The Offering

The Selling Shareholders are offering 10,643,618 Ordinary Shares in the form of Shares and of GDRs, with five GDRs representing one Share. The Shares and the GDRs are being offered in the United States to QIBs in reliance on Rule 144A and outside the United States and the Russian Federation to “institutional investors” in offshore transactions in reliance on Regulation S.

One of the Selling Shareholders, Mr Andrey Molchanov, has granted the Underwriters an option to purchase up to 851,489 additional Shares in the form of GDRs at the Offer Price, exercisable within 30 days after the announcement of the Offer Price, in whole or in part, solely to cover over-allotments in the Offering.

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The Closed Subscription

Immediately following the Offering, we will offer 8,514,896 newly issued shares (the “**New Shares**”) to HHL in the Closed Subscription. Under Russian law, the placement of the New Shares is subject to the registration of a placement report with the FSFM within 30 days following the completion of the Closed Subscription. If the placement report is not registered with the FSFM for any reason, we will be required to return the subscription monies received by us for the New Shares to HHL. In this event, we will not receive any of the proceeds in connection with the Closed Subscription.

Major Shareholders

Prior to the Offering and the Closed Subscription, Andrey Molchanov owns 81.6% of our Ordinary Shares, Mikhail Romanov owns 6.0% of our Ordinary Shares and no other person owns more than 3% of our Ordinary Shares. Following the Offering, and assuming that the Closed Subscription is completed and the Over-allotment Option is exercised in full, (i) Mr Molchanov will own 72.0% of our Ordinary Shares, and will therefore retain a controlling stake; (ii) Mr. Romanov will own 1.6% of our Ordinary Shares and (iii) the Selling Shareholders (excluding Mr. Molchanov and Mr. Romanov) will in aggregate own 5.1% of our Ordinary Shares. See “*Principal and Selling Shareholders*”.

Use of Proceeds

Gross proceeds from the Offering total \$771.7 million. Net proceeds from the Offering total approximately \$736.9 million, and reflect the deduction of the aggregate underwriting commissions and discretionary fee paid, as described more fully in “*Subscription and Sale*”, of \$27.0 million, and the aggregate expenses of the Offering (excluding such underwriting commissions and discretionary fee) which are expected to total approximately \$7.7 million. All expenses of the Offering will be paid by one of the Selling Shareholders, HHL. We will not receive any proceeds from the Offering.

However, HHL will, immediately following completion of the Offering, subscribe for the New Shares in the Closed Subscription at a price per New Share equal to the Offer Price net of the underwriting commission and discretionary fee (calculated on a pro rata per Share basis) incurred in connection with the Offering. The total price payable for the New Shares in the Closed Subscription will be reduced by the amount of aggregate expenses deducted from the proceeds of the Offering. We intend to use the net proceeds from the Closed Subscription, totaling \$588.0 million, to fund planned capital expenditure relating to our Building Materials segment; to fund the execution of our existing development portfolio; to settle outstanding deferred payment obligations under existing real estate acquisition contracts, and to purchase additional land for our real estate development activities; and for other general corporate purposes, including selective acquisitions from time to time. For more information on our future capital requirements, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operation—Capital Requirements.*” Pending the application of the net proceeds of such long term uses, the Company intends to use the proceeds to reduce short term indebtedness.

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RISK FACTORS

An investment in our Shares or GDRs involves a high degree of risk. You should carefully consider the risks described below and the other information contained in this prospectus before making a decision to invest in the Shares or GDRs. Any of the following risks, individually or together, could adversely affect our business, financial condition and results of operations, in which case the trading price of our Shares and GDRs could decline and you could lose all or part of your investment.

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We have described the risks and uncertainties that we believe are material, but these risks and uncertainties may not be the only ones we face. Additional risks and uncertainties of which we are currently not aware or which we currently deem immaterial may also have an adverse effect on our business, financial condition and results of operations.

Prospective investors should be aware that the value of the Shares and GDRs and any income from them may go down as well as up and that investors may not be able to realize their initial investment.

Risks Relating to our Business

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

Demand for real estate and construction materials depends primarily on income levels and the general economic and financial situation in the Russian Federation.

In the event of a recession or economic downturn that affects business profitability and employment levels in Russia, the demand for properties, and particularly residential properties, office space and retail space in shopping centers, could be directly and adversely affected. Consequently, a recession or an economic downturn in the markets in which we operate could materially adversely affect our business, financial condition and results of operations.

We expect that a substantial proportion of our revenues in the future will be derived from the sale of properties and from rental income derived from leasing our commercial properties. Our returns on these sales and the amount of rental income we expect to receive will depend, in large part, on overall levels of supply and demand in the marketplace, the expenses we incur in the development and management of our properties, and the sale and lease prices that we are able to achieve. These factors may fluctuate in response to a number of factors, including:

- regional and local economic conditions;
- the quality and proximity of competition presented by other residential and commercial properties;
- changes in customer preferences;
- availability and cost of land and real property;
- the cyclical nature of the real estate market;
- changes in interest rates and inflation;
- the availability of acceptable financing resources for our construction projects;
- the availability of mortgage and other financing for potential purchasers of the projects that we construct or develop;
- unanticipated development and other costs, including the costs of obtaining financing;
- events causing damage to any properties;
- the supply of, and the price for, building materials, energy and other utilities in Russia;
- the bankruptcy or insolvency of contractors and other counterparties;
- perceptions of prospective purchasers as to the attractiveness, convenience and safety of the locations where our properties are situated; and
- the long time period between planning and completion of our projects.

Any or all of these factors may result in adverse fluctuations in the Russian real estate market, which could materially adversely affect our business, financial condition, results of operations and the value of our properties.

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We are exposed to construction, development and investment risks inherent to the real estate market.

A significant part of our business consists of constructing, developing, managing, marketing and selling or leasing properties. The construction and development of properties in Russia, as elsewhere, involves risk. Such activities are generally time-consuming, require significant financial investment, involve establishing and maintaining relationships with various parties including suppliers, contractors and regulatory agencies, and are dependent on obtaining numerous relevant licenses and permits from federal and local authorities in Russia. There can be no assurance that we will be able to establish and maintain the relationships necessary to ensure the success of our existing and future projects. Failure to establish and maintain such relationships or failure to obtain all necessary licenses and permits may prevent completion of our projects or may lead to significant delays in completion, either of which could materially increase our costs, harm our business reputation or otherwise materially affect our business, financial conditions and results of operations.

The development of properties also involves general investment risks, including the risk that the assumptions, estimates and valuations related to the land that we acquire and projects that we intend to develop may prove inaccurate (including the assumptions and estimates relating to the possible uses of properties or the viability of certain projects).

Our real estate investments may also decrease in value. The Market Value of the real estate assets we own could decline or be adversely affected if government authorities make more land available for development or if the real estate market experiences a downturn. In such case, the sale price of property we intend to develop on land we currently own would be adversely affected, which could have a material adverse effect on our business, financial condition and results of operations. Moreover, although as part of our normal course of business we research, conduct valuations and market studies and verify legal and technical requirements of the properties that we intend to acquire, we can give no assurance that properties we have acquired or acquire in the future will not be subject to material risks that were not apparent at the time of acquisition, including, without limitation, environmental risks and legal restrictions. These risks could cause the value of our properties to decline, lead to claims for damages, require us to incur significant additional costs or, in some circumstances, require us to delay or cease developing certain properties, any of which could have a material adverse effect on our business, financial condition and results of operations.

We operate in highly competitive industries.

We face strong competition in the real estate markets in which we currently develop properties, as well as in the building materials markets in St. Petersburg and Moscow, where we have recently expanded. The real estate industry in Russia is highly competitive and fragmented, particularly in the residential segment. However, many of the developers in Russia are geographically concentrated in certain cities, including Moscow, St. Petersburg and Sochi. We estimate that there are over 100 developers in St. Petersburg and 420 in Moscow. Although we are the second largest developer of residential properties in St. Petersburg and the Leningrad region, we must compete with existing and new real estate companies and developers in these areas as well as Moscow and the Moscow region for properties, development projects, customers and land. We also anticipate that large international and Moscow-based developers will expand into the St. Petersburg and Leningrad real estate development markets in the near future. Some of our competitors may be larger or have greater financial, technical and marketing resources than we do. Existing and potential competitors in the real estate development segment have established, and may establish in the future, cooperative relationships among themselves to enable them to better address customer needs. Accordingly, new competitors, or alliances among competitors, may emerge and rapidly acquire significant market share. As a result, our competitors may be able to adapt more quickly than us to changes in customer demands, and may be able to devote greater resources to the marketing and sale of their projects. Competition in the real estate market may lead to a decline in the sale price of our developed properties as we compete for a limited number of purchasers. Competition may also lead to a significant increase in the cost of land available for development or real estate available for sale or an increase in prices to enter into investment contracts as a co-investor, impeding the acquisition of new assets for our property portfolio, any of which could have a material adverse effect on our business, financial condition and results of operations.

Additionally, since our group of companies provides contractor services for our pre-fabricated concrete panel building developments only (i.e., our mass market residential projects), we depend on, and must compete for, contractors, subcontractors and workers to construct our other development projects. Increased competition for the services of quality contractors and subcontractors may force us to agree to

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subcontracting terms that are less favorable than have previously been available, which could result in increased development costs and an increased risk of delays to development. By relying on subcontractors, we also become subject to a number of risks relating to these entities, including quality of performance, differing work ethics, shortage of workers, performance delays, construction defects and financial reliability. Furthermore, although we are the market leader in St. Petersburg in the building materials market, we still face significant competition in that market in Moscow and the Moscow region, which may lead to declining prices of building materials in those regions. The inability to compete successfully in any of our businesses could result in reduced operating margins and an inability to increase our market share, which, in turn, may materially adversely affect our business, financial condition and results of operations.

The real estate appraisal with respect to the properties and projects included in this prospectus may vary over time and may not reflect the actual market values of the properties appraised. In addition, the appraisal may not be comparable to those given to similar portfolios held by other real estate development companies in the Russian market because assumptions and methodologies may differ and determining such values is an inherently subjective process.

DTZ, an independent real estate appraiser, has prepared the Valuation Report on the basis of certain forecasts and assumptions regarding the Russian real estate market and the projects in our portfolio. See the Valuation Report and “*Business—Valuation of Our Properties*”. A number of factors could result in the values that have been ascribed to these properties and projects differing materially from the actual market value of such projects. For example, while we believe that we have supplied reliable information to DTZ, DTZ’s assumptions as to our ownership share or right to develop any given property in the manner reflected in the report may prove to be different from our actual ownership share or development rights. As described in the Valuation Report, we have entered into preliminary sale and purchase agreements with ZAO Plemennoi Zavod Ruch’i (the “**Ruch’i Seller**”) in relation to seven land plots in the Ruch’i Development, which have been appraised by DTZ at \$479.2 million as at June 30, 2007 (See “*Business—Our Real Estate Development Projects—Mass-market/Business class properties—Tsvetnoy Gorod (Piskarevskiy Prospekt) and the Ruch’i Development*”). Pursuant to a regulation dated May 16, 2006, the Ruch’i Seller has a statutory right to purchase these land plots from the City of St. Petersburg; however, the transfers of title of these plots from the City of St. Petersburg to the Ruch’i Seller are still in progress. We believe that all transfers of the remaining seven land plots, and subject to the fulfilment of certain conditions, will be completed by January 31, 2008. However, there can be no assurance that this will occur, or that, having acquired title, we will be successful in acquiring the permits necessary to develop the land as we currently intend. See also “—*Zoning restrictions and changes to zoning decisions can delay or preclude construction*”. As noted by DTZ in the Valuation Report, if we do not acquire title to these seven land plots as expected, the value of our portfolio given in the Valuation Report will be adjusted accordingly.

The valuations in the Valuation Report are stated as of June 30, 2007, and there can be no assurance that these figures accurately reflect the market value of our properties as of any other date. Moreover, the values ascribed should not be taken as an indication of the amounts that could be obtained by us upon disposal of such properties, whether in the context of the sale of individual properties or the portfolio as a whole.

In addition, the use of different valuation methodologies and assumptions would likely produce different valuation results. For example, in the Valuation Report, DTZ used the residual site appraisal method of valuation for our properties, except for those properties held as investment (which includes the seven land plots in the Ruch’i Development). DTZ believes that this is the most suitable methodology for valuing those properties. However, this methodology is not prevalent in the Russian market, where valuers have more commonly used methodologies that include rent and yield predictions. DTZ believes that, because the Russian real estate market is immature, it is very difficult to make such predictions with any degree of accuracy and accordingly believes that the residual site appraisal method is the most suitable for Russian properties. As a result, a meaningful comparison of such valuation information across development companies in Russia may be difficult or impossible. Prospective investors are urged to read the Valuation Report in its entirety. For the reasons stated above and in the Valuation Report, we cannot assure you that the real estate appraisals included in this prospectus reflect the properties’ actual market values or that such values will not decline over time.

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We may be subject to increases in operating, development and other expenses.

Our operating and other expenses could increase due to certain factors, including:

- increases in the rate of inflation;
- increases in payroll expenses and energy costs;
- increases in costs associated with contractors;
- increases in real estate taxes and other statutory charges;
- increases in the price of materials, such as cement;
- changes in laws, regulations or government policies (including those relating to health and safety and environmental compliance) which increase the costs of complying with such laws, regulations or policies;
- increases in insurance premiums;
- unforeseen increases in the costs of developing properties, including the costs of raw materials and labor;
- unforeseen capital expenditure arising as a result of defects affecting properties that need to be rectified or the failure of sub-contractors to perform adequately their obligations; and
- delays to completion of real estate development projects due to, for example, shortages of labour or materials.

Such factors could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to obtain adequate funding, we may not be able to fund the working capital and capital expenditure requirements of our business including the acquisition of a number of properties currently included in our property portfolio and may have to limit our operations substantially, which could have a material adverse effect on our business, financial condition and results of operations.

We have in the past needed, and may in the future need, to attract equity or debt financing to fund the working capital and capital expenditure requirements of our business, including the acquisition of land or properties for development. For example, we have deferred payment obligations on a number of the properties included in the Valuation Report, including the seven plots of land in the Ruch'i Development, until 2008, including by use of promissory notes. Debt financing in Russia, particularly long-term debt financing on commercially acceptable terms, may be difficult to obtain, and we may not be able to borrow on the international capital markets on acceptable terms or at all in the future. In addition, commencing in July 2007, a global liquidity crisis resulted in significantly higher interbank lending rates, making debt financing more difficult to obtain at present. Our loan agreements contain covenants that limit our ability to incur debt based on certain ratios of EBITDA (as defined in the relevant loan agreement) to net interest expense and debt to EBITDA. These covenants may limit our operational flexibility. Failure to comply with these covenants could result in a default, making the debt immediately due and payable. See "Description of Certain Indebtedness" for a more detailed description of some of these provisions. If we cannot obtain adequate funds to satisfy our working capital and capital expenditure requirements, we may be forced to limit our operations significantly, which could have a material adverse affect on our business, financial condition and results of operations.

Our projects, a significant majority of which are at the early stages of planning and development, may be subject to delay, non-completion and financial loss.

Approximately 80% of our portfolio projects by value are in the preliminary design or design stages. Real estate development, construction and acquisition activities are subject to significant risks of delay, non-completion and financial loss due to, among other factors:

- changing market conditions, which may result in diminished opportunities to acquire and develop desired properties and lower than expected sale prices;
- competition from other real estate developers, which may restrict our ability to acquire desired properties or sites on favorable terms or at all. Even if we enter into agreements for the acquisition

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of properties or sites, these agreements are subject to customary conditions to closing, including completion of due diligence investigations;

- budget overruns and completion delays with respect to real estate development projects;
- inability to obtain financing;
- inability to identify and participate in development projects with or obtain or renew land lease rights from government authorities;
- delays or refusals in obtaining all necessary land use, building, occupancy and other required governmental permits and authorizations, including investment contracts with local and regional authorities;
- title or other defects in acquired and developed properties, including latent defects that may not reveal themselves until many years after the development of a property;
- compulsory purchase of developed properties by the state triggered by government infrastructure development plans;
- liabilities relating to acquired land, properties or entities owning properties for which we may have limited or no recourse;
- obligations for the development of adjacent properties and the relocation of tenants and owners of properties to be demolished and/or redeveloped;
- obligations relating to the preservation and protection of the environment and the historic and cultural heritage of Russia, as well as social obligations;
- restrictions and encumbrances in land leases, as well as provisions governing the assignment or disposal of land lease rights or other provisions affecting property value;
- liabilities relating to warranties and guarantees given by us for the quality of construction work performed subsequent to the date on which the project was transferred to the customer;
- availability of energy and other utilities and adequate transportation infrastructure;
- our inability to dispose of our investments on acceptable terms or at all;
- changes in laws and governmental regulations and tax laws or the interpretation or application thereof;
- changes in town planning and zoning regulations or the interpretation or application thereof; and
- possible industrial accidents, deterioration of ground conditions (e.g., presence of underground water), and potential liability under environmental laws (e.g., for soil and site contamination, air contamination and contamination of adjacent areas and the use of hazardous substances) and other laws.

The occurrence of one or more of these events could materially adversely affect our business, financial condition and results of operations.

If our construction or production processes are delayed or disrupted, our reputation may be negatively affected and our business, financial condition and results of operations could be materially adversely affected.

We may face interruptions due to human error in the operation of machines, power outages, weather and natural disasters or other occurrences that have an impact on the productivity of our machines, material or manpower. Difficulties encountered in the construction process can reduce production yields or interrupt production and may make it difficult for us to complete projects on time or in a cost-effective and competitive manner. Any inability to complete our projects on time or at a competitive cost could result in our incurring contractual penalties and could negatively affect our reputation in the market which could, in turn, have a material adverse effect on our business, financial condition and results of operations.

The success of our property development business strategy and profitability depends heavily upon our ability to locate and acquire land suitable for development at attractive prices and upon favorable terms and conditions.

Our historical growth and profitability have been attributable in part to our ability to locate and acquire land at attractive prices and on favorable terms and conditions, and the success of our business strategy

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and future profitability depends upon our continuing ability to do so. It is unlikely that we will be able to replenish any substantial portion of our portfolio at similar price levels. Paying higher prices for development land in the future could adversely affect our operating margins and the profitability of our real estate development segment. In addition, we face the risk that competitors may anticipate certain potential investment opportunities ahead of us and exploit them before we are able to do so.

The limited availability of publicly available market data and independent research creates uncertainty as to, and prevents us from accurately forecasting, property values and market conditions.

The real estate market in Russia is characterized by a limited amount of publicly available market data and independent research compared to certain other industrialized countries. A small number of private organizations have begun to publish statistical and other research data with respect to the Russian real estate market. Primarily due to the relatively short period of time for which this data has been collected and published, its scope is significantly less broad and tends to be less consistent than the data available in certain other industrialized countries, and it may be difficult to analyze market trends and conditions over time or at all. The relative lack of this data makes it more difficult to assess the Market Values of real estate in Russia than in, for example, Western Europe.

This restricts our ability to forecast market prices, property-related costs and property values upon which our profitability depends. In connection with the acquisition of land for our development business, we base our purchase price in part on estimates of the anticipated returns on the investment. Any failure to forecast accurately such values and prices could result in lower returns and have a material adverse effect on our business, financial condition and results of operations.

A significant majority of our real estate properties and projects are located in St. Petersburg and the Leningrad region, and the market for our building materials products is also limited to these areas, resulting in geographic concentration risk.

A significant majority of our real estate properties and projects are located in St. Petersburg and the Leningrad region. Due to distribution and other costs, as well as the chemical composition of certain products we produce, ready-mix concrete and sand can only be sold profitably to purchasers that are located within relatively close proximity to the production facilities that produce them. As a result of this geographic concentration, any change in the local political or regulatory environment, decline in local economic activity or weakness in the local real estate market or the local building materials market could materially adversely affect our business or results of operations in these segments.

If there is a decline or weakness in the real estate development markets or the building materials market in St. Petersburg or the Leningrad region, demand for our building materials and aggregates is likely to fall and our ability to transport products in an economically viable way into other regions to offset this reduction in demand may be limited.

We may have difficulty integrating our acquisitions or establishing new production facilities or we may not realize their anticipated benefits.

We have experienced strong growth and development in a relatively short period of time. Since our formation in 1992, we have completed significant numbers of material acquisitions of building materials, real estate development and construction businesses, and we intend to continue to make complementary acquisitions in the future. We intend to commence construction of a cement production facility in St. Petersburg that we expect to be operational in 2010. We plan to construct and bring into operation two concrete production facilities in Moscow in 2008 and 2009. In addition, we are expanding our aerated concrete business into two new markets, Lithuania and Ukraine, where we expect to complete construction of production facilities next year. Many of these projects involve expanding into new product or geographic markets in which we lack experience. The integration of future acquisitions into our existing business and the establishment of new production facilities poses significant management, administrative, operational and financial challenges. These challenges include, among others:

- integration of management information and financial control systems, legal and compliance oversight;
- transfer, assignment and re-registration of agreements and permits and consents following an acquisition;
- additional or unexpected capital expenditure requirements;

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- retention of customers and suppliers;
- integration of different company and management cultures; and
- retention, hiring and training of key personnel.

The integration process may also involve unforeseen difficulties that could require significant time and attention of our management that would otherwise be directed at developing our existing business. Further, we cannot be certain that the anticipated cash flows, or any synergies, cost savings, efficiency gains or economies of scale from these transactions will materialize or reach expected levels. If any of our beliefs or assumptions prove to be incorrect, our return on and expected growth resulting from our investments may not materialize and our business, financial condition and results of operations would be materially adversely affected. See “*Business—Strategy*”.

We may have liabilities related to acquired entities.

Historically, we have acquired entities and expect to continue to do so in the future. We may make investments by acquiring existing entities that may have undisclosed or unascertained liabilities. For example, we are engaged in litigation for an amount of RUB 8.0 million in respect of our ZhBI-6 subsidiary regarding damage to a building caused by defective reinforced concrete panels it allegedly produced before it became our subsidiary. When making acquisitions, we seek to obtain appropriate contractual protection. However, we cannot guarantee that we will be able to obtain comprehensive protection nor can we guarantee the adequacy and enforceability of such protection (to the extent obtained). If our contractual protection is not sufficient to protect us from any liabilities of acquired entities, such liabilities may materially impair the prospects for profitability and/or levels of profitability from any relevant investment.

Rapid growth and a rapidly changing operating environment may strain our limited resources.

We have experienced rapid growth in a short period of time. Managing our growth has significantly strained our managerial and operational resources and is likely to continue to do so. Our operational, administrative and financial resources may be inadequate to sustain the growth that we want to achieve. As we integrate our acquisitions and new production facilities, and as our customer base increases, an increase in investment is needed in our technology, facilities and other areas of operations, in particular research and development, customer service, and sales and marketing which are important to our future success. As a result of such growth, we will need to continue improving our operational and financial systems and managerial controls and procedures. We will also have to maintain close coordination among our production, technical, accounting, finance, marketing, sales and promotional personnel. If we are unable to manage our growth and expansion effectively, the quality of our products and services and customer support could deteriorate, which could have a material adverse effect on our business, financial condition or results of operations and, ultimately, the trading price of the Shares and GDRs.

Our group-wide management controls and processes are in the early development stage and may fail to ensure proper oversight, reporting and control of our business.

Our group has grown largely through acquisitions, and today consists of numerous operating companies that function day to day on a decentralized basis. Until recently, there existed no comprehensive group-wide internal control system. In anticipation of the Offering and our obligations to shareholders as a publicly reporting company, we have very recently established an audit committee that will report directly to the Board, and are in the process of formalizing group-wide policies and procedures in connection with the formation of such corporate governance and control bodies. Such policies, procedures and systems may not be as sophisticated or robust as those of companies in Western Europe or the United States and there can be no assurance that they will function as designed. Notwithstanding the above, we believe that our internal control systems are sufficient to ensure compliance with our continuing obligations as a company with securities admitted to trading on the London Stock Exchange, and in particular, the FSA's Disclosure Rules and Transparency Rules.

We may be unable to recruit or retain experienced and/or qualified personnel.

Our success will depend, in part, on our ability to continue to attract, retain and motivate qualified personnel. Competition in Russia for personnel with relevant expertise, in particular financial personnel with experience in the application and interpretation of IFRS is intense, due to the small number of

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qualified individuals. See “—*We do not have a fully integrated or automated information system, or a fully staffed IFRS division, for the preparation of IFRS financial statements, which may adversely impact our ability to prepare accurate financial information*”. Moreover, even if we are able to hire such individuals, we are not insured against damage that may be incurred in case of loss or dismissal of our key personnel. Our failure to successfully manage our growth and personnel needs could have a material adverse effect on our business, financial condition and results of operations.

We do not have a fully integrated or automated information system, or a fully staffed IFRS division, for the preparation of IFRS financial statements, which may adversely impact our ability to prepare accurate financial information.

We do not have a fully integrated or automated information system for the preparation of IFRS financial statements, nor have we fully developed and implemented the required methodologies for the preparation of IFRS financial statements, including the internal control frameworks, development methodologies or risk assessment activities on which they depend. Each of our subsidiaries prepares separate financial statements under Russian accounting standards (“RAS”) for statutory purposes. The preparation of IFRS financial statements is primarily a manual process that involves, first, the transformation of the statutory financial statements of our subsidiaries into an IFRS format from which IFRS consolidated financial statements can be prepared through accounting adjustments and, second, the consolidation of these financial statements. This process is complicated and time-consuming, requires significant attention from our senior accounting personnel, and may increase the likelihood of errors in our financial statements. We do not have the IFRS accounting systems and internal controls that are commonplace in companies with a longer history of IFRS reporting, and the preparation of financial statements requires significantly more time for us than it does for companies with a longer history of IFRS reporting.

In addition, we lack sufficient financial personnel with experience in the application and interpretation of IFRS, largely since there is a severe lack of IFRS-trained personnel in the Russian market. Specifically, and in common with many Russian companies, we and our auditors have identified areas in our financial control which require improvement.

We have taken, and plan to continue to take, steps to further improve our IFRS staffing, accounting systems and internal controls. We are currently in the process of recruiting a chartered public accountant to lead our Consolidation reporting department as well as training support staff in IFRS. To improve our accounting systems, we have recently acquired and implemented a software program to assist in the consolidation process. Also as part of this process, we recently established an internal audit department. We expect that our internal audit department will be responsible for reviewing the internal control systems of the Group.

Notwithstanding these steps, we may not be successful in remedying these deficiencies or preventing future deficiencies. In addition, the group’s rapid growth and acquisition strategy will place additional strain on its accounting personnel and management information and financial reporting systems. If we are unable to remedy these deficiencies, we may not be able to prevent or detect a material misstatement of our annual or interim IFRS financial statements, and the process of preparing our annual or interim IFRS financial statements may be subject to delays. Any such misstatements or perceived weakness in the quality of our accounting and management information and/or financial reporting systems may have a material adverse effect on, among other things, our ability to pursue our strategies, maintain our competitive strengths, or raise debt or equity financing in the future. Notwithstanding the above, we believe that our financial systems are sufficient to ensure compliance with our continuing obligations as an issuer with securities admitted to trading on the London Stock Exchange, and in particular the FSA’s Disclosure Rules and Transparency Rules.

The assumptions underlying our growth strategy in Moscow may prove to be incorrect or we may fail to properly implement this strategy.

We plan to significantly increase our presence in the highly competitive Moscow real estate development market. We may not be as successful in identifying and developing on a profitable basis future projects in Moscow as we have been to date in St. Petersburg due to, among other factors, the higher costs associated with doing business in Moscow, our relative lack of experience and knowledge of the Moscow real estate development market and our lack of established relationships with the Moscow city authorities. Should we fail to successfully execute our strategy in Moscow, our financial condition and results of operations could be materially adversely affected. See “*Business—Strategy*”.

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Government land leases may be revoked due to delays in development.

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A significant proportion of the land obtained by us from government authorities for development is leasehold. Each lease requires that we develop the relevant land by a particular date. Any extension of the agreed date is at the discretion of the government authority. If we do not complete the development by the agreed date, we face the risk that the government authority may impose fines and/or revoke our permit to develop the land. If our permit is revoked, in extreme circumstances, the government authorities may cancel our lease and sell development rights to another developer at an auction, in which case we would only be entitled to recover a portion of the development costs we have incurred in the development. If we are unable to complete any of our developments by the agreed date, any fines, cancellation of leases or forced auctions could adversely affect our business, financial condition and results of operations.

We are subject to specific governmental regulations due to our dominant market share in certain segments of the building materials and aggregates markets.

We currently maintain a leading market position in St. Petersburg and the Leningrad region in most of the segments of the building materials market in which we operate, and a dominant position in the reinforced concrete, sand and brick markets. Since we have established a dominant position in these markets, the Federal Anti-Monopoly Service (the "FAS"), has imposed certain conditions upon our activity within these markets. In particular, we are required to notify the FAS of any change in pricing of these products, including prior to the establishment of any price increases, and provide quarterly reports discussing the pricing and volume of our sales. We are also required to act on an arm's length basis with companies within our group, refrain from discriminating against other customers that are not members of our group and, more generally, not to abuse our dominant position in these market segments. Should we fail to comply with any of these requirements, we may be subject to a fine of at least RUB 500,000 per violation or an amount of up to 0.15% of its revenues from the sale of that product and, in certain cases, the transactions that violated these requirements may be invalidated by a Russian court based on a claim brought by the FAS. However, in September 2007, our brick producer Pobeda LSR was included in the original register of companies that hold a dominant position in the market for certain goods. Therefore, our brick business will be subject to more stringent regulation by the FAS. There can be no assurance that the FAS or other regulatory authorities will not impose even more restrictive regulations upon us in the future, which could result in a material adverse effect on our business, financial condition and results of operations.

Moreover, compliance with these requirements is a prerequisite to receiving the consent necessary to complete any acquisition or consolidation by the group of another company that would further enhance our dominant position. Should we fail to comply with any of these requirements, the FAS may rescind pre-approval of the relevant acquisition or consolidation agreement. Furthermore, repeated violations of these requirements or certain other provisions of federal anti-monopoly legislation may result in forced liquidation, reorganisation or demerger ordered by the court on the basis of a claim by the anti-monopoly authority or the imposition of administrative penalties. Such sanctions, if imposed, could have a material adverse effect on our business, financial condition and results of operations.

The process of acquiring legal title to assets is time-consuming and cumbersome and it can be difficult to establish that title is not susceptible to challenge.

Although the Federal land registry is expected to give clear guarantees relating to the accuracy and completeness of the information contained in land registers, there are occasions on which this is not done. Therefore, although we may be forced to rely upon the information contained in a register when acquiring a property, we may not have effective redress against the state if the information upon which we relied was inaccurate, misleading or incomplete. The information in the land registers may also be subject to challenge in the courts by any interested party. In general, we may only acquire title to assets which is as good as the title of the seller of such assets to us. It can be difficult, or impossible in certain cases, to establish beyond doubt that such title is incapable of challenge. Any successful challenge to the validity of the seller's title to an asset may in turn have adverse consequences for our title to such asset.

We are dependent on one supplier for cement in St. Petersburg and any disruption to its business or significant increase in the price of cement may have a material adverse effect on our business, financial condition and results of operations.

We rely on one supplier to provide us with cement in St. Petersburg and the Leningrad region. The production of reinforced concrete and ready-mix concrete requires, in addition to sand and crushed

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granite, cement, which is supplied to us by one supplier, a significant proportion of whose regional production is sold to us. In the event of any disruption to the business of this supplier, we may experience shortages in supply and may not be able to find a suitable replacement within an adequate period of time and on similar terms and conditions (or at all). Any of these outcomes could have a material adverse effect on our ability to produce reinforced concrete and ready-mix concrete, which would have a material adverse effect on our business, financial condition and results of operations.

In addition, our cost of cement, which we estimate represented in 2006 approximately 39% and 13% of the production cost of ready-mix concrete and reinforced concrete, respectively, and approximately 33% and 10% of their respective sale prices, has substantially increased over the last year. To the extent that we are unable to pass on such increases to our unaffiliated third party customers, the margins of our reinforced concrete and ready-mix concrete sub-segments and/or our construction segment, which produces concrete panels in the construction of pre-fabricated panels, would be materially and adversely affected.

Any deterioration in our relationships with government authorities may have a negative effect on our business. A10.9.2.3

Historically, all title to land in the Russian Federation was held by the state and, in most regions (including St. Petersburg, the Leningrad region and Moscow and the Moscow region), the Federal and local authorities still maintain significant influence over the privatization, sale and leasing of land. In Moscow, the city government rarely transfers title to land, preferring to offer leases for real estate developments, thereby maintaining a key long-term role in the real estate market. Russian governmental authorities have broad discretion when allocating land and approving real estate projects. Our business therefore depends on maintaining positive working relationships with the relevant governmental authorities. Our business would be adversely and materially affected if our relationships with governmental authorities were to deteriorate in the future.

We must obtain a number of permits and administrative approvals and comply with existing laws and regulations to develop and construct our properties and projects and to extract aggregates and produce building materials. A10.9.2.3

Our operations and properties are subject to regulation by various governmental entities and agencies in connection with obtaining and renewing various licenses, permits, approvals and authorizations, as well as with ongoing compliance with existing laws, regulations and standards. The planning and approval process in most parts of the Russian Federation is bureaucratic and involves uncertainty. A number of preliminary planning and architectural design approvals are necessary to receive the right to construct on a land plot. For any project being developed in Russia, the construction documentation must be approved by several administrative bodies within the appropriate local or regional government. In addition, each project must receive administrative approvals from various governmental agencies, including fire, health and safety, environmental protection and sanitary departments, as well as technical approvals from various utility providers, including electricity, gas and sewage services. Of our projects that are in the preliminary stages of development, Tsvetnoy Gorod and Yuzhnoe Shosse, require a reclassification of the St. Petersburg government's assigned "permitted use" for the land to a classification that is appropriate for the intended type of project. These requirements may hinder, delay or significantly increase the costs of our development activities.

The construction or renovation of buildings is carried out pursuant to specifications, including building area measurements approved by certain compliance bodies within the government and, ultimately, upon the issuance of a construction permit issued by the regional or local authorities. In some cases, we may need to have the construction permit amended to reflect changes to the scope and nature of the project. Should we fail to conform any of the projects we are developing to the project documentation, commence construction without a construction permit or otherwise fail to comply with regulatory requirements, we may be subject to fines and penalties, as well as to the cancellation of the project by government officials or even the demolition or partial disassembly of the building already constructed.

The operation of quarries for the production of crushed granite, clay and quarried sand and the extraction of sand from seabeds, all of which form an essential component of our aggregates business, requires licenses from government authorities. The process of securing a license is lengthy. Licenses are granted in respect of a specific volume of material which may be extracted over a specific period of time. Therefore, once the authorized amount of material has been extracted or the period of the license has expired, it is necessary to apply for a renewal of the license, which may not be guaranteed. Our inability to secure a new license and/or extend a current license may have a material adverse effect on our ability to produce any of our aggregates.

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

The construction of buildings and production of building materials are subject to a wide range of technical standards and regulations, the amendment and modification of which may significantly increase our expenses.

The regulation of the construction market in the Russian Federation includes a wide range of technical standards approved by the relevant authorities. These standards are subject to review and amendment from time to time. If significant modifications to these standards are introduced, we may be forced to change our construction processes or product features, which could require additional expense, adversely affecting our business, financial condition and results of operations.

Increased energy costs or an interruption in gas, electricity or other utilities provided to us could materially adversely affect our business and results of operations.

A10.9.2.3

Utility costs, particularly the cost of electricity and gas, comprise a significant portion of our production costs for some of our building materials. Should low cost electricity and gas cease to be available, our production costs would increase. Furthermore, our access to electricity and other utilities, such as gas, heating, telecommunications and sewage services, is dependent upon the continued and timely co-operation of third parties and any delay, interruption or inability to ensure the supply of these and other utilities may cause a delay in completing any or all of our real estate developments. The electricity grid in Russia is also highly unreliable, which has resulted in power outages and failures in the past. See “—*The infrastructure in Russia is inadequate, which could increase costs or result in losses for businesses and disrupt normal business activities*”. It is also expected to result in increased prices, which, if we are unable to pass them on to our customers, could adversely affect our business, financial condition and results of operations.

Zoning restrictions and changes to zoning decisions can delay or preclude construction.

We are required to apply for the correct zoning classifications for each development. This procedure can be cumbersome and inefficient, and there can be no assurance that we will ultimately be able to obtain a zoning classification for a property that is in line with our development strategy. In addition, changes in zoning, which may at times be arbitrary, may jeopardize the completion of projects on a timely and/or cost effective basis, which could have a material adverse effect on our business, financial condition and results of operation. Should this occur, we may be prevented from executing our current development strategy for those properties, which would materially adversely affect our business, financial condition and results of operations.

Legislation requires that public opinion be taken into account by the authorities when considering an application for a construction permit and a change of the zoning classification. Once all approvals have been obtained, the authorities are not obliged to consider changes in public opinion. However, there have been a number of cases in St. Petersburg where the authorities have changed their decisions or halted proposed developments in response to adverse public opinion. Were this to happen to any of our developments, it could have a material adverse effect on our business, financial condition and results of operation.

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Challenges to our ownership interests or lease rights in land could have a material adverse effect on our business, financial condition and results of operations.

Our business includes the acquisition of ownership or lease interests in land plots and buildings in St. Petersburg, the Leningrad region, Moscow, the Moscow region and other parts of Russia, which we intend to develop or redevelop further. Russian legislation related to real estate is complicated and often ambiguous and/or contradictory at the federal and regional levels. In particular, it is not always clear which state bodies are authorized to enter into land leases with respect to particular land plots, construction approval procedures are complicated and prone to challenge or reversal, and construction and environmental rules often contain requirements that are difficult to comply with in practice. As a result, our ownership of, and/or lease rights to land and buildings may be challenged by governmental authorities or third parties, and our construction projects may be delayed or canceled.

Under Russian law, transactions involving real estate may be challenged on many grounds, including where the seller or assignor of rights to real estate did not have the right to dispose of such real estate, breach of internal corporate approval requirements by a counterparty, failure to receive appropriate permissions from local authorities to amend provisions relating to allowed use of property in a land lease and failure to register the transfer of title in the register. As a result, defects in any of our previous real estate transactions may lead to the invalidation of those transactions, which would affect our title or lease rights to such real estate. Further, Russian law does not require certain encumbrances over real estate (including leases of less than one year, free of charge use agreements, easements, rights of way and other similar statutory encumbrances) to be registered in the register in order to validly encumber the property. In addition, the law contains no time limits within which any registerable encumbrances have to be registered. As a result, third parties may successfully register or assert the existence of encumbrances over real estate owned or leased by us of which we had no prior knowledge.

For example, in respect of our development of gated communities at Repino-Leninskoe (Leninskoe Settlement), federal law prohibits commercial enterprises from developing for profit land which is zoned as agricultural land and designated for small-scale cultivation and dacha construction. Consequently, we have established not-for-profit partnerships to own such land, with whom we then enter into trust management arrangements in order to construct and develop residential housing. There can be no assurance that such ownership structures will not be challenged and found to violate Federal law or other regulations.

Furthermore, under Russian law, the relevant state authorities have the right to challenge and apply to court to rescind certain transactions or confiscate property from a purchaser when the relevant state authorities deem that the transaction or sale was conducted in a manner contrary to public policy or basic principles of morality. In two cases in the lower Russian courts in 2007 which according to press reports may have been politically motivated, the tax authorities were successful in confiscating property from companies in the oil and gas sector based on this assertion.

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

Our interest in a development under an investment contract may be reduced by governmental authorities seeking to increase their interest in certain circumstances.

Where we acquire development rights pursuant to an investment contract, in certain cases, the governmental authorities may retain an interest in the developments. The interest retained by the state is determined on a case-by-case basis. While this practice is more common in Moscow, we have encountered it in St. Petersburg as well. For example, in 2005 we started construction on an elite residential development located in the center of St. Petersburg, in Paradnaya and Radisheva Streets (Paradny Quarter), under an investment contract with the Ministry of Defense which requires us to allocate to the Ministry of Defense a certain number of apartments in this development upon completion.

While our strategy with respect to each of our existing and future developments subject to investment contracts is to buy out the government entity's share, there can be no assurance that we will be successful in implementing this strategy or that we will be able to do so on terms that are acceptable to us. In certain circumstances, the government entity with whom we have contracted may, even after the investment contract has been concluded, seek to increase its interest in a project or seek to increase the payment required to transfer ownership to us. While the government entity may have no sound legal basis on which

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to do this, we have, on certain occasions where this has occurred in the past, accepted their demands in part or in whole.

The introduction of the Pre-Sale Law has brought additional complexity to the process of financing our development projects.

We finance a significant portion of our construction projects by selling properties to purchasers prior to the completion of construction. Russian Federal Law No. 214-FZ “On Participation in Cost Sharing Construction of Apartment Houses and Other Real Estate,” which came into effect in April 2005 (the “**Pre-Sale Law**”), prohibits developers from raising funds prior to (i) obtaining a construction permit, (ii) publishing a project declaration (summary information on the developer and the project), and (iii) registering rights to the land plot intended for construction. The Pre-Sale Law protects purchasers who buy a property that was developed under a construction permit dated on or after April 1, 2005. However to the extent that these purchasers are not protected by the Pre-Sale Law, either because the relevant construction contract was dated prior to April 1, 2005 or because the purchaser is not adequately protected by the provisions of the Pre-Sale Law, the purchaser may have rights under the Law of the Russian Federation 2300-1, “Protection of Consumers Rights” dated February 7, 1992 (the “**Consumer Law**”). See “*Regulation of Real Estate in Russia*”. We believe that our development companies currently comply with the Pre-Sale Law, which prescribes significant liabilities for the failure of a developer to meet its obligations to potential purchasers and/or investors (*dolshiki*). However, in the absence of developed practice in the enforcement of the Pre-Sale Law and the Consumer Law, the ambiguity of their respective provisions and the possibility of varying interpretations, there is a risk that the legislation could adversely affect our development business, including but not limited to fines, challenges of certain transactions and the failure to attract necessary financing.

Some of our developments are subject to historical preservation laws.

We are currently developing real estate projects on sites in the center of St. Petersburg that have been designated as cultural heritage sites. Therefore, our activities within these areas are subject to both federal and local regulations relating to the preservation of cultural heritage sites, which often conflict. If we are found to be in violation of these local or federal regulations due to the lack of legal guidance relating to the inconsistencies between the regulations, we may be subject to legal proceedings and fines or the withdrawal of our construction permit in relation to that development. Regulatory authorities may also base their approvals upon the opinion of preservation experts, which may not be consistent with applicable legislation. Any of these regulations may restrict our current and future ability to develop and/or construct our projects on favorable terms, if at all, which could have a material adverse effect on our business, financial condition and results of operations.

Inflation could increase our costs and decrease operating margins.

The Russian economy has been characterized by high rates of inflation. The inflation rate was 11.7% in 2004, 10.9% in 2005 and 9.0% in 2006 according to Rosstat. Certain of our costs, including salaries, rents and energy costs, are sensitive to inflation in Russia and, consequently our costs will generally rise as a result of inflation. However, due to competitive pressures or other factors, we may not be able to raise the prices we charge for our developments or our building materials to offset such increases and thereby to preserve our operating margins. Accordingly, high rates of inflation in Russia could adversely affect our business, financial condition and results of operations.

We may have fewer mineral reserves than our estimates indicate, and such reserves may be depleted more rapidly than anticipated.

Currently, we estimate that, based on production levels in 2006, our reserves of crushed granite will allow for approximately 107 additional years of crushed granite extraction and our sand deposits will be sufficient for approximately an additional ten years, assuming, in each case, that our extraction permits are renewed. However, our reserves estimates may change substantially if new information subsequently becomes available or our production needs change. Fluctuations in the price of aggregates, variations in production costs and/or changes in recovery rates may result in our estimated reserves being revised. If such a revision were to indicate a substantial reduction in reserves, it could negatively affect our results of operations, financial condition and prospects.

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Demand for most of our building materials is seasonal, with adverse weather conditions decreasing demand for such products.

Construction activity and, consequently, demand for our building materials products, may decrease substantially during periods of adverse weather conditions. Our operations are consequently seasonal, with sales generally peaking during the spring and summer months because of better weather conditions, and in December, when our customers are trying to meet year-end construction deadlines. Conversely, during the autumn and winter months we typically observe decreased demand for building materials in the market. Adverse weather conditions can reduce our revenues and profitability if they occur with unusual intensity, during abnormal periods, or last longer than usual in our major markets, especially during peak construction periods. Moreover, our inability to address any unusual seasonal differences in demand for building materials could have a material adverse effect on our business, financial condition and results of operations.

Existing products may be replaced by substitute products that we do not produce and, as a result, the markets for our products would decline.

A number of our building materials compete with other products that we do not produce. For example, aerated concrete has recently become a substitute for bricks. We recently responded to this development by building our St. Petersburg aerated concrete production facility and acquiring Aeroc International, an aerated concrete producer, which we are currently expanding. Any significant replacement of any of our other building products by substitute products that we do not produce could have a material adverse effect on our business, financial condition and results of operations.

Our operations are subject to various risks and hazards associated with the nature of our production facilities and equipment.

We operate certain hazardous equipment, such as tower cranes, trucks, ships, mining facilities and equipment for the production of bricks, concrete and reinforced concrete, and also blast granite within our quarries. While we maintain insurance policies that cover potential liabilities incurred in connection with the operation of such hazardous equipment and activities, there can be no guarantee that we will have appropriate insurance to cover any potential claims, if at all. See “—We may be unable to obtain adequate insurance cover”. Moreover, we may also experience material shutdowns or periods of reduced production because of accidents, labor disputes and equipment failure, among other things, as well as monetary losses and possible legal claims arising from such incidents, any of which could adversely affect our business, financial condition or results of operations.

As a result of risks inherent in constructing and developing real estate and the sale of building materials, we face the risk of exposure to product liability claims and adverse publicity.

The production of building materials entails an inherent risk of product liability. We have faced such claims in the past and cannot exclude a risk of such claims in the future. If a product liability claim is successful, our insurance may not be adequate to cover all liabilities we may incur, and we may not be able to maintain such insurance, or obtain comparable insurance at a reasonable cost, if at all. If we do not have adequate insurance or contractual indemnification available, product liability claims relating to defective or dangerous building materials could have a material adverse effect on our reputation and, in turn, on our ability to successfully market our building materials and on our business, financial condition and results of operations. Furthermore, Russian courts often tend to favor the rights of the consumer, so should we become party to any product liability claims relating to our building materials or aggregates business, there is a significant chance that the decision may not be in our favor.

The development and sale of residential and commercial properties may result in legal proceedings being brought against us in connection with construction delays or delays in obtaining the appropriate title registrations from local and regional authorities or with materials used or defects in the properties sold, including materials used or defects in properties constructed or sold by us or by third parties engaged by us, such as architects, engineers and construction contractors or sub-contractors, or as a result of other factors. Any claims brought against us relating to such matters could involve defense costs, as well as liability for damages. Damages could include, among other things, the costs of rectifying the defect, loss of property and personal injury compensation. The costs of insuring against construction defects and building material products claims and injury are high and the amount of coverage offered by insurance companies is currently limited. As a consequence, some or all of the financial risks associated with construction defects

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may be our sole obligation, and we may be liable in amounts that exceed the limits on our general liability policies or that are excluded from coverage.

In addition, even if a product liability claim is not successful or is not fully pursued, any negative publicity could have a material adverse effect on our reputation with existing and potential customers and on our business, financial condition and results of operations.

We may be unable to obtain adequate insurance cover.

The insurance market in Russia remains relatively underdeveloped and we may find it difficult, or impossible, to obtain adequate insurance cover at rates which are commercially viable. For example, insurance in respect of environmental liabilities we may incur is unlikely to be available. Furthermore, the insurance policies we maintain are subject to varying levels of deductibles. For example, while we maintain mandatory insurance policies for our hazardous activities, there is a possibility that the liability limits on these policies may be exceeded. Losses up to the deductible amounts and in excess of applicable insurance limits are accrued based on our estimates of the ultimate liability for claims incurred and an estimate of claims incurred but not reported. The lack of insurance or occurrence of claims or costs above our estimates could materially adversely affect our business, financial condition and results of operation.

We do not carry all of the types of insurance coverage customary in other countries for a business of our size and nature, which could have a material adverse effect on our business, financial condition and results of operation.

We do not carry all of the types of insurance coverage customary in certain other countries for a business of our size and nature, such as coverage for business interruption. In the event that a major event were to affect our main production facilities or real estate developments, we could experience substantial property loss and significant disruptions in our production capacity or development activities, for which we may not be adequately compensated. For example, if substantial production capacity were lost at the one of our building materials factories, we may not be able to adequately replace this capacity, potentially resulting in the interruption of the production of a number of our products and projects, which could cause significant harm to our operations and profitability. Additionally, depending on the severity of the property damage, we may not be able to rebuild damaged property in a timely manner or at all.

We do not maintain separate funds or otherwise set aside reserves for these types of events. Any such loss or third-party claim for damages may have a material adverse effect on our business, financial condition, prospects or results of operations.

We may incur environmental liabilities in respect of certain of our current or future practices.

We may be liable for the costs of removal, investigation or remediation of any hazardous or toxic substances discovered on or in a property owned or leased by us. The presence of such substances, or the failure to remediate such substances properly, may also adversely affect our ability to sell or lease the real estate or to borrow using the real estate as security. Laws and regulations may also impose liability for the release of certain materials into the air or water from a property, including asbestos, and such release may make us liable to third persons for personal injury or other damages. Other laws and regulations can limit the development of, and impose liability for, the disturbance of wetlands or the habitats of threatened or endangered species. While some of our activities such as our storage of granite dust may be compliant with relevant law, future changes to legislation may result in environmental liability. It is difficult, if not impossible, for us to obtain insurance against our environmental liabilities. Any breach of environmental laws or regulations may adversely affect our business, financial condition and results of operations.

In the event that the minority shareholders of our subsidiaries were to successfully challenge past or future interested party transactions or other transactions or were not to approve interested-party transactions or other transactions in the future, we could be limited in our operational flexibility.

We own less than 100% of the shares in some of our subsidiaries. In addition, certain of our wholly owned subsidiaries have had other shareholders in the past. Some of our subsidiaries have in the past carried out, and continue to carry out, numerous transactions with other subsidiaries and affiliates, which may be considered “interested-party transactions” under Russian law, requiring approval by disinterested directors, disinterested independent directors or disinterested shareholders. The provisions of Russian law defining which transactions must be approved as “interested-party transactions” are subject to different interpretations. We cannot assure you that our and our subsidiaries’ application of these concepts will not

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be subject to challenge by former and current shareholders. Any such challenges, if successful, could result in the invalidation of transactions, which could have a material adverse effect on our business, financial condition and results of operations and the value of the Shares and GDRs.

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

We have engaged in transactions and made certain payments that could be challenged on the basis of non-compliance with applicable legal requirements, and any successful challenge could result in the invalidation of such transactions, loss of property, the imposition of other liabilities, fines, penalties or other sanctions or liquidation of members of our group that engaged in such transactions.

We and certain members of our group, or their predecessors in interest, have taken a variety of actions relating to, among other things, the acquisition of property and construction permits, share issuances, share disposals and acquisitions, interested-party transactions, major transactions and other corporate matters. Under Russian law, transactions may be invalidated on many grounds, including for example a sale of shares by a person without the right to dispose of such shares, breach of interested party and/or major transactions rules and failure to register the share transfer in the securities register. Defects in earlier transactions may cause our interest arising from such transactions to be subject to challenge. Moreover, we have purchased certain companies and material real estate from third party sellers in complex transactions that may be considered by tax authorities to have been structured by the sellers to maximize their tax efficiency. If any transactions were successfully challenged on the basis of non-compliance with applicable legal requirements by competent state authorities, counterparties to such transactions, shareholders of the relevant group members or their predecessors in interest or by any other interested party, it could result in the invalidation of such transactions, loss of property or the imposition of other liabilities and could have a material adverse effect on our business, financial condition, results of operations and the price of the Shares and GDRs.

We may be subject to liability for back taxes and related interest and penalties.

Russian law does not prohibit transactions that have the benefit of reducing Russian tax liability when the transaction also constitutes a legitimate business or commercial transaction. We have engaged in, and continue to engage in, certain complex transactions, including transactions in the course of consolidating entities into our group, which may have the additional benefit of lowering our tax obligations and those of other parties. However, under Russian judicial practice, Russian tax authorities may challenge certain transactions that they believe have no purpose other than to reduce tax obligations. For example, Russian tax authorities may scrutinize a chain of sales transactions that involve different purchase prices being paid for the same shares or assets in the chain of transactions. The tax authorities may attempt to assess additional taxes, interest and penalties to the parties in the chain of transaction who, in the opinion of the tax authorities, have been underpaid and as a result have reduced their tax obligations, if they decide such counterparty has been aiding and abetting the underpayment of taxes. If the Russian tax authorities successfully challenge these transactions, this may result in being liable for additional taxes, interest and penalties. However, any attempt by Russian authorities to pursue an action against us or our management or to assess any tax liabilities, including any fines, penalties, criminal prosecution or other sanctions for any back taxes that may have been payable could have a material adverse effect on our reputation, business, prospects, financial condition or results of operations and the price of the Shares and GDRs.

We are, and will, after the Offering, continue to be controlled by our majority shareholder, whose interests may differ from that of holders of our Ordinary Shares and GDRs.

Following the Offering and the Closed Subscription, Mr. Molchanov, our majority shareholder, will own a 72.9% interest in us (or 72.0% if the Over-allotment Option is exercised in full), in both cases assuming that the Closed Subscription is completed. As a result, he is in a position to control the outcome of matters submitted to general shareholders' meetings for a vote, including the election of directors, declaration of

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dividends, the appointment of management and other policy decisions. Additionally, he is able to control or significantly influence the outcome of any vote on any proposed amendment to our charter, merger proposal, proposed substantial sale of assets or other major corporate transactions. The interests of this controlling shareholder could conflict with those of other holders of our shares, which could adversely affect an investment in us.

Risks Relating to the Shares and GDRs

If the Closed Subscription is not completed, we may not receive the proceeds from the Closed Subscription and our shareholding structure may differ from what is currently contemplated.

Immediately following the Offering, HHL will transfer the net proceeds of the Offering to us in consideration for the New Shares to be acquired by HHL pursuant to the Closed Subscription. See “*Use of Proceeds*”. Under certain circumstances, however, the Federal Financial Markets Service (“FSFM”) or a court of law could invalidate the issuance of the New Shares. In addition, we could fail to file the requisite report on the results of issue. If any of these events were to occur, or if HHL does not subscribe for the Ordinary Shares issued in the Closed Subscription for other reasons, our shareholding structure may differ from what is currently contemplated. Moreover, the contemplated economic effect of the Offering as described in “*Use of Proceeds*” may fail.

If the Closed Subscription fails for any reason and we, HHL and the underwriters cannot reach an agreement for a lawful and effective transfer of the proceeds that we expect to receive pursuant to the Closed Subscription in connection with the Offering, the Company would not receive any proceeds in connection with the Offering. This could have a material adverse effect on our ability to fund the projects developed under “*Use of Proceeds*” and to otherwise expand our business in accordance with our strategy.

There has been no prior active public trading market for the Shares or GDRs and the Offering may not result in an active or liquid market for the Shares and GDRs, and their price may be highly volatile.

Before the Offering, there has been no public trading in our Ordinary Shares or GDRs. Although application has been made for the GDRs to be admitted to trading on the London Stock Exchange, and the Ordinary Shares have been listed on MICEX and RTS, an active public market may not develop or be sustained after the Offering. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If a liquid trading market for the Shares and GDRs does not develop, the price of the Shares and GDRs may be volatile and it may be more difficult to complete a buy or sell order for such Shares and GDRs.

The liquidity of a securities market is often a function of the volume of the underlying shares that are publicly held by unrelated parties. Although GDR holders are entitled to withdraw the Shares underlying the GDRs from the Depositary, there is currently no trading of our Ordinary Shares and there may only be a very limited public free float in the future. Also, the inability to convert the Shares into GDRs due to the current limit on our GDR programme of 16% of our shares established by the permission of the FSFM and the restriction that no more than 35% of any class of a Russian company’s shares may be circulated abroad through depositary receipt programs may have an adverse effect on the development of a liquid trading market for the Shares and GDRs.

Furthermore, low trading volumes or the low amount of shares publicly held by unrelated parties may result in a delisting of the Shares and the imposition of other liabilities, which would have a material adverse effect on the liquidity of the Shares and GDRs.

The trading prices of the Shares and GDRs may be subject to wide fluctuations in response to a number of factors. Our results, for example, may also fall below our expectations and the expectations of securities analysts and investors. In addition, the Russian stock market has experienced extreme price and volume fluctuations. Moreover, the market price of the Shares and GDRs may decline below the offer price, which will be determined by negotiation between us, the Selling Shareholders and representatives of the Underwriters.

Future sales of Shares or GDRs may affect the market price of the GDRs.

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

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or GDRs. We, the Selling Shareholders and certain of our officers and directors have undertaken not to sell, offer or contract to sell Ordinary Shares or related securities for a period of 180 days without the consent of the Joint Bookrunners.

The Shares may be de-listed from MICEX or RTS, the FSFM permission for the GDR program may be revoked, and the GDR facilities may have to be terminated.

In order to maintain our “I” listing on MICEX and our listing on RTS we are required to comply with listing requirements, in addition to the securities laws and regulations of the FSFM, and with certain minimum corporate governance requirements and minimum trading volumes. A material failure to comply with these listing requirements may constitute grounds for de-listing a company. Russian securities law and the FSFM’s regulations do not address whether a GDR permit may be revoked if a Russian issuer ceases to have its shares listed on a Russian stock exchange.

While we are not aware of any Russian issuer that has been de-listed on such grounds or has had its GDR permit revoked, there can be no assurance that a failure to comply with corporate governance requirements will not have such consequences. A Russian stock exchange de-listing and/or a GDR permit revocation would have a material adverse effect on the value of our Ordinary Shares and the GDRs.

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

Many jurisdictions, such as the United Kingdom and the United States, distinguish between legal owners of securities, such as a depositary, and the beneficial owners of securities, such as GDR holders. In these jurisdictions, shares held by a depositary on behalf of GDR holders would not be subject to seizure in connection with legal proceedings against the depositary that are unconnected with the underlying shares.

Russian law, however, may not recognize the distinction between legal and beneficial ownership. Russian law treats a depositary as the owner of shares underlying GDRs and, accordingly, may not recognize GDR holders’ beneficial ownership in such shares.

Thus, in proceedings brought against a depositary, whether or not related to shares underlying GDRs, Russian courts may treat those underlying shares as the assets of the depositary, open to seizure or arrest.

In the past, a lawsuit was filed against a depositary other than the Depositary seeking the seizure of various Russian companies’ shares represented by global depositary receipts issued by that other depositary. However, the case was dismissed. In May 2007, the Federal Customs Service of Russia filed a new lawsuit against the same depositary, on substantially similar grounds. In the event that a lawsuit seeking the seizure or arrest of the Shares underlying our GDRs were to be successfully initiated in the future against the Depositary, and the Shares underlying our GDRs were to be seized or arrested, the GDR holders involved would lose their rights to such underlying Shares and all or part of the money invested in them.

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

GDR holders will have no direct voting rights with respect to the Shares represented by the GDRs. They will be able to exercise voting rights with respect to the Shares represented by GDRs only in accordance with the provisions of the Deposit Agreements relating to the GDRs, the terms and conditions of the GDRs and relevant requirements of Russian law. Therefore, there are practical limitations upon the ability of GDR holders to exercise their voting rights due to the additional procedural steps involved in communicating with them. For example, the Federal Law No. 208-F2 “On Joint Stock Companies” dated December 26, 1995 (“**Joint Stock Companies Law**”) requires us to notify shareholders not less than 30 days prior to the date of any meeting and at least 70 days prior to the date of an extraordinary meeting to elect our Board of Directors and to pass upon certain other matters. Our shareholders will receive notice directly from us and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

GDR holders by comparison, will not receive notice directly from us. Rather, in accordance with the Deposit Agreements, we will provide the notice to the Depositary. The Depositary has undertaken, in turn, as soon as practicable thereafter, if requested by us in writing in a timely manner and at our expense, and provided there are no US, UK or Russian legal prohibitions (including, without limitation, the Listing Rules and Prospectus Rules of the UKLA and the admission and disclosure standards of the London Stock Exchange or the rules of any Russian stock exchange on which the Shares are listed) to distribute to GDR

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holders notice of such meeting, copies of voting materials (if and as received by the Depositary from us) and a statement as to the manner in which instructions may be given by GDR holders. To exercise their voting rights, GDR holders must then instruct the Depositary how to vote the Shares represented by the GDRs they hold. Because of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of the Shares not represented by GDRs and we cannot assure GDR holders that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. GDRs for which the Depositary does not receive timely voting instructions will not be voted.

In addition, although Russian securities regulations expressly permit the Depositary to split the votes with respect to the Shares underlying the GDRs in accordance with instructions from GDR holders, there is little court or regulatory guidance on the application of such regulations, and the Depositary may choose to refrain from voting at all unless it receives instructions from all GDR holders to vote the Shares in the same manner. GDR holders may thus have significant difficulty in exercising voting rights with respect to the Shares underlying the GDRs. We cannot assure you that holders and beneficial owners of GDRs will (1) receive notice of shareholder meetings to enable the timely return of voting instructions to the Depositary, (2) receive notice to enable the timely cancellation of GDRs in respect of shareholder actions or (3) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions. See "*Description of The Global Depositary Receipts—Voting Rights*" for a description of the voting rights of holders of GDRs.

The Depositary is only required to execute the voting instructions of the holders of GDRs insofar as practicable and as permitted under applicable law. In practice, holders of GDRs may not be able to instruct the Depositary to (1) vote the Shares represented by their GDRs on a cumulative basis, (2) introduce proposals for the agenda of shareholders' meetings or request that a shareholders' meeting be called or (3) nominate candidates for our Board of Directors or our review commission. If GDR holders wish to take such actions, they should timely request that their GDRs be canceled and take delivery of the Shares and thus become the owner of the Shares on our share register.

Following the Offering you may not be able to deposit the Shares in the GDR program in order to receive GDRs, and changes in Russian regulatory policy with respect to the placement and circulation of the Shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the Shares and GDRs offered in the Offering.

Whenever the Depositary believes that the Ordinary Shares deposited with it against issuance of GDRs (together with any other securities deposited with it against the issuance of depositary receipts and any other securities held by us and our affiliates for our or their proprietary accounts or as to which we or they exercise voting and investment power) represent (or, upon accepting any additional shares for deposit, would represent) such percentage as exceeds any threshold or limit established by any applicable law, directive, regulation or permit, or triggers any condition for the making of any filing, application, notification or registration or obtaining any approval, license or permit under any applicable law, directive or regulation, or taking any other action, the Depositary may (1) close its books to deposits of additional shares in order to prevent such thresholds or limits being exceeded or conditions being satisfied or (2) take such steps as are, in its opinion, necessary or desirable to remedy the consequences of such thresholds or limits being exceeded or conditions being satisfied and to comply with any such law, directive or regulation, including, subject to prior consultation with us to the extent reasonably practicable, causing pro rata cancellation of GDRs and withdrawal of underlying shares from the depositary receipt program to the extent necessary or desirable to so comply.

Russian securities regulations provide that no more than 35% of any class of a Russian company's issued shares may be circulated abroad through depositary receipt programs or otherwise. We have received permission from the FSFM for up to 16% of our Ordinary Shares (assuming the issuance of the newly issued Ordinary Shares by the Company contemplated in the Offering) to be circulated abroad through depositary receipt programs. Upon the completion of the Offering and assuming all Shares offered hereby (including pursuant to the Over-allotment Option) are deposited into the GDR program, the GDR program will account for approximately 15% of our Ordinary Shares. There can be no assurance that we will be able to obtain approval for a deposit of a greater number of Ordinary Shares in the GDR program than we currently have approval for, and any remaining capacity may be used by our other existing shareholders. As a result, following the Offering, you may not be able to deposit Shares in the GDR program in order to receive GDRs.

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In addition, under Russian corporate law, a person that has acquired more than 30%, 50% or 75% of an open joint stock company's ordinary shares and voting preferred shares (including, for such purposes, the shares already owned by such person and its affiliates) will, except in certain limited circumstances, be required to make, within 35 days of acquiring such shares, a mandatory tender offer for other shares of the same class and for securities convertible into such shares. From the moment of the relevant acquisition until the date the offer is sent to the company, the person making the offer and its affiliates will be able to register for quorum purposes and vote only 30% (or as the case may be, 50% or 75%) of the company's ordinary shares and voting preferred shares (regardless of the size of their actual holdings). See "*Description of Share Capital and Certain Requirements of Russian Legislation—Anti-takeover Protection*". Under Russian law, the Depositary may be considered the owner of the Shares underlying the GDRs, and as such may be subject to the mandatory public tender offer rules. See "*—Because the Depositary may be considered the owner of the Shares underlying the GDRs, these Shares may be arrested or seized in legal proceedings in Russia against the Depositary*". In addition, in a letter to the Depositary in July 2006, the Russian securities regulatory authority took the general position that the mandatory public tender offer rules do apply to a depositary bank. The terms of the Deposit Agreements therefore permit the Depositary to close its books to new deposits that would cause it to hold 29.99% or more of our Ordinary Shares. Accordingly, at present, the mandatory tender offer rules and the provisions of the Deposit Agreements result in a de facto limit on the proportion of our shares that may be deposited into our GDR program at 29.99% of our Ordinary Shares.

In addition, under Russian anti-monopoly legislation, transactions exceeding a certain amount, involving companies with a combined value of the assets under RAS that exceeds a certain threshold or companies registered as having more than a 35% share of a certain commodity market, and resulting in a shareholder (or a group of affiliated shareholders) holding more than 25%, 50% or 75% of the voting capital stock of such company, or in a transfer between such companies of assets or rights to assets the value of which exceeds a certain amount, must be approved in advance by the FAS. See "*Description of Share Capital and Certain Requirements of Russian Legislation—Anti-Monopoly Regulation*." The Depositary has received general interpretive guidance from FAS that it need not obtain the approval referred to in the preceding sentence in connection with depositary receipt programs such as our GDR program. If, however, FAS were to rescind or disregard its above-mentioned interpretation, the Company's GDR program would be subject to a de facto limit of 25% of its Ordinary Shares, unless the Depositary could obtain FAS approval for a higher percentage.

As a result, it may not be possible to deposit Ordinary Shares into our GDR program in order to receive GDRs, and under certain circumstances you may be required to withdraw Shares from the GDR program, which may in either case affect the liquidity and the value of your investment.

The aforementioned restrictions have been changed in the past and may be subject to changes at any time in the future by the Russian regulatory authorities, and there can be no assurance that changes by the authorities will not adversely affect the legality and or size of our depositary receipt programs, which could adversely affect the value of the Shares or the GDRs.

Any additional issuance of our Ordinary Shares is registered with the FSFM, and is assigned a provisional state registration number, containing a suffix distinguishing it from the previous issuance of our Ordinary Shares of the same class. Following completion of the issuance and the expiry of the three month period after the registration of the related placement report, the provisional suffix is canceled. The FSFM permission for our GDR program expressly permits the deposit of shares having specific registration numbers, namely, 1-01-55234-E, our general share registration number. Shares having a different registration number, whether currently in issue or issued in the future, may not be deposited in our GDR program. As a result, the depositary may be entitled to refuse a deposit of shares having a different registration number than those set out in the FSFM permission for the GDR program.

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

Under Russian law, dividends paid to a non-resident holder of the Shares generally will be subject to Russian withholding tax at a rate of 15% for organizations and at a rate of 30% for individuals (the latter rate will be reduced to 15% beginning January 1, 2008). Russian tax rules applicable to the holders of the GDRs are characterized by significant uncertainties and, until recently, by an absence of interpretive guidance. In 2005 and 2006, the Ministry of Finance of the Russian Federation expressed its opinion that holders of GDRs should be treated as the beneficial owners of the dividends paid on underlying shares for

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the purposes of double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that the tax treaty residence of the holders of the GDRs is duly confirmed. However, the Russian tax authorities have not provided official guidance of general applicability addressing how a GDR holder should demonstrate its beneficial ownership in the underlying shares. In the absence of any specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities will ultimately treat the GDR holders in this regard.

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

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

Under Russian tax law, gains arising from a sale, exchange or other disposition by non-resident holders that are organizations of shares issued by a company (the “**Issuing Company**”), such as the Shares, as well as financial instruments derived from such shares, such as the GDRs, may be subject to Russian income tax to be withheld at source by the Russian payer of the income if immovable property located in Russia constitutes more than 50% of the Issuing Company’s assets.

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

Capital gains arising from the disposition of the foregoing types of securities and derivatives outside of Russia by foreign holders of Shares and GDRs who are individuals not resident in Russia for tax purposes will not be considered a Russian source of income and will not be taxable in Russia. Gains arising from disposition of the foregoing types of securities and derivatives in Russia by foreign holders of Shares and GDRs who are individuals not resident in Russia for tax purposes may be subject to personal income tax. See “*Taxation*” for further details.

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

We do not expect to be classified as a “passive foreign investment company,” or “**PFIC**,” for US federal income tax purposes for our current taxable year. However, the determination of whether we are a PFIC is a factual determination made annually based on the composition of our assets and income on certain dates. Therefore, there can be no assurance that we will not be classified as a PFIC for our current taxable year or any future taxable year. If we are classified as a PFIC, materially adverse US federal income tax consequences could apply to US investors. See “*Taxation—US Federal Income Tax Considerations—Passive Foreign Investment Company Rules*”.

Investors may be unable to repatriate their earnings from distributions made on the Shares and GDRs.

Currently, Russian currency control legislation pertaining to the payment of dividends does not prohibit payment of ruble dividends on shares to non-Russian residents, but there can be no assurance that it will not be reversed in the future. The ability of non-Russian shareholders to convert rubles into hard currencies is subject to the availability of hard currency in Russia’s currency markets. Although there is an existing market within the Russian Federation for the conversion of rubles into hard currencies, including the interbank currency exchange and over-the-counter and currency futures markets, the further

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development of this market is uncertain. At present, there is no market for the conversion of rubles into foreign currencies outside the Russian Federation and no viable market in which to hedge ruble- and ruble-denominated investments.

Risks Relating to the Russian Federation

The infrastructure in Russia is inadequate, which could increase costs or result in losses for businesses and disrupt normal business activities.

The infrastructure in Russia largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. As a result, it is unreliable and may fail temporarily or completely at any time. Particularly affected are the rail and road networks; power generation and transmission systems; communication systems; and building stock. In the past, fires have occurred in power stations resulting in large power outages that disrupted transportation, mobile communications, electricity and water supply in commercial and residential buildings. In the winter of 2006, extremely low temperatures led to increased power usage, which posed a significant risk of overloading power grids and exceeded existing generation capacity. As a result, power usage by industrial and commercial consumers, including construction sites, was restricted to avoid power failures.

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

Political and governmental instability in Russia could adversely affect our business, financial condition, results of operations or the value of the Shares and GDRs.

The Russian political system may be vulnerable to popular dissatisfaction, including dissatisfaction with the results of the privatizations of the 1990s, as well as to demands for autonomy from certain regional and ethnic groups. The course of political and other reforms has in some respects been uneven and the composition of the Russian government has at times been unstable.

Possible future changes in the government, major policy shifts or a lack of consensus between the President, the government, Russia's parliament and powerful economic groups could lead to political instability. Political instability may disrupt day-to-day operations or discourage foreign investment in Russia which may make funding which we require for the development of our projects unavailable to us in the future.

With any investment in a foreign country, there exists the risk of adverse political or regulatory developments including, but not limited to, nationalization, appropriation without fair compensation, terrorism, war or currency restrictions, which could have a material adverse effect on our business, financial condition and results of operations.

Upcoming elections may lead to political instability.

In December 2007, the Russian Federation is due to hold elections in the lower house of the legislature, the State Duma. In addition, in 2008, a new president of Russia is expected to be elected. Political changes as a result of these elections could lead to political instability in the Russian Federation and could cause the deterioration of our existing relationships with governmental authorities, which could have a material adverse effect on our business, financial condition and results of operations.

Economic instability in the Russian Federation could materially adversely affect our business, financial condition and results of operations.

Since the dissolution of the Soviet Union, the Russian economy has experienced at various times:

- significant declines in gross domestic product and consumption;
- hyperinflation;
- an unstable currency;
- high government debt relative to gross domestic product;

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- a weak banking system providing limited liquidity to Russian enterprises;
- a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings and the use of fraudulent bankruptcy actions to take unlawful possession of property;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- significant black and grey market economies;
- pervasive capital flight;
- high levels of corruption and the penetration of organized crime into the economy; and
- significant increases in unemployment and underemployment.

A recession, economic downturn or financial crisis that affects the profitability of business and employment levels in Russia, including the demand for real estate development and building materials could have a material adverse effect on our business, financial condition and results of operations.

Fluctuations in the global economy could materially adversely affect the Russian economy.

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

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

The Russian banking and other financial systems are not well developed or regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent application. The August 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. Many Russian banks do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags behind international banking standards. Aided by inadequate supervision by the regulators, many banks do not follow existing Central Bank regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. The imposition of more stringent regulations or interpretations could lead to weakened capital adequacy and the insolvency of some banks.

Recently, there has been a rapid increase in lending by Russian banks, which many believe has been accompanied by deterioration in the credit quality of the borrowers. In addition, a robust domestic corporate debt market is leading to Russian banks increasingly holding large amounts of Russian corporate ruble-denominated bonds in their portfolios, which is further deteriorating the risk profile of Russian bank assets. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. In addition, in 2004, the Central Bank revoked the licenses of certain Russian banks, which resulted in market rumors about additional bank closures and many depositors withdrawing their savings. If a banking crisis were to occur, Russian companies would be subject to severe liquidity constraints due to the limited supply of domestic savings and the withdrawal of foreign funding sources that would occur during such a crisis.

We hold the bulk of our ruble cash in Russian banks, because we are required to do so by the Central Bank's regulations and because the ruble is not transferable or convertible outside the Russian Federation. There are few, if any, safe ruble-denominated instruments in which we may invest the excess ruble cash. A

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banking crisis or the bankruptcy or insolvency of the banks with which we hold funds could result in the loss of our deposits or affect our ability to complete banking transactions in the Russian Federation, which could have a material adverse effect on our business, financial conditions and results of operations.

Crime and corruption could create a difficult business climate in Russia.

Political and economic change in Russia in recent years has resulted in a decrease in authority and a corresponding increase in the involvement of organized crime within the Russian economy. As a result, there exist high levels of corruption including the bribing of government officials for the purpose of instigating investigations by government agencies. Press reports have also described instances in which government officials engage in selective investigations and prosecutions to further the commercial interests of government officials or certain individuals. Additionally, some members of the Russian media are alleged regularly to publish disparaging articles in return for payment.

The presence of organized or other crime, the demands of corrupt officials or claims that we have been involved in official corruption could result in negative publicity or disrupt our ability to conduct our business effectively, which could have a material adverse effect on our business, financial condition and results of operations.

Foreign investment restrictions are unpredictable.

Laws and regulations, particularly involving taxation, foreign investment and trade, title to securities, and transfer of title that are applicable to our activities can change quickly and unpredictably (sometimes with retroactive effect) in a manner far more volatile than in developed market economies, which could have a material adverse effect on our business, financial condition and results of operations.

Social and labor unrest could lead to increased support for renewed centralized authority and a rise in nationalism or violence could restrict our ability to conduct our business effectively.

Social and labor unrest has arisen in the past and may arise in the future due to a failure of the Russian government and private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living and the elimination of many subsidized services. Social and labor unrest may cause other significant political, social and economic consequences, such as increased violence and support for renewed centralization of authority, re-nationalization or expropriation of property, or restrictions on foreign involvement in the economy of the Russian Federation.

Social and labor unrest which delays completion of our real estate development projects or disrupts operations at our production facilities could have a material adverse effect on our business, financial condition and results of operations.

Russian Legal Risks and Uncertainties

Weakness relating to the legal system and legislation create an uncertain environment for investment and business activity that could have a material adverse effect on our business, financial conditions and the value of our shares.

The legal framework required by a market economy is still under development in Russia and large portions of this legal framework have only recently become effective. The recent nature of much of Russian law and the rapid evolution of the Russian legal system places the enforceability and underlying constitutionality of laws in doubt. Ambiguities, lack of guidance and interpretation, gaps in regulatory structure and the inexperience of judges also make it difficult for us to determine whether we have adequate property rights.

For example, in Russia, the concept of an easement or servitude, such as right of way or access, is in its infancy. Accordingly, the rights relating to a property over another's land (e.g. for drainage, access, rights of light, cabling, structural support, etc.) are generally concepts that have not been clearly defined in legal terms. As a result, we may be uncertain as to our rights over adjoining land, and similarly, neighbors to our property may have ill-defined rights over our property. State encumbrances may not be registered and, as a consequence, may not be revealed when performing searches prior to the acquisition of real estate. Any such encumbrances may only be discovered on making the relevant planning applications following acquisition or once construction has commenced.

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Among the risks of the current legal system are:

- inconsistencies between and among the Constitution, laws, Presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;
- discrepancies between federal and regional legislation, especially with regard to town planning, construction, zoning and land rights;
- limited judicial and administrative guidance on interpreting legislation;
- gaps in the regulatory structure due to absence of or delay in implementing regulations;
- the relative inexperience of judges and courts in interpreting new principles of Russian law, particularly in relation to business and commercial law; and
- bankruptcy procedures that are still under development.

The above risks could affect our ability or the ability of our to ascertain our or their specific rights or to seek or obtain effective redress in the Russian courts, which could have a material adverse effect on our business, financial condition and results of operations.

Lack of developed corporate and securities laws and regulations in the Russian Federation may limit our ability to attract future investment.

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in the Russian Federation than in OECD countries. Securities laws, including those relating to corporate governance, disclosure and reporting requirements, have only recently been adopted, whereas laws relating to anti-fraud safeguards, insider trading restrictions and fiduciary duties are rudimentary. In addition, the Russian securities market is regulated by several different authorities, which are often in competition with each other. These include:

- the FSFM;
- the Ministry of Finance;
- the FAS;
- the Central Bank of Russia; and
- various professional self-regulatory organizations.

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

In addition, Russian corporate and securities rules and regulations can change rapidly, which may materially adversely affect our ability to conduct securities-related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to us. As a result, we may be subject to fines or other enforcement measures despite our best efforts at compliance.

The limited independence and experience of the judiciary, the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent us from obtaining effective redress from any court or tribunal, which could have a material adverse effect on our business and financial condition.

The independence of judicial system and our immunity from economic, political and nationalistic factors remains largely untested. The court system in the Russian Federation is understaffed and under-funded and not immune from external influences. Judges and the courts in the Russian Federation are often inexperienced in interpreting and applying many aspects of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all court decisions are readily available to the public. Enforcement of court judgments can in practice be very difficult in the Russian Federation. All of these factors make judicial decisions in the Russian Federation difficult to predict and effective redress uncertain. Additionally, court claims and prosecutions are sometimes influenced by, or used in furtherance of, private interests. We may be subject to such claims and may not be able to receive a fair trial.

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These uncertainties also extend to property rights. While legislation has been enacted to protect private property against expropriation and nationalization, due to the lack of experience of the courts in the Russian Federation in enforcing these provisions and due to political factors, these protections may not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of our entities, their assets or portions thereof, potentially without adequate compensation, would have a material adverse effect on our business, financial conditions, results of operations and prospects.

Unlawful, selective or arbitrary government action may have an adverse effect on our business and financial condition.

Russian regulatory authorities have a high degree of discretion and at times appear to exercise their discretion selectively, without hearing or prior notice. Moreover, the government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Such selective governmental actions have reportedly included denial or withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities have also used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations or to void transactions, often for political purposes. Unlawful, selective or arbitrary government action, if directed at us, could have a material adverse effect on our business, financial conditions, results of operations and the value of our shares.

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

Russian law generally provides that shareholders in a Russian joint stock company or a limited liability company are not liable for the obligations of such joint stock company or, as the case may be, limited liability company and bear only the risk of loss of their investment. This may not be the case, however, when one person or entity is capable of determining decisions made by another entity. The person or entity capable of determining such decisions is called an effective parent. The entity whose decisions are capable of being so determined is called an effective subsidiary. Under Russian law, the effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

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

Moreover, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt as a result of the action or inaction of an effective parent. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent, which caused the effective subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses. Accordingly, in our position as an effective parent, we could be liable in some cases for the debts of our effective subsidiaries.

Because there is little minority shareholder protection in the Russian Federation, investors' ability to bring, or recover in, an action against us will be limited.

In general, minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for certain corporate action, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of action. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. For more details, see "Description of Share Capital and Certain Requirements of Russian Legislation—Interested Party Transactions". While these protections are similar to the types of protections available to minority shareholders in US corporations or United Kingdom companies, in practice, corporate governance standards for many Russian companies have proven to be poor, and minority shareholders in Russian companies have suffered losses due to abusive share dilutions, asset transfers and transfer pricing practices. General shareholders' meetings have been irregularly conducted, and management has not always

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respected shareholders' resolutions. Shareholders of some companies also suffered as a result of fraudulent bankruptcies initiated by hostile creditors.

In addition, the supermajority shareholder approval requirement is met by a vote of 75% of all voting shares that are present at a general shareholders' meeting. Thus, controlling shareholders owning slightly less than 75% of outstanding shares of a company may have a 75% or more voting power if certain minority shareholders are not present at the meeting. In situations, where controlling shareholders effectively have 75% or more of voting power at a general shareholders' meeting, they are in a position to approve amendments to the charter of the company, which could be prejudicial to the interests of minority shareholders. There can be no assurance that our majority shareholders and our management in the future will run the Company for the benefit of minority shareholders.

Disclosure and reporting requirements, as well as anti-fraud legislation, have only recently been enacted in the Russian Federation. Most Russian companies and managers are not accustomed to restrictions on their activities arising from these requirements. The concept of fiduciary duties of management or directors to their companies and shareholders is also relatively new and is not well developed. Violations of disclosure and reporting requirements or breaches of fiduciary duties to the Company and our subsidiaries or to our shareholders could materially adversely affect the value of our shares.

While the Law on Joint Stock Companies provides that shareholders owning not less than 1% of the company's shares may bring an action for damages on behalf of the company against members of a board of directors or against executive bodies, Russian courts to date do not have much experience with respect to such lawsuits. Russian law does not contemplate class action litigation. Accordingly, investors' ability to pursue legal redress against us may be limited, reducing the protections available to investors as holders of our shares.

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

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

There may be difficulties in ascertaining the validity and enforceability of title to land or other real property in Russia and the extent to which it is encumbered.

After the Soviet Union ceased to exist, land reform commenced in Russia and real estate legislation changed continually during the following years. More than 100 federal laws, presidential decrees and governmental resolutions were issued and almost all Russian regions passed their own real estate legislation. Until recently, land legislation in Russia was unsystematic and contradictory. In many instances, there was no certainty regarding which municipal, regional or federal government body had power to sell, lease or otherwise dispose of land. In 2001, the Russian Civil Code was amended and the new Russian Land Code, as well as a number of other federal laws regulating land use and ownership, were enacted. Nevertheless, the legal framework relating to the ownership and use of land and other real property in Russia is not yet sufficiently developed to support private ownership of land and other real property to the

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same extent as is common in countries with more developed market economies. Thus, it is often difficult to ascertain the validity and enforceability of title to land or other real property in Russia and the extent to which it is encumbered. As a result, we may not have properly obtained or registered the rights to our land plots and buildings located thereon. These uncertainties may have a material adverse effect on our business, financial condition and results of operations.

Corporate governance standards in Russia are not of the same standard as those in Western Europe and the United States, and there is little minority shareholder protection in Russia.

Corporate governance standards in Russia are not of the same standard as corporate governance standards in Western European countries or in the United States and may provide less protection for investors. In particular, corporate governance practices in Russia have suffered from lack of transparency and information disclosure, both to the public and to shareholders; lack of independence of directors; and insufficient regulatory oversight and protection of shareholders' rights. Corporate governance standards for many Russian companies have proven to be poor, and minority shareholders in Russian companies have on occasion suffered losses due to abusive share dilutions, asset transfers and transfer pricing practices.

Minority shareholder protection under Russian law principally derives from supermajority shareholder approval requirements for certain corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of actions. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. See "*Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital*" for a more detailed description of some of these protections. In practice, enforcement of these protections has been poor. Shareholders of some companies have also suffered as a result of fraudulent bankruptcies initiated by hostile creditors.

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

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

Russian legal entities may be forced into liquidation on the basis of formal non-compliance with certain requirements of Russian law.

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation, reorganization or during its operation. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used by Russian courts as a basis for liquidation of a legal entity. Some Russian courts, in deciding whether to order the liquidation of a company, have looked beyond the fact that the company failed to comply fully with all applicable legal requirements and have taken into account other factors, such as the financial standing of the company and its ability to meet its tax obligations, as well as the economic and social consequences of its liquidation. This judicial approach is supported by a decision of the Constitutional Court of the Russian Federation that held that even repeated violations of law may not serve as a basis for an involuntary liquidation of a company, and instead consideration should be given to whether the liquidation would be an adequate sanction for such violations. For example, in Russian corporate law, negative net assets calculated on the basis of RAS as at the end of the second or any subsequent year of a company's operation can serve as a basis for a court to order the liquidation of the company upon a claim by governmental authorities. Many

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Russian companies have negative net assets due to very low historical asset values reflected on their RAS balance sheets; however, their solvency, i.e., their ability to pay debts as they come due, is not otherwise adversely affected by such negative net assets.

The amount of net assets of some of our subsidiaries is below the minimum legal requirements, and we are currently taking steps to remedy this. However, weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. If involuntary liquidation were to occur, then we may be forced to reorganize the operations we currently conduct through the affected subsidiaries. Any such liquidation could lead to additional costs, which could materially adversely affect our business, financial condition and results of operations.

Our interested party transactions may be challenged under Russian law.

Subject to certain exceptions, according to the Joint Stock Companies Law, any transaction we enter into with an interested party must be approved by a majority vote of disinterested directors or disinterested shareholders before it is concluded. Any transaction which is not so approved may be challenged in court by a range of parties including ourselves, any of our shareholders or, if insolvency proceedings are commenced against us, by a court-appointed arbitration manager acting on behalf of our creditors. If a challenge is upheld the relevant transaction can be overturned. For a description of the law on interested party transactions, see “*Description of Share Capital and Certain Requirements of Russian Legislation—Interested Party Transactions*”.

Due to the technical requirements of Russian law, entities within our group may be deemed “interested parties” with respect to certain transactions among themselves. In addition, the concept of “interested parties” is defined with reference to the concepts of “affiliated persons” and “group of persons” under Russian law, which are subject to many different interpretations. Moreover, the provisions of Russian law defining which transactions must be approved as “interested party transactions” are also subject to different interpretations. We cannot be certain that any interested party transactions will not be free from challenge. Any such challenge could result in the invalidation of transactions that are important to our business. Failure to obtain the necessary approvals for transactions within our group or any such challenge could have a material adverse effect on our business, financial condition and results of operations.

Additionally, in some cases, our minority shareholders may not approve transactions, which are “interested party transactions” requiring shareholders’ approval or there may be an insufficient number of disinterested shareholders to constitute a quorum required for approval of interested party transactions. In the event these minority shareholders do not approve “interested party transactions” or successfully challenge them, we could be limited in our operational flexibility in connection with such transactions and our business, financial conditions and results of operations could be materially adversely affected.

Shareholder rights provisions under Russian law may impose additional costs on us, which could have a material adverse effect on our business, financial condition and results of operations.

Russian law provides that shareholders that voted against or did not participate in voting on certain matters have the right to sell their shares to a company at market value, as determined in accordance with Russian law. The decisions that trigger this right to sell shares include:

- reorganization of the Company;
- approval by shareholders of certain “major transactions”; and
- amendment of our charter that restricts the shareholders’ rights.

Our obligation to purchase the shares in these instances is limited to 10% of our net assets calculated under RAS, at the time the matter at issue is voted upon. Our obligation to purchase shares in these circumstances could have a material adverse effect on our business, financial condition and results of operations.

Russian tax legislation and regulations are complex, uncertain and often enforced in a manner that does not favor taxpayers, and we therefore may be subject to a greater than expected tax burden that could materially adversely affect our business and results of operations.

Russian tax law and practice is not as clearly established as that of Western countries and the practice of the Russian tax authorities may not always be in accordance with the law. It is possible that the current

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interpretation of the law or understanding of practice may change or, indeed, that the law may be changed with retrospective effect, although legislation with retrospective effects that cause a deterioration in taxpayers' positions is generally prohibited.

The main taxes applicable to our group are as follows:

- corporate income tax;
- value-added tax (“VAT”);
- unified social tax;
- land tax; and
- property tax.

Over the past decade there have been significant changes to the Russian taxation system. Tax reform in the Russian Federation commenced in 1999 with the introduction of Part One of the Tax Code of the Russian Federation (the “**Tax Code**”), which sets general taxation guidelines. Since then, the Russian Federation has been in the process of replacing legislation regulating the application of major taxes such as corporate income tax, VAT and corporate property tax with new chapters of the Tax Code. In particular, the chapters of the Tax Code on VAT, unified social tax and personal income tax came into force on January 1, 2001; the profits tax and mineral extraction tax chapters came into force on January 1, 2002; and the corporate property tax chapter of the Tax Code came into force on January 1, 2004.

The Russian tax environment has historically been complicated by the fact that various authorities often issued contradictory pieces of tax legislation. In practice, the Russian tax authorities often have their own interpretation of the tax laws that rarely favors taxpayers, who often have to resort to court proceedings to defend their position against the tax authorities. Different interpretations of tax regulations exist both among and within government ministries and organizations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax returns, together with related documentation such as customs declarations, are subject to review and investigation by a number of authorities, which may impose fines, penalties and interest charges. Generally, taxpayers are subject to tax audit for a period of three calendar years of their activities which immediately preceded the year in which the decision to carry out tax audit is taken. Under the certain conditions the same taxes for the same period may be audited twice (see “—*Tax audits carried out by Russian tax authorities may result in additional costs to us*”—), although tax penalties generally could not be imposed in the result of the second tax audit.

Under the recent changes to the Tax Code the statute of limitations in relation to claims for tax sanctions on underpaid amounts of tax should be interrupted in case the taxpayer actively puts obstacles upon conducting of tax audits. Prior to these changes the similar decision was issued by the Constitutional Court of the Russian Federation. These changes as well as the decision of the Constitutional Court of the Russian Federation potentially grants considerable discretion to the Russian tax authorities to disregard the statute of limitations in their tax investigations.

Financial statements of Russian companies related to the same business group are not consolidated for tax purposes. Therefore, each of our Russian entities pays its own Russian taxes and may not offset its profit or loss against the loss or profit of another entity in our group. In addition, payments of intercompany dividends between two Russian entities are subject to a withholding tax of 9% at the time they are paid out of profits (beginning January 1, 2008 this rate may be reduced to 0% if certain conditions are met, see “*Taxation—Russian Tax Considerations—New Changes in the Russian Tax Laws*”), though this tax does not generally apply to dividends once they have already been taxed (with the exception of dividends received by Russian companies from their foreign subsidiaries).

The foregoing conditions create tax risks in the Russian Federation that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on our group's operations, including management resources. In addition to our substantial tax burden, these risks and uncertainties complicate our tax planning and related business decisions, potentially exposing our group to significant fines and penalties and enforcement measures despite our best efforts at compliance, and could adversely affect our business, financial condition and results of operations.

Tax audits carried out by Russian tax authorities may result in additional costs to us.

Taxpayers in Russia are subject to tax audits covering a period of three calendar years immediately preceding the year in which the decision to carry out the audit is adopted. This provision of the Tax Code

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relates to the fact that the tax authorities are prohibited from carrying out repeat on-site tax audits in respect of the same taxes for a tax period which has already been audited (the exception is where such audit is carried out in connection with the restructuring/liquidation of a taxpayer or by a higher-instance tax authority for the purpose of checking the activities of lower-instance tax authorities or if the taxpayer resubmits an adjusted tax return, based on which the amount of tax is decreased). This limitation of the tax audit period is related to the statute of limitations on the commission of a tax offence, which is also limited to three years from the date on which a tax offence was committed or from the date following the end of the tax period during which the tax offence was committed (depending on the nature of the tax offence). Nevertheless, based on current judicial interpretation, there may be cases where the limitation period may be extended beyond three years (see “—*Russian tax legislation and regulations are complex, uncertain and often enforced in a manner that does not favor taxpayers, and we therefore may be subject to a greater than expected tax burden that could materially adversely affect our business and results of operations*”).

These tax audits may result in additional costs to us if the relevant authorities conclude that we did not satisfy our tax obligations in any given year. They may also impose additional burdens on us by diverting the attention of our management. The outcome of these audits may result in significant fines, penalties and enforcement measures which may have a material adverse impact on our business, financial condition and results of operations.

We may encounter difficulties in recovering value added tax from the Russian tax authorities.

The lease of commercial premises in Russia is generally subject to VAT. An exemption from VAT is available under certain circumstances for property leased to foreign companies and/or nationals accredited in Russia. This exemption may be granted if the respective foreign state establishes a reciprocal exemption for Russian citizens and companies in that foreign state or if such exemption is envisaged by an international treaty.

If Russian operating companies use such properties in VAT-exempt operations, then VAT incurred and claimed for recovery in the course of construction of properties should be partially reinstated in accordance with a certain formula provided by the tax law. The reinstated amount should be paid to the budget and included in deductible expenses for tax purposes. The general approach and formula for the calculation of VAT to be recovered under Russian tax legislation was adopted in January 2006. To date, no clarifications from the tax authorities have been issued and there has not yet been any relevant court guidance with respect to the issue in question.

Moreover, even if Russian operating companies use such properties solely for operations that are subject to Russian VAT, they may face practical difficulties receiving reimbursement of the amount of VAT paid in the course of construction of premises, as historically, the Russian tax authorities have been reluctant to refund VAT. As a consequence, we may face difficulties in receiving reimbursement for VAT payments we have previously made, which could have a material adverse effect on our business, financial condition and results of operations.

The above conditions increase the risk that our calculations of VAT to be recovered may be subject to challenge by Russian tax authorities. Difficulties in recovering some or all of our calculated VAT receivable from Russian tax authorities or a challenge by Russian tax authorities to our interpretation of the applicable legislation may result in significant additional tax liabilities, penalties or interest for late payment which could have a material adverse effect on our business, financial condition and results of operations.

Russian transfer pricing legislation may require pricing adjustments and impose additional tax liabilities in respect of all controlled transactions.

Russian transfer pricing rules give Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of all “controlled” transactions, where the transaction price differs from the market price by more than 20% “Controlled” transactions include transactions with related parties, barter transactions, foreign trade transactions and any transactions with significant price fluctuations (i.e. if the price of such transactions differs from the prices on similar transactions by more than 20% within a short period of time). Transfer pricing adjustments are also applicable to the trading of securities or derivatives.

The Russian transfer pricing rules are vaguely drafted and subject to differing interpretations by Russian tax authorities and courts. In addition, a draft law that may increase the scope of transfer pricing

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adjustments is currently being considered by the Russian government. Moreover, in the event that a transfer pricing adjustment is assessed by Russian tax authorities, the Russian transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction that is subject to adjustment.

Furthermore, a draft law which is under discussion in the Russian government would tighten Russian transfer pricing rules, although it cannot be predicted with any certainty when the aforementioned amendments will be enacted, and what effect the provisions may have on us. Imposition of additional tax liabilities under the Russian transfer pricing legislation may have a material adverse effect on our business, financial condition and results of operations.

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THE OFFERING

The Company	OJSC “LSR Group”, an open joint stock company organized under the laws of the Russian Federation.	
The Selling Shareholders	Hiuki Holding Limited, incorporated under the laws of the Republic of Cyprus, and Mr. Andrey Molchanov, Mr. Mikhail Romanov, Mr. Georgy Vedernikov, Mr. Igor Levit and Mr. Yevgeny Yatsyshin, all Russian citizens. See “ <i>Directors, Management and Corporate Governance</i> ”.	
The Offering	The Offering comprises an offering of <u>10,643,618</u> Ordinary Shares in the form of Shares and GDRs (excluding the over-allotment option referred to below). The Shares and the GDRs are being offered in the United States to QIBs in reliance on Rule 144A and outside the United States and the Russian Federation to certain persons in offshore transactions in reliance on Regulation S. The Shares are also being offered in the Russian Federation in reliance on Regulation S.▲	
Over-allotment Option	Mr. Andrey Molchanov has granted to the Underwriters an option exercisable within 30 days after the announcement of the offer price, to purchase up to an additional <u>851,489</u> Ordinary Shares in the form of GDRs at the offer price, solely to cover over-allotments, if any, in the Offering.	
Offer Price ▲.	The offer price is <u>\$72.50</u> per Share and <u>\$14.50</u> per GDR.▲	A10.29.3.1
The Closed Subscription	Immediately following the Offering, the Company will offer to HHL by Closed Subscription, and HHL will subscribe for, <u>8,514,896</u> New Shares. See “ <i>Risk Factors—Risks Relating to the Shares and GDRs—If the Closed Subscription is not completed, we may not receive the proceeds from the Closed Subscription and our shareholding structure may differ from what is currently contemplated</i> ”.	A10.21.1.5 A10.21.1.1
Share Capital	Prior to the Offering, our share capital consisted of 85,148,936 Ordinary Shares, each with a nominal value of 0.25 rubles, which are fully paid and issued. In addition, we are authorized by our charter to issue up to 50,000,000 additional Ordinary Shares and, of this amount, the issuance of up to 8,514,896 Ordinary Shares has been approved by our shareholders and registered with the FSFM. Following the Offering and the Closed Subscription, our share capital will consist of 93,663,832 issued and outstanding Ordinary Shares, assuming the Closed Subscription is completed. Our Ordinary Shares are subject to applicable provisions of Russian corporate law and our charter and have the rights described under “ <i>Description of Share Capital and Certain Requirements of Russian Legislation</i> ”.	
The GDRs	Five GDRs will represent one Ordinary Share on deposit with Deutsche Bank Limited (the “ Custodian ”), as custodian for the Depository. The GDRs will be issued pursuant to one of two separate deposit agreements, one relating to the Rule 144A GDRs (the “ Rule 144A Deposit Agreement ”) and one relating to the Regulation S GDRs (the “ Regulation S Deposit Agreement ” and, together with the Rule 144A Deposit Agreement, the “ Deposit Agreements ”), among us, the Depository and holders and beneficial owners from time to time of the relevant GDRs. The Regulation S GDRs will be evidenced initially by a Master Regulation S GDR Certificate and the Rule 144A GDRs will be evidenced initially by a Master Rule 144A GDR Certificate, each to be issued pursuant to the relevant Deposit Agreement. Pursuant to the Deposit Agreements, the Shares represented by the GDRs will be held in Russia by the	

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Custodian, for the account of the Depositary and for the benefit of the holders and beneficial owners of GDRs.

The Depositary may deduct per-GDR fees and other fees and expenses from dividend distributions and may otherwise assess other per-GDR fees and other fees and expenses to the GDR holders. See “*Description of The Global Depositary Receipts—Fees and Charges*”.

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

Closing Date	Expected to be on or about November <u>15</u> , 2007.	A10.29.2.3.7
Depositary	Deutsche Bank Trust Company Americas	
Lock-up	We, the Selling Shareholders, including Mr. Molchanov, and certain of our officers and directors have each undertaken, among other things, not to issue, offer, sell, lend, mortgage, assign, contract to sell or issue, pledge, charge, sell any option on or right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any Ordinary Shares or securities convertible or exchangeable into or exercisable for any Ordinary Shares or warrants or other rights to purchase Ordinary Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the Ordinary Shares, including equity swaps, forward sales and options or GDRs representing the right to receive any such Ordinary Shares or other securities above, whether such transaction is to be settled by delivery of Ordinary Shares or such other securities, in cash or otherwise, or enter into any swap or other agreement that transfers, in whole or in part, any economic consequences of ownership of such Ordinary Shares, or agree to, or publicly announce any intention to, enter into any transaction described above without the prior consent of the Joint Bookrunners, for a period of 180 days after the Closing Date. See “ <i>Subscription and Sale</i> ”.	
Voting	If you hold Shares, you are generally entitled to one vote per Share at a shareholders’ meeting, subject to certain exceptions described in “ <i>Description of Share Capital and Certain Requirements of Russian Legislation—General Shareholders’ Meeting</i> ”. Under the Deposit Agreements, five GDRs carry the right to vote one Ordinary Share, subject to the provisions of the Deposit Agreements and applicable Russian law. The Depositary will endeavor to exercise on behalf of holders of GDRs, at any meeting of holders of the Ordinary Shares of which the Depositary receives timely notice, the voting rights relating to the Ordinary Shares underlying the GDRs in accordance with instructions it receives from holders of GDRs. We will notify the Depositary of any resolution to be proposed at any general meeting. The Deposit Agreements do not allow for the voting of fractional entitlements. Since each Ordinary Share is represented by five GDRs, holders of GDRs will need five GDRs to be entitled to one vote. See “ <i>Description of The Global Depositary Receipts—Voting Rights</i> ”.	
Taxation	For a discussion of certain US, UK and Russian tax consequences of purchasing and holding the Shares and the GDRs, see “ <i>Taxation</i> ”.	

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Transfer Restrictions The Shares and GDRs will be subject to certain restrictions on transfer as described under “*Description of The Global Depositary Receipts—Transfer Restrictions*” and “*Selling and Transfer Restrictions*”.

Listing and Trading Our existing Ordinary Shares have been admitted to list “I” under the symbol “LSRG” on each of MICEX and RTS, but are not actively traded.

A10.30.1
A10.29.4.1

Application has been made to (i) the UK Listing Authority for a listing of up to 68,119,160 GDRs, consisting of 44,610,055 GDRs to be issued on the Closing Date, up to 4,257,445 additional GDRs issued pursuant to the Over-Allotment Option, as described herein, and up to 19,251,660 additional GDRs to be issued from time to time against the deposit of shares (to the extent permitted by law) with the Depositary, to be admitted to the Official List and (ii) the London Stock Exchange for such GDRs to be admitted to trading through the IOB on the London Stock Exchange’s regulated market for listed securities. Prior to the Offering, there has been no market for the GDRs. Conditional trading in the GDRs through the IOB is expected to commence on an if-and-when issued basis on or about November 9, 2007. Closing and settlement are expected to take place on or about November 15, 2007, and admission to the Official List of the UK Listing Authority and to unconditional trading through the IOB is expected to take place on November 16, 2007. Application has also been made to have the Rule 144A GDRs designated eligible for PORTAL.▲

An additional 3,850,332 Shares may be deposited, subject to the provisions set forth under “*Description of The Global Depositary Receipts*” and in the Deposit Agreements, with the Custodian against which the Depositary shall issue GDRs representing such shares up to the maximum aggregate number of 68,119,160 GDRs permitted under the UK Listing Authority block listing application subject to obtaining permission therefor from the FSFM.

Settlement Procedures Payment for the GDRs is expected to be made in US dollars in same-day funds through the facilities of DTC, Euroclear and Clearstream on or about the Closing Date. The Depositary has applied to DTC to have the Rule 144A GDRs accepted for clearance through DTC and to have the Regulation S GDR, accepted for clearance through the systems of Euroclear and Clearstream. Upon acceptance by DTC, a single Master Rule 144A GDR Certificate will be issued to DTC and registered in the name of Cede & Co., as nominee for DTC. The Master Regulation S GDR Certificate will be registered in the name of BT Globenet Nominees Limited, as nominee for Deutsche Bank AG, London Branch, as common depositary for Euroclear and Clearstream. Euroclear and Clearstream are expected to accept the Regulation S GDRs for settlement in their respective book-entry settlement systems. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR Certificates only through DTC, Euroclear or Clearstream, as applicable.

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

Each purchaser of the Shares in the Offering is required to pay for any such Shares in US dollars or rubles within one business day after share delivery. In order to take delivery of the Shares, an investor should have either a direct account with our share registrar, ZAO Ediny Registrator, or a deposit account with ZAO “Depositary Clearing

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Company” (“DCC”) or Non-for-Profit Partnership “The National Depository Center” (“NDC”) or any other depository that has an account with DCC or NDC or a direct account with our share registrar. Investors may at their own expense choose to hold the Shares through a direct account with our share registrar or through a direct account with our share registrar or through a share depository account with a Russian-licensed depository other than NDC or DCC, although the Shares held in each such way will be ineligible for trading on MICEX and RTS. See “Settlement and Delivery—Settlement and Delivery of Shares”.

General Information

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

Regulation S GDRs: CUSIP: 50218G206
ISIN: US50218G2066
Common Code: 032415202

Rule 144A GDRs: CUSIP: 50218G107
ISIN: US50218G1076
Common Code: 032415334

ISIN for Shares: RU000A0JFPF0

London Stock Exchange
GDR trading symbol: LSRG

MICEX trading symbol: LSRG

RTS trading symbol: LSRG

PORTAL symbol for GDRs: LSRGL

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USE OF PROCEEDS

Gross proceeds from the Offering total \$771.7 million. Net proceeds from the Offering total approximately \$736.9 million, and reflect the deduction of the aggregate underwriting commissions and discretionary fee paid, as described more fully in “*Subscription and Sale*”, of \$27.0 million, and the aggregate expenses of the Offering (excluding such underwriting commissions and discretionary fee) which are expected to total approximately \$7.7 million. All expenses of the Offering will be paid by one of the Selling Shareholders, HHL. We will not receive any proceeds from the Offering.

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A10.29.4.2
A10.31.1.1
A10.32.1

However, HHL will, immediately following completion of the Offering, subscribe for the New Shares in the Closed Subscription at a price per New Share equal to the Offer Price net of the underwriting commissions and discretionary fee (calculated on a pro rata per Share basis) incurred in connection with the Offering. The total price payable for the New Shares in the Closed Subscription will be reduced by the amount of aggregate expenses deducted from the proceeds of the Offering. We intend to use the net proceeds from the Closed Subscription, totaling \$588.0 million, to fund planned capital expenditure relating to our Building Materials segment; to fund the execution of our existing development portfolio; to settle outstanding deferred payment obligations under existing real estate acquisition contracts, and to purchase additional land for our real estate development activities; and for other general corporate purposes, including selective acquisitions from time to time. For more information on our future capital requirements, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operation—Capital Requirements*.” Pending the application of the net proceeds of such long term uses, the Company intends to use the proceeds to reduce short term indebtedness.

Under Russian law, the placement of the New Shares is subject to the registration of a placement report with the FSFM within 30 days following the completion of the Closed Subscription. If the placement report is not registered with the FSFM for any reason, we will be required to return the subscription monies received by us for the New Shares to HHL. In this event, we will not receive any of the proceeds in connection with the Closed Subscription.

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DIVIDEND POLICY

We currently do not intend to pay dividends until 2011 at the earliest since we expect to channel the majority of our profits into our development activities, building materials businesses and the expansion of our land bank. A10.20.6

After this time, we may, following a review of our capital position against our current and expected future capital requirements, return excess capital to our shareholders, including through dividends or share repurchases. A10.27.6

Dividend payments, if any, must be recommended by the Board of Directors and approved by the General Shareholders' Meeting, neither of whom is under any obligation to recommend or approve any dividend payments. The ability to pay dividends is also restricted by Russian law and our charter. In particular, dividends may be declared and paid only out of net profits for the first quarter, six months, nine months and/or annual results calculated under RAS and as long as the following conditions have been met:

- Our share capital has been paid in full;
- The value of our net assets, calculated under RAS, is not less (and would not become less as a result of the proposed dividend payment) than the sum of our share capital, our reserve fund and the difference between the liquidation value and the par value of our issued and outstanding preferred shares, if any;
- We have repurchased all shares from shareholders having the right to demand repurchase; and
- We are not insolvent, and would not become insolvent, as a result of the proposed dividend payment.

To the extent that dividends are declared and paid by us in the future, holders of GDRs on the relevant record date will be entitled to receive dividends payable in respect of shares underlying the GDRs, subject to the terms of the Deposit Agreements. For a further description, see "*Description of Share Capital and Certain Requirements of Russian Legislation—Dividends*". A10.20.6.1

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CAPITALIZATION

The following table sets forth our cash and cash equivalents, current loans and borrowings and total capitalization as of June 30, 2007, on a historical basis and as adjusted to give effect to (i) the issuance of the New Shares in the Closed Subscription and (ii) crediting of the net proceeds of the Closed Subscription to cash pending use as described under “Use of Proceeds”. You should read this table together with our consolidated financial statements included elsewhere in this prospectus.

	As of June 30, 2007			
	Historical		As Adjusted	
	RUB	\$	RUB ⁽²⁾	\$
	(in thousands)			
Cash and cash equivalents	945,053	36,607	15,356,921	624,707
Current loans and borrowings	5,676,617	219,885	5,676,617	219,885
Non-current loans and borrowings:	12,086,497	468,174	12,086,497	468,174
Equity:				
Share capital	30,106	1,078	32,235	1,165
Additional paid in capital	3,044,529	111,971	17,454,268	699,884
Foreign currency translation reserve	—	15,182	—	15,182
Retained earnings	7,923,393	298,702	7,923,393	298,702
Total equity attributable to shareholders of the Company	10,998,028	426,933	25,409,896	1,014,933
Minority interest	467,612	17,193	467,612	17,193
Total equity	11,465,640	444,126	25,877,508	1,032,126
Total capitalization⁽¹⁾	23,552,137	912,300	37,964,005	1,500,300

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(1) Total capitalization is the sum of non-current loans and borrowings and total equity.

(2) The net proceeds of the Closed Subscription have been converted into Rubles using an exchange rate of RUB 24.51=\$1.00 being the Ruble/US dollar exchange rate as quoted by CBR on November 8, 2007.

For the period from June 30, 2007 to November 6, 2007, unaudited consolidated loans and borrowings, excluding finance lease liability, as prepared under RAS, increased by RUB 9.3 billion. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments”.

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SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information set forth below shows our audited historical consolidated financial information and other unaudited operating information as of and for the years ended December 31, 2005 and 2006 and the unaudited consolidated interim financial information as of and for the six month periods ended June 30, 2006 and 2007. The summary consolidated financial information set forth below also shows the audited Special Purpose Consolidated Financial Statements as of and for the year ended December 31, 2004.

The financial information set forth below under the captions “Consolidated Income Statement Data”, “Consolidated Balance Sheet Data”, and “Consolidated Statement of Cash Flows Data” has been derived from and should be read in conjunction with, the audited and unaudited financial statements included elsewhere in this prospectus.

EBITDA and EBITDA margin are non-IFRS measures and were calculated by us based on data derived from our audited and unaudited financial statements.

The selected consolidated financial information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

	Years ended December 31,				Six months ended June 30,		
	2004	2005	2006	2006	2006	2007	2007
	(in RUB thousands)			(in \$ thousands)	(in RUB thousands)		(in \$ thousands)
Consolidated Financial Statements Data							
Revenues	7,530,926	13,085,517	21,110,751	776,553	9,336,450	16,062,031	615,812
Cost of sales	(6,461,625)	(9,371,320)	(13,796,464)	(507,498)	(6,152,181)	(10,257,445)	(393,266)
Gross profit	1,069,301	3,714,197	7,314,287	269,055	3,184,269	5,804,586	222,546
Distribution expenses	(169,469)	(693,999)	(1,702,328)	(62,620)	(608,228)	(815,343)	(31,260)
Administrative expenses	(793,874)	(1,890,586)	(3,051,103)	(112,234)	(1,459,502)	(2,013,155)	(77,183)
Changes in fair value of investment property	—	—	130,106	4,786	—	5,022,347	192,555
Impairment of goodwill	(717,071)	—	—	—	—	—	—
Other expenses	(124,706)	(101,167)	(56,159)	(2,066)	(82,346)	142,998	(5,483)
Results from operating activities	(735,819)	1,028,445	2,634,803	96,921	1,034,193	7,855,437	301,175
Financial income	40,465	140,148	213,796	7,864	178,104	87,734	3,364
Financial expenses	(370,351)	(787,236)	(1,089,615)	(40,081)	(491,169)	(782,127)	(29,986)
Profit before income tax	(1,065,705)	381,357	1,758,984	64,704	721,128	7,161,044	274,553
Income tax expense	10,776	(118,184)	(658,039)	(24,206)	(220,802)	(1,702,508)	(65,274)
Net profit from continuing operations	—	263,173	1,100,945	40,498	500,326	5,458,536	209,279
Loss from discontinued operations, net of income tax	—	(149,814)	—	—	—	—	—
Net profit for the period	(1,054,929)	113,359	1,100,945	40,498	500,326	5,458,536	209,279
Attributable to:							
Shareholders of the Company	(1,059,818)	10,563	984,514	36,215	454,177	5,400,757	207,064
Minority interest	4,889	102,796	116,431	4,283	46,149	57,779	2,215
	<u>(1,054,929)</u>	<u>113,359</u>	<u>1,100,945</u>	<u>40,498</u>	<u>500,326</u>	<u>5,458,536</u>	<u>209,279</u>

	Years ended December 31,				Six months ended June 30,	
	2004	2005	2006	2006	2007	2007
	(in RUB thousands)			(in \$ thousands)	(in RUB thousands)	(in \$ thousands)
Consolidated Balance Sheet Data						
Cash and cash equivalents	158,282	776,045	1,608,222	61,077	945,053	36,607
Total current assets	15,368,034	22,012,718	38,741,329	1,471,314	50,955,393	1,973,776
Loans and borrowings, non-current	1,817,229	1,500,559	8,721,215	331,213	12,086,497	468,174
Loans and borrowings, current	2,854,582	5,639,038	5,730,721	217,641	5,676,617	219,885
Total equity	<u>2,431,201</u>	<u>3,015,005</u>	<u>5,139,687</u>	<u>195,194</u>	<u>11,465,640</u>	<u>444,126</u>

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	Years ended December 31,				Six months ended June 30,		
	2004	2005	2006	2006	2006	2007	2007
	(in RUB thousands)			(in \$ thousands)	(in RUB thousands)		(in \$ thousands)
Consolidated Statement of Cash Flows Data							
Cash flows from/(utilized by)							
operating activities	(809,520)	(31,400)	557,376	20,504	(351,566)	(288,531)	(11,062)
Cash flows utilized by investing activities	(2,028,878)	(1,575,625)	(6,036,587)	(222,055)	(2,105,764)	(3,082,734)	(118,192)
Cash flows from financing activities	2,864,505	2,220,721	6,294,911	231,577	2,494,593	2,701,330	103,568

	Years ended December 31,			
	2004	2005	2006	2006
	(in RUB thousands)			(in \$ thousands)
Other Financial Data (unaudited)				
Operating profit margin ⁽¹⁾	—	8%	12%	12%
EBITDA ⁽²⁾	(253,681)	1,933,474	3,625,428	133,362
EBITDA margin ⁽³⁾	—	15%	17%	17%

- (1) We define operating profit margin as operating profit divided by revenue.
- (2) We define EBITDA as profit/(loss) for the period before finance expenses and finance income, income tax expense and depreciation and amortization and changes in fair value of investment property. Our management uses EBITDA to assess our operating performance because it believes that EBITDA is an important supplemental measure of our operating performance and because EBITDA is a measure incorporated into certain of our financial ratios in our loan instruments. EBITDA should not be considered as an alternative to net profit or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of our liquidity. Also, other companies in our industry may calculate EBITDA differently or may use it for different purposes than we do, limiting its usefulness as a comparative measure. The following table provides a reconciliation of net profit/(loss) to EBITDA for the periods indicated.

	Years ended December 31,				Six months ended June 30,		
	2004	2005	2006	2006	2006	2007	2007
	(in RUB thousands)			(in \$ thousands)	(in RUB thousands)		(in \$ thousands)
Net profit for the period	(1,054,929)	263,173	1,100,945	40,498	500,326	5,458,536	209,279
Changes in fair value of investment property	—	—	(130,106)	(4,786)	—	(5,022,347)	(192,555)
Depreciation and amortization	482,138	905,029	1,120,731	41,227	564,744	624,148	23,930
Financial expense	370,351	787,236	1,089,615	40,081	491,169	782,127	29,986
Financial income	(40,465)	(140,148)	(213,796)	(7,864)	(178,104)	(87,734)	(3,364)
Income tax expense	(10,776)	118,184	658,039	24,206	220,802	1,702,508	65,274
EBITDA	(253,681)	1,933,474	3,625,428	133,362	1,598,937	3,457,238	132,550

- (3) We define EBITDA margin as EBITDA divided by revenues.

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

The following discussion and analysis should be read in conjunction with our audited Special Purpose Consolidated Financial Statements as at and for the year ended December 31, 2004, our audited consolidated financial statements as at and for the years ended December 31, 2005 and 2006, and our unaudited interim consolidated financial statements as at and for the six-month periods ended June 30, 2006 and 2007, each included in this prospectus together with the related notes thereto and other information included elsewhere in this prospectus. For a description of our Special Purpose Consolidated Financial Statements and our other consolidated financial statements included in this prospectus, see "Presentation of Financial and Other Information".

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In addition, the following discussion contains certain forward-looking statements that reflect our plans, estimates and beliefs. Our actual results may differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this prospectus, including under "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements".

Overview

We are one of the leading real estate development, construction and building materials companies in St. Petersburg and the Leningrad region of Russia. We operate in a number of complementary segments, including as a market leader in St. Petersburg in the development of elite residential real estate projects; the production of prefabricated concrete panels; the construction of mass-market residential housing developments; the production of building materials such as reinforced and ready-mix concrete, bricks and aerated concrete; the extraction and processing of aggregates such as sand and crushed granite, the provision of tower crane services and the transportation of building materials. Although the majority of our products and services are sold to third party developers and construction companies, we produce and manufacture a large proportion of the materials, and provide many of the services, necessary to undertake our own real estate development projects as well.

Our portfolio of real estate development projects includes 34 completed projects, 32 projects at various stages of development and a number of potential projects currently under consideration. Our sizeable land bank as of June 30, 2007 consisted of approximately 965 hectares of land in St. Petersburg, the Leningrad region, Moscow and the Moscow region including approximately 239 hectares attributed to seven plots of land yet to be acquired in the Ruch'i Development. We estimate that 7.8 million square meters (excluding parking space) of net sellable residential and commercial real estate can be developed on this land. As at June 30, 2007, our portfolio of development projects were appraised by DTZ at a value of \$4.898 billion (of which \$479.2 million is contingent on the transfer of the seven land plots).

As of June 30, 2007, we had 19 production facilities in St. Petersburg and the Leningrad region that produce our building material products and 18 active quarries from which we extract our aggregates and clay. Although historically our center of operations has been in St. Petersburg and the surrounding Leningrad region, we have recently started to expand into other regions of Russia, including Moscow and the Moscow region. We have five building materials production facilities in Moscow producing reinforced and ready mix concrete, and a production facility in each of Estonia and Latvia that produce aerated concrete. As of June 30, 2007, we had 14,909 employees.

For the years ended December 31, 2004, 2005 and 2006 and for the six months ended June 30, 2006 and 2007, we had revenues of RUB 7,530.9 million, RUB 13,085.5 million, RUB 21,110.8 million, RUB 9,336.4 million and RUB 16,062.0 million, respectively, and as of June 30, 2007 we had total assets of RUB 50,955.4 million.

We adopted IFRS on January 1, 2005 and our first complete set of IFRS consolidated statements are for the year ended December 31, 2006. Since it is not technically possible for us to prepare IFRS financial statements for a period prior to the date of first-time IFRS adoption, we have prepared the 2004 Special Purpose Consolidated Financial Statements in accordance with the measurement and disclosure requirements of IFRS as described in note 3 to the 2004 Special Purpose Consolidated Financial Statements included elsewhere in this prospectus. These accounting policies are consistent with those that have been applied in our IFRS consolidated financial statements as at and for the years ended December 31, 2005 and 2006, except that the revaluation model has been used in measuring property, plant and equipment and net assets acquired in common control business acquisitions have been recorded

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initially at fair value. KPMG has audited our 2004 Special Purpose Consolidated Financial Statements and provided a qualified opinion in respect of these accounts. See “*Presentation of Financial and Other Information*”.

Operating Segments

Our operations comprise the following main business segments:

- *Development.* Our real estate development business units specialize in the development of residential, office and commercial buildings of different standards of construction quality in St. Petersburg, the Leningrad region and Moscow. We also develop gated communities, which are rural or suburban property developments targeted at the second-home market. For accounting purposes, this segment is comprised of the following business units: *elite real estate*, which includes residential real estate and Class A commercial properties located in prime locations in St. Petersburg and constructed using high quality materials and designs; *mass-market real estate*, which includes residential real estate constructed using our pre-fabricated concrete panels and business centers in St. Petersburg; *Moscow real estate*, which includes residential real estate targeted at the upper mid-market customer and commercial real estate located in Moscow; and *gated communities*. We also develop commercial properties in this segment, which are typically transferred to our commercial real estate management business units after completion.
- *Commercial real estate.* Our commercial real estate business units own and operate business centers that typically have been developed by our real estate development companies. Currently we manage three commercial business centers and four centers are under development. The revenues and expenses relating to these centers under development are currently reflected in our Development segment but will be reflected in this Commercial Real Estate segment upon completion of these centers which is expected to occur in the next three to four years. This business was designated as a new segment in the second half of 2006.
- *Building materials.* Our building materials production business units are engaged in the production of bricks, concrete and reinforced concrete products, ready-mix concrete, aerated concrete, and window and doors.
- *Aggregates.* Our aggregates business units are engaged in the mining, extraction and processing of crushed granite and construction sand. Sand is extracted either from quarries in the Leningrad region or from sea beds in the Gulf of Finland.
- *Construction.* Our construction companies specialize in the production of pre-fabricated concrete panels and the assembly of large mass-market class residential buildings using these panels. This business segment also provides pile-driving services.
- *Construction services.* Our construction services business units specialize in providing tower crane services and transporting building materials.
- *Roads construction.* Prior to our exit from this segment in January 2006, our road construction business units provided a wide range of road development, construction and maintenance services in St. Petersburg and the Leningrad region.

Key Factors Affecting our Financial Results

Our results have been affected, and are expected to be affected in the future, by a variety of factors, including the following:

Fair Value Calculation of Commercial Properties

Our future results of operations may be affected by our measurement of the fair value of our commercial real estate properties and changes in the fair value of these properties. Our portfolio of real estate development projects and completed properties are reflected on our balance sheet as either “inventory”, “investment property under development”, or “investment property”, depending on how we classify the property. Real estate projects under development that we intend to sell (and the related land) are reflected as “inventory” and carried at historical costs. However, real estate development projects and land that are classified as commercial real estate properties by us and which we intend to hold as an investment after construction are reflected on our balance sheet as either “investment property under development” during the development phase or “investment property” after completion. Although “inventory” is carried on our

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balance sheet at historical costs, all land that is designated by us as commercial and all operating business centers owned by us are classified as either “investment property under development” or “investment property” and are carried at fair value. We periodically revalue these properties in accordance with IFRS and any gain or loss on revaluation is recognized in our income statement. Accordingly, fair value measurements of our investment properties may significantly affect our results of operations even if we do not dispose of such assets. In 2006, we purchased land located at 10 Medikov Prospekt (“**Electric City**”) in St. Petersburg, which is the site of an old electric appliances factory in the central part of the city. As at December 31, 2006, this property had not been classified by us as commercial property and therefore was carried on our balance sheet at its historical cost. During the first half of 2007, however, we classified the site as commercial property and now intend to develop three commercial office buildings at this location. The property is currently in the pre-design, or documentation, phase of development. The effect of classifying the site to commercial property during the first six months of 2007 was that the site became classified as “investment property under development” on our balance sheet and has therefore been revalued as at June 30, 2007 in accordance with IFRS. This revaluation resulted in a significant increase in the value attributed to this property, which, together with the fair value adjustment of other smaller commercial properties in our portfolio, was reflected as “changes in fair value of investment property” of RUB 5,022.3 million on our income statement for the six months ended June 30, 2007.

Acquisitions and Disposals

We have made a number of acquisitions during the last three years which have affected our results of operations and financial condition. We acquired these companies to diversify our building materials product offering, increase market share and to acquire rights to buildings and/or land plots. The following are recent material acquisitions:

Building Materials related acquisitions:

- *Aeroc International AS.* We acquired 90% of this company in November 2006 for a purchase price of RUB 507.9 million. The company is our subsidiary that produces aerated concrete blocks in St. Petersburg, Estonia and Latvia. Previously, we owned Aeroc St. Petersburg, our St. Petersburg based aerated concrete company, and the purchase of Aeroc International AS enabled us to expand our production capacity and geographical market. Aeroc St. Petersburg was made a subsidiary of Aeroc International AS after it was purchased. During the six-month period ended June 30, 2007, revenues from our Aerated Concrete segment were RUB 786.8 million.
- *OAO Zavod Zhelezobetonnich Izdeliy-6 (“ZhBI-6”).* We acquired 57.7% ownership in this company in 2006 for a purchase price of RUB 403.2 million. It is our subsidiary in Moscow that produces reinforced concrete.

Real Estate Development related acquisitions:

- *OAO Zavod Elektrik.* We acquired 30% of the shares in this company in 2006 for RUB 1,006.8 million and now own in aggregate 96.96% of the shares in this company following a series of share purchases in 2007. See “—Recent Developments”. The aggregate purchase price for the 96.96% interest was RUB 1,124.7 million. The subsidiary owns land at Electric City in St. Petersburg, which we initially recognized as a “lease incentive” on our consolidated balance sheet as at December 31, 2006 but subsequently designated for commercial real estate development in January 2007. It is therefore recognized as “investment property under development” on our consolidated balance sheet as at June 30, 2007. We assign the category “lease incentive” to property to which we have development rights. The property Electric City is valued by DTZ in the Valuation Report at \$532.2 million as of June 30, 2007.
- *OOO Velikan XXI.* We acquired this company in 2006 for a purchase price of RUB 693.9 million. It owns development rights through an investment contract and a lease agreement with the Moscow governmental authorities, to Project Noviy Balchug (Sadovnicheskaya Street), near the Kremlin in Moscow. The property is valued by DTZ in the Valuation Report at \$134.2 million as of June 30, 2007.
- *ZAO Severnaya Venecia.* We acquired this company in 2006 for a purchase price of RUB 10,000 in cash and the assumption of debt in the amount of RUB 289.2 million. The subsidiary owns land plots on Zoologicheskii Lane in St. Petersburg, which we expect to be developed as commercial property and residential housing. The two properties at Zoologicheskii Lane are valued by DTZ in the Valuation Report at \$148.8 million in aggregate as of June 30, 2007.

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- *ZAO Ingeokom.* We acquired this company in 2006 for a purchase price of RUB 145.2 million. The subsidiary owns construction rights in relation to the property located at Suvorovskiy, 63 in central St. Petersburg, which has been valued by DTZ in the Valuation Report at \$147.5 million as of June 30, 2007.

During the year ended December 31, 2006, we disposed of ten subsidiaries to companies that were controlled by our controlling shareholder and were primarily related to our road construction business. For additional information on our acquisitions and disposals during the period under review, see note 5 and note 7 to our consolidated financial statements.

Seasonality

Our revenues decrease to some extent during the first quarter of the year as a result of decreased production and construction activity related to cold weather. Production of aggregates usually decreases during the winter months of December and January since sand and granite are more difficult to extract in cold temperatures. In addition, our building materials segments experience some reduction in productivity in the winter months as the technological processes employed in these activities are susceptible to low temperatures.

Revenue and Cost Recognition

Revenue recognition policies have a significant impact on our results of operations, particularly in our development and construction segments. Below we have summarized key elements of our revenue recognition policies:

Goods sold

We sell goods such as building materials, aggregates, and flats or office spaces in certain of our real estate development properties. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. Revenue from the sale of residential and other non-commercial property is recognized when the property is transferred to the buyer. Prior to transfer, non-commercial real estate property is reflected as “inventory” on our balance sheet and is carried at historical cost. Our residential real estate customers often prepay for flats during the period after construction has commenced but before completion. We are permitted under Russian law to use these prepayments to pay costs relating to the property where the purchaser’s flat is located. However, the revenues associated with these prepayments are not recognized on our income statement until transfer of the flat has occurred.

Services

We provide services such as tower crane and transportation services. Revenue from services rendered is recognized on our income statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

Construction contracts

We construct mass-market class residential real estate projects for third parties. As soon as the outcome of a construction contract and the related contract costs can be estimated reliably, contract revenue and expenses are recognized in the income statement in proportion to the stage of completion of the contract. The stage of completion is assessed as the proportion that contract costs incurred for work performed at the measurement date bear to estimated total contract costs. An expected loss on a contract is recognized immediately in the income statement.

Increasing Construction and Other Development Costs

During the periods under review, we have experienced increases in development and construction costs, including costs of contractors, labor, pre-project documentation and property acquisition costs. Labor costs

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have been increasing due to labor shortages and the high cost of living in St Petersburg and the Leningrad region, where most of our employees live.

Macroeconomic Factors

Many of our properties and projects are located in Russia. As a result, Russian macroeconomic trends and country-specific risks significantly influence our performance.

The following table sets out certain information for Russia for the periods indicated.

	Years ended December 31,		
	2004	2005	2006
Nominal GDP growth ⁽¹⁾	7.1%	6.4%	6.7%
Consumer price index ⁽¹⁾	11.7%	10.9%	9.0%
Average exchange rate (rubles per US dollar) ⁽²⁾	28.7	28.3	27.2
Real ruble appreciation against US dollar ⁽³⁾	15.1%	10.8%	10.7%

(1) Source: Rosstat.

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

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

The Russian economy has experienced positive trends in the last few years such as increases in GDP, reduced rates of inflation and a relatively stable currency. GDP growth rates in Russia are high as compared to those in many industrialized countries. The rate of increase in the consumer price index in Russia is high compared with many industrialized countries, but has slowed since 2001 and 2002, when consumer price index growth was above 15.0% per annum. The Russian government has generally followed conservative fiscal and monetary policies in recent years, resulting in federal budget surpluses, reductions in its foreign debt, large foreign currency reserves and a large stabilization fund. The stabilization fund, which was established by the Russian Federation in 2004, accumulates revenues from oil export duties and oil drilling taxes when the price for Urals oil exceeds a set cut-off price. The capital of the fund may be used to cover federal budget deficits and for other purposes.

Loss from discontinued operations

In January 2006 we sold our entire roads construction segment. The segment was not a discontinued operation or classified as held for sale as of December 31, 2005 and the comparative income statement for that year has been re-presented to show the discontinued operations separately from continuing operations. We sold this division in early 2006 to place greater focus on our key competencies: the manufacture of building materials, aggregates, real estate development, construction and construction services. In our financial statements for the year ended December 31, 2006, we have presented the results of this segment separately as a loss from discontinued operations below the line item “net profit from continuing operations” on our income statement.

Additional Factors that May Affect Our Future Financial Results

Most of our properties are still in an early stage of development and we currently have a limited number of commercial properties that generate revenues. As a result, our historical results of operations may not be an accurate indication of our future results of operations. As we complete a greater number of projects, additional factors, including those set forth below, may impact our future financial position and results of operations.

Recognition of Costs in Development and Commercial Real Estate

We capitalize the majority of the costs related to projects in the pre-construction or construction stages, except for finance costs and general and administrative expenses related to our projects. These capitalized costs are reflected on our balance sheet as either “inventory”, in the case of non-commercial properties or “investment property under development”, in the case of commercial properties. However, once we complete the development of a non-commercial real estate project and transfer the flats or office space to the purchasers, we cease to capitalize the related costs and recognize all capitalized costs in costs of sales on our income statement at the time of transfer. Once a commercial real estate property is complete, any

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further costs relating to the management of the commercial properties we retain are reflected in “administrative expenses” on our income statement. We intend to expand further our operations in the field of commercial property management and will expense all costs relating to our management activities. As a result, we expect our operating expenses and administrative expenses to increase in future periods.

Deferred Taxation

As we continue to develop our projects, we also expect to record both higher deferred tax liabilities and assets. Under IFRS, we recognize a gain for the change in fair value of investment property when we revalue our commercial properties resulting in a deferred tax liability. As a result, our tax bases in the related assets may be lower than our accounting bases for IFRS purposes, which results in deferred tax liabilities. Deferred tax liabilities and assets also result from the differences in treatment between IFRS and Russian accounting and tax reporting in relation to the treatment of equipment leasing transactions and the value of property, plant and equipment that is recorded at deemed cost for IFRS purposes but at the tax basis or value for Russian tax purposes.

Recent Developments

Subsequent to June 30, 2007, we have entered into the following material transactions:

A10.9.2.1

Project Tsvetnoy Gorod (Piskarevskiy Prospekt) and the Ruch'i Development—On September 4, 2007, we acquired from an unrelated party 100% ownership of a company that indirectly owned 47% of the Ruch'i Development for deferred consideration of \$127 million. The purchase price will be paid on or before November 20, 2007 and, under Russian law, we obtained control of this company on September 27, 2007. On September 6, 2007, we acquired 100% of another company (the “**second Ruch'i company**”) that indirectly owned 47% of the Ruch'i Development for deferred consideration of €47.5 million. The second Ruch'i company had previously acquired its interest in the Ruch'i Development from a company owned by Mr. Mikhail Romanov, a member of our board of directors, one of our shareholders and our current Managing Director—Business Development. The purchase price was subsequently paid in full and we obtained control of the second Ruch'i company on September 27, 2007. Subject to the deferred payment described above, we now have an indirect 94% ownership over the Ruch'i Development.

The Ruch'i Development constitutes a large area of formerly agricultural land in the Krasnogvardeisky district on the outskirts of St. Petersburg that is in the process of being purchased from the City of St. Petersburg and is expected to be partially used by us to develop a large mass-market residential housing project. The remaining undeveloped land will be held for investment. Seven of the 20 land plots (appraised by DTZ at \$479.2 million as at June 30, 2007) that are included in this area are currently in the process of being transferred from the City of St. Petersburg to the companies in which we have acquired control and are subject to preliminary sale and purchase agreements. Aggregate consideration to be paid under these seven agreements is an additional \$15.5 million. While we expect these remaining seven land plots to be transferred to us by January 31, 2008. Our ownership of five of the seven land plots yet to be acquired is subject to fulfillment by the seller of certain conditions set forth in settlement agreements entered into between the seller and the City of St. Petersburg in respect of certain court proceedings brought by the seller against the City Government between 2005 and 2007. We expect to begin construction of Project Tsvetnoy Gorod (Piskarevskiy Prospekt) in 2012. See “*Related Party Transactions—Transactions with Related Parties*”.

Project Sophia (Yuzhnoe Shosse, 49 and 55)—During August and September 2007, we entered into a number of agreements with a company controlled by Mr. Romanov, under which Mr. Romanov and the wife of Mr. Andrey Molchanov are to purchase 88% of the equity in a company that owns the land at Yuzhnoe Shosse, 55 in St. Petersburg. In early 2006, we had sold 100% of the shares in the company owning this land to a company controlled by Mr. Romanov for approximately RUB 7 million. The aggregate purchase price to be paid by us pursuant to these agreements is RUB 850.0 million. To date, we have paid RUB 513.5 million of this purchase price.

During the second half of 2007, we entered into agreements with a company controlled by Mr. Romanov to purchase 76% of the remaining equity in ZAO Zavod Stroyfarfor. Upon completion of this acquisition, we will hold an 95.8% stake in ZAO Zavod Stroyfarfor, a company that owns the land at Yuzhnoe Shosse, 49. The aggregate purchase price for this interest is RUB 450.0 million. We have paid RUB 28.0 million of this amount and are required to pay the remainder by December 31, 2007.

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We expect to use this land to develop residential properties. See “*Related Party Transactions—Transactions with Related Parties*”.

Project Yugnaya Aquatoria—Doblesti Street—On September 3, 2007, we paid RUB 1,288.5 million to acquire at auction the right to conclude a lease agreement for a plot of land that we plan to use to develop residential real estate.

Project Electric City (Medikov, 10)—On September 28, 2007, we entered into an agreement with companies controlled by Mr. Romanov to acquire 67% of the equity in a company that owns the land at Electric City in central St. Petersburg, the site of an old electricity plant. The purchase price of RUB 118.0 million was partially paid on September 28, 2007 in the form of a promissory note and the remainder is expected to be paid on or prior to December 31, 2007. We already owned 30% in the equity of this company and the consummation of this acquisition will give us a 96.96% indirect interest in the ownership of this land. We expect to develop commercial real estate on this property.

OOO Cement—We and an Austrian development company were previously partners in a 50/50 joint venture, Nordwest Baustoff Beteilliguuys GmbH, that owned 100% of the equity in OOO Cement. Our business partner decided in 2007 to exit this venture and, as a result, the entire equity of OOO Cement was sold to us pursuant to a sale and purchase agreement dated September 3, 2007 for a contract price of €17.5 million or, approximately RUB 607.5 million that was paid in full. OOO Cement is the company that was organized to develop and construct our new cement factory. “See—*Liquidity and Capital Resources—Capital Requirements*”.

Sberbank-GDSK Non-revolving Credit Facility On July 12, 2007, our subsidiary OOO GDSK entered into a 8.5% RUB 1,280 million non-revolving credit facility with Sberbank. As of September 30, 2007, the facility was fully drawn. See “*Description of Certain Indebtedness*”.

Sberbank Credit Facility. On August 20, 2007, our subsidiary ZAO “Promishlenny Leasing” entered into a non-revolving 8.5% RUB 500 million credit facility with Sberbank. As of September 30, 2007, RUB 472.2 million of this facility had been drawn. See “*Description of Certain Indebtedness*”.

VTB Facility. On August 30, 2007, our subsidiary OAO “Pobeda LSR” entered into a RUB 2 billion 8.95% facility with VTB Bank. As of September 30, 2007, the facility was fully drawn. See “*Description of Certain Indebtedness*”.

Sberbank Revolving Credit Facility. On September 17, 2007, our subsidiary Construction Corporation “Revival of St. Petersburg” entered into a RUB 600 million 8.5% revolving credit line facility agreement with Sberbank. As of September 30, 2007, the facility was fully drawn. See “*Description of Certain Indebtedness*”.

ABN AMRO Loan—On October 26, 2007, we entered into a €55 million loan agreement with ABN AMRO ZAO, an affiliate of one of the Joint Bookrunners, which bears interest at a floating rate. The loan was drawn down in full in rubles on October 31, 2007 and will be repaid with a portion of the proceeds of the Offering. The purpose of the loan is to finance the purchase of equipment for our new cement factory and to fund outstanding deferred payment obligations for land plots we own. See “—*Liquidity and Capital Resources—Capital Requirements*”.

Ruble Bond. On July 19, 2007, we issued and placed RUB 3,000 million non-convertible bearer notes due 2011. ABN AMRO ZAO, an affiliate of one of the Joint Bookrunners in this Offering, and OOO “Uralsib Capital”, an affiliate of the co-lead-manager for this Offering, acted as underwriters.

Current Trading and Prospects. Our prospects for the full year ending December 31, 2007 remain in line with our expectations. Among other things, our objectives for the coming year include (i) completing a number of real estate developments such as phase two of the Paradniy Quarter residential and office development, and phases one, two and three of the Repino-Leninskoe gated community development; and (ii) commencing construction on a new brick production facility and a new cement plant, in each case located outside of St. Petersburg.

Results of Operations

The following is a discussion of the principal drivers of our results of operation for the periods under review.

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Six-month Period Ended June 30, 2007 compared to the Six-month Period Ended June 30, 2006

A10.9.2.2

The following table sets forth income statement data, including as a percentage of revenues and percentage of results from operating activities, for the six-month periods ended June 30, 2006 and 2007.

	Six months ended June 30,			
	2006	% of revenues	2007	% of revenues
(in millions of Rubles, except percentages) (unaudited)				
Consolidated Financial Statements Data:				
Total revenues	9,336.5	100%	16,062.0	100%
Cost of sales	<u>(6,152.2)</u>	<u>(66)%</u>	<u>(10,257.5)</u>	<u>(64)%</u>
Gross profit	3,184.3	34%	5,804.5	36%
Distribution expenses	(608.2)	(7)%	(815.3)	(5)%
Administrative expenses	(1,459.5)	(16)%	(2,013.1)	13%
Changes in fair value of investment property	—	—	5,022.3	31%
Other expenses	<u>(82.3)</u>	<u>(1)%</u>	<u>(143.0)</u>	<u>1%</u>
Total results from operating activities	1,034.2	11%	7,855.4	49%
Financial income	178.1	2%	87.7	0%
Financial expenses	(491.2)	(5)%	(782.1)	(5)%
Profit before income tax	721.1	8%	7,161.0	45%
Income tax expense	<u>(220.8)</u>	<u>(2)%</u>	<u>(1,702.5)</u>	<u>(11)%</u>
Net profit for the year	<u>500.3</u>	<u>5%</u>	<u>5,458.5</u>	<u>34%</u>

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Revenues

Revenues increased by RUB 6,725.5 million, or 72% from RUB 9,336.5 million for the six months ended June 30, 2006 to RUB 16,062.0 million for the six months ended June 30, 2007. The increase in revenues was due primarily to significant growth in our Building Materials and Development segments. Demand for our Building Material and Aggregates products generally exceeded supply during the periods and in response, we increased production capacities in these segments. All weighted average prices discussed below include VAT. The following table sets forth our revenues by segment and business unit, including as a percentage of total revenues.

	Six months ended June 30,					
	2006	% of revenues	2007	% of revenues	growth	growth, %
	(in millions of Rubles, except percentages) (unaudited)					
Revenues:						
Building Materials:						
Reinforced Concrete	1,303.0	14%	2,254.0	14%	951.0	73%
Ready-mix Concrete	1,446.3	15%	1,887.2	12%	440.9	30%
Bricks	760.9	8%	1,061.7	7%	300.8	40%
Aerated Concrete	513.8	6%	786.8	5%	273.0	53%
Other	568.1	6%	1,301.8	8%	733.7	129%
Eliminations	(842.5)	(9)%	(500.0)	(3)%	342.5	(41)%
Total Building Materials . .	3,749.5	40%	6,791.6	42%	3,042.1	81%
Construction	1,886.4	20%	2,363.3	15%	476.9	25%
Aggregates:						
Sand	947.4	10%	1,184.8	7%	237.4	25%
Crushed Granite	781.0	8%	1,062.6	7%	281.6	36%
Eliminations	(13.6)	0%	(7.8)	0%	5.8	(43)%
Total Aggregates	1,714.9	18%	2,239.5	14%	524.6	31%
Development:						
Elite	1,378.0	15%	1,903.7	12%	525.7	38%
Mass-market	876.8	9%	2,241.6	14%	1,364.8	156%
Gated Communities	2.0	0%	11.5	0%	9.5	475%
Moscow	0.3	0%	1,507.2	9%	1,506.9	502,300%
Western Europe	—	—	116.4	1%	116.4	—
Eliminations	(9.5)	0%	(16.8)	0%	(7.3)	77%
Total Development	2,247.7	24%	5,763.6	36%	3,515.9	156%
Construction Services:						
Tower Cranes	287.1	3%	409.6	3%	122.5	43%
Transportation	226.9	2%	247.2	2%	20.3	9%
Total Construction Services	514.0	6%	656.8	4%	142.8	28%
Commercial Real Estate	—	—	24.7	0%	24.7	—
Others	170.1	2%	10.0	0%	(160.1)	(94)%
Eliminations	(946.1)	(10)%	(1,787.5)	11%	(841.4)	89%
Total Revenues	9,336.5	100%	16,062.0	100%	6,725.5	72%

Building Materials. Revenues from our Building Materials segment (before inter-segment eliminations) increased by RUB 3,042.1 million, or 81% (of which RUB 138.8 million were inter-segment), from RUB 3,749.5 million for the six months ended June 30, 2006 to RUB 6,791.6 million for the six months ended June 30, 2007. Our Building Material segment is operated through the following business units: Reinforced Concrete, Ready-mix Concrete, Bricks, Aerated Concrete, and Other (which includes windows/doors, cement sourcing and other related businesses). Reinforced Concrete and Ready-mix Concrete represented the largest component of the increase in revenues.

Reinforced Concrete revenues increased by RUB 951.0 million, or 73% (of which RUB 131.3 million were inter-segment), from RUB 1,303.0 million for the six months ended June 30, 2006 to RUB 2,254.0 million for the six months ended June 30, 2007. This increase was primarily due to an increase in the average sale price and an increase in sales volume. The weighted average price of Reinforced Concrete in St. Petersburg increased by RUB 4,000 per cubic meter, or 64%, from RUB 6,200 per cubic meter for the

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six months ended June 30, 2006 to RUB 10,200 per cubic meter for the six months ended June 30, 2007. The weighted average price of Reinforced Concrete in Moscow increased by RUB 4,400 per cubic meter, or 90%, from RUB 4,900 per cubic meter for the six months ended June 30, 2006 to RUB 9,300 per cubic meter for the six months ended June 30, 2007. This increase in the weighted average sale price was due to a change in product mix to higher priced Reinforced Concrete products, such as larger diameter concrete pipes, primarily produced by our Moscow factory, and an increase in raw material prices such as cement during the first six months of 2007 which affected market prices for Reinforced Concrete products generally. Production capacity increased due to the commissioning of a new Reinforced Concrete factory in Moscow (ZhBI-6) in February 2006, the purchase of new high capacity equipment for this Moscow factory, and the modernization of production equipment in our four existing Barrikada Reinforced Concrete factories in St. Petersburg, which increased production capacities significantly. Although the Moscow factory was purchased during the six-month period ended June 30, 2006, it did not operate at its full capacity until after this period.

Ready-mix Concrete revenues increased by RUB 440.9 million, or 30% (despite a RUB 336.9 million decrease in inter-segment revenues), from RUB 1,446.3 million for the six months ended June 30, 2006 to RUB 1,887.2 million for the six months ended June 30, 2007. The decrease in inter-segment revenues reflected a reduction of ready-mixed concrete sales to our reinforced concrete business unit, after the business unit commenced the production of ready-mix concrete internally during the period. The increase in Ready-mix Concrete revenues was primarily due to higher production volumes resulting from an increase in capacity from the commissioning of a new Ready-mix Concrete factory in Moscow during the second half of 2006 and the commissioning of two additional factories in St. Petersburg during the first half of 2007. The increase in capacity was supported by the purchase of 20 additional cement mixers trucks in our fleet during the first six months of June 30, 2007. The weighted average price of ready-mix concrete increased by RUB 900 per cubic meter, or 38%, from RUB 2,400 per cubic meter for the six months ended June 30, 2006 to RUB 3,300 per cubic meter for the six months ended June 30, 2007. The increase in the weighted average price was primarily due to increases in cement prices.

Construction. Revenues from our Construction segment (before inter-segment eliminations) increased by RUB 476.9 million, or 25% (of which RUB 390.0 million were inter-segment), from RUB 1,886.4 million for the six months ended June 30, 2006 to RUB 2,363.3 million for the six months ended June 30, 2007. This increase resulted primarily from higher production volumes resulting from an increase in capacity during the period at one of our existing concrete panel production facilities, offset in part by a decrease in production at our other facility during a modernization program. This increase in revenues was also offset by the effects from our revenue recognition policy in this segment. We recognize revenue in this segment using the percentage of completion method. See “—Key Factors Affecting our Financial Results—Revenue and Costs Recognition—Construction Contracts”. We revised certain of our cost assumptions for four of our projects in early 2007, reflecting increased costs associated with the modernization program and increased cement prices, which resulted in our recognizing less revenue for these projects during the six months ended June 30, 2007 than compared to during the six months ended June 30, 2006.

Aggregates. Revenues from our Aggregates segment (before inter-segment eliminations) increased by RUB 524.6 million, or 31% (of which RUB 47.4 million were inter-segment), from RUB 1,714.9 million for the six months ended June 30, 2006 to RUB 2,239.5 million for the six months ended June 30, 2007. This increase resulted primarily from a combination of increases in prices and sales volumes for all products. Our Aggregates segment is operated through our Sand and Crushed Granite business units.

Sand revenues increased by RUB 237.4 million, or 25% (of which RUB 6.3 million were inter-segment), from RUB 947.4 million for the six months ended June 30, 2006 to RUB 1,184.8 million for the six months ended June 30, 2007. This increase was primarily due to an increase in prices and higher production volumes resulting from an increase in capacity during the period. We produce both higher quality sea sand from the Gulf of Finland and quarried sand. Our higher margin sea sand capacity was increased by increasing the carrying capacity of our specialty barges by approximately 15% to 20%. This was achieved by upgrading and lengthening our fleet of barges during the winter months in late 2006 and early 2007, when it was not possible to extract sea sand due to weather conditions. To make full use of this additional capacity from the barge upgrading, we increased the capacity of our dredgers and hydroloaders. The weighted average price of sea sand increased by RUB 54 per cubic meter, or 23%, from RUB 231 per cubic meter for the six months ended June 30, 2006 to RUB 285 per cubic meter for the six months ended June 30, 2007. Quarried sand capacity increased due to the commissioning of one quarry during the second half of 2006 and one additional quarry during the first half of 2007. We supported the additional capacity

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of these quarries by upgrading our sand loaders to increase capacity. The weighted average price of quarried sand increased by RUB 23 per cubic meter, or 19%, from RUB 121 per cubic meter for the six months ended June 30, 2006 to RUB 144 per cubic meter for the six months ended June 30, 2007.

Crushed Granite revenues increased by RUB 281.6 million, or 36% (of which RUB 35.5 million were inter-segment), from RUB 781.0 million for the six months ended June 30, 2006 to RUB 1,062.6 million for the six months ended June 30, 2007. This increase was primarily due to an increase in the weighted average price of crushed granite between periods. The weighted average price of crushed granite increased by RUB 117 per cubic meter, or 20%, from RUB 565 per cubic meter for the six months ended June 30, 2006 to RUB 682 per cubic meter for the six months ended June 30, 2007. Granite is in high demand in the St. Petersburg and Leningrad region due to its general scarcity since there are only a few granite quarries that are operational in the region. Demand is also influenced by the high growth in the number of development and infrastructure projects in the region.

Development. Revenues from our Development segment (before inter-segment eliminations) increased by RUB 3,515.9 million, or 156% (of which RUB 302.7 million were inter-segment), from RUB 2,247.7 million for the six months ended June 30, 2006 to RUB 5,763.6 million for the six months ended June 30, 2007. The increase was primarily the result of a significant increase in the amount of residential, business and commercial space transferred to purchasers during the period. Our Development segment is sub-divided into Elite, Mass-market, Moscow and Gated Communities business units, however the majority of our Development revenues are generated by our Elite, Mass-market and Moscow business units. Prices in all business units of our Development segment increased during the first six months of 2007 compared to the same period in 2006.

Revenues from Elite Properties increased by RUB 525.7 million, or 38%, from RUB 1,378.0 million for the six months ended June 30, 2006 to RUB 1,903.7 million for the six months ended June 30, 2007. This increase was primarily due to the increase in amount of sellable space transferred to purchasers during the period, the majority of which was attributable to the sale of flats in the Kamennostrovsky, 56-58 development, one of our largest in this business unit. No flats from this development were transferred during the six months ended June 30, 2006. Prices for flats transferred during these periods reflect the contract prices when the purchasers originally signed the sales contracts, which, in the elite segment, typically occurs three to four years prior to transfer of the flats.

Revenues from Mass-market properties increased by RUB 1,364.8 million, or 156%, from RUB 876.8 million for the six months ended June 30, 2006 to RUB 2,241.6 million for the six months ended June 30, 2007. This increase was primarily due to the increase in number of projects completed during the period and the increase in amount of sellable space transferred to purchasers during the period. During the six months ended June 30, 2006, Mass-market flats were transferred in three of our Mass-market development projects. During the six months ended June 30, 2007, Mass market flats were transferred in five of our Mass-market development projects. A majority of our revenues for the six months ended June 30, 2007 in this segment were derived from sales of flats in the Dolgoye, 25a, Pulkovsky Posad and Yugo-Zapad developments. No flats from the Pulkovsky Posad and Yugo-Zapad developments were transferred during the six months ended June 30, 2006. Price increases between periods typically reflect the price increases at the time the purchasers originally signed the sales contracts. Prices for mass-market flats transferred during these periods reflect the contract prices when the purchasers originally signed the sales contracts, which is typically two to three years prior to transfer of the mass-market properties.

Revenues from Moscow properties were RUB 1,507.2 million for the six months ended June 30, 2007. We did not recognize any revenues in this segment in 2006. Revenues for the six months ended June 30, 2007 were attributable to the transfer of business units in our Davidkovskaya, 19-19a business class development in Moscow during the period.

Construction Services. Revenues from our Construction Services segment (before inter-segment eliminations) increased by RUB 142.8 million, or 28% (of which RUB 64.6 million were inter-segment), from RUB 514.0 million for the six months ended June 30, 2006 to RUB 656.8 million for the six months ended June 30, 2007. Our Construction Services segment is operated through our Tower Cranes and Transportation business units. This increase resulted primarily from revenue growth in our Tower Cranes business unit. Tower Cranes revenues increased by RUB 122.5 million, or 43% (of which RUB 9.6 million were inter-segment), from RUB 287.1 million for the six months ended June 30, 2006 to RUB 409.6 million for the six months ended June 30, 2007. This increase was primarily due to increased prices and growth in the number of service contracts in St. Petersburg and the Leningrad region. Our fleet

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of cranes increased by 19 from June 30, 2006 to June 30, 2007. Transportation revenues increased by RUB 20.3 million, or 9% (of which RUB 55.0 million were inter-segment), from RUB 226.9 million for the six months ended June 30, 2006 to RUB 247.2 million for the six months ended June 30, 2007. Growth in Transportation revenues were depressed due to delays in maintenance caused by lack of training of our maintenance personnel with respect to the new fleet of vehicles during the six months ended June 30, 2007, which resulted in under-utilization of our fleet and loss of revenues.

Commercial Real Estate. Revenues, comprised of rent and management fees, from our Commercial Real Estate segment were RUB 24.7 million for the six months ended June 30, 2007 (none of which were inter-segment). We designated our Commercial Real Estate business as a separate segment in the second half of 2006, when we purchased two business centers during the second half of 2006. We developed and transferred an additional business center into this segment during the first half of 2007.

Cost of sales

Cost of sales increased by RUB 4,105.2 million, or 66%, from RUB 6,152.2 million for the six months ended June 30, 2006 to RUB 10,257.4 million for the six months ended June 30, 2007.

In general, increases in cost of sales in each of our segments are attributable to several factors, including (i) an increase in depreciation related to the increase in capital expenditures during the period; (ii) increases in production costs resulting from increased market prices of raw materials, such as cement and metals; (iii) increases in labor costs relating to the addition of personnel; and (iv) increases in average wages. The vast majority of our total depreciation expense is reflected in our cost of sales, with the remainder reflected in administrative expenses. The depreciation expense included in cost of sales primarily relates to depreciation of plant, property and equipment in our non-real estate segments.

On a segment basis, costs of sales during the period generally grew proportionally to growth in revenues over the period. The increase in cost of sales attributable to our Development segment was primarily due to the higher number of projects completed during the period. Development costs are capitalized as "inventory" until a project is transferred to purchasers. The costs are recognized as cost of sales for the period when the transfer of properties actually takes place.

Distribution expenses

Distribution expenses consist of transportation costs, marketing costs, advertising costs and promotion expenses. Distribution expenses increased by RUB 207.1 million, or 34%, from RUB 608.2 million for the six-month period ended June 30, 2006 to RUB 815.3 million for the six-month period ended June 30, 2007. Distribution costs grew by approximately half as much as revenues between periods. This increase in distribution expenses resulted primarily from increases in certain costs such as fuel, transportation, and other components. Additionally, we transport concrete panels that we produce in our Construction segment to the location of construction. Accordingly, increased construction in the period resulted in increased distribution expenses.

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Administrative expenses

Administrative expenses principally consist of wages and salaries, services, materials, and taxes other than profit tax. The following table sets forth our administrative expenses as a percentage of total administrative expenses.

	Six months ended June 30,					
	2006	% of Administrative Expenses	2007	% of Administrative Expenses	growth	growth %
(in millions of Rubles, except percentage)						
Wages and salaries	726.5	50%	818.5	41%	92.0	13%
Services	191.7	13%	558.1	28%	366.4	191%
Materials	200.3	14%	224.9	11%	24.6	12%
Depreciation and amortization	41.6	3%	20.9	1%	(20.7)	(50)%
Taxes other than profit tax	43.7	3%	143.9	7%	100.2	229%
Social expenditure	16.7	1%	38.4	2%	21.7	130%
Insurance	5.3	0%	22.2	1%	16.9	319%
Other administrative expenses	233.7	16%	185.9	9%	(47.8)	(20)%
Total	<u>1,459.5</u>	<u>100%</u>	<u>2,013.1</u>	<u>100%</u>	<u>553.6</u>	<u>38%</u>

Administrative expenses increased by RUB 553.6 million, or 38%, from RUB 1,459.5 million for the six-month period ended June 30, 2006 to RUB 2,013.1 million for the six-month period ended June 30, 2007. This increase primarily related to our development activities that are classified as “services”. “Services” increased by RUB 366.4 million, or 191%, from RUB 191.7 million for the six-month period ended June 30, 2006 to RUB 558.1 million for the six-month period ended June 30, 2007. We incur services expenses in relation to each of our development projects, such as certain supervisory services, rents for sales offices and other development-related administrative expenses. Expenses relating to these services increased significantly as the number of development projects increased during the six-month period ended June 30, 2007. The increase in administrative expenses was also due to an increase in “Taxes other than profit tax” by RUB 100.2 million, or 229%, from RUB 43.7 million for the six-month period ended June 30, 2006 to RUB 143.9 million for the six-month period ended June 30, 2007 and an increase in “Wages and Salaries” by RUB 92.0 million, or 12%, from RUB 726.5 million for the six month period ended June 30, 2006 to RUB 818.5 million for the six month period ended June 30, 2007. These increases were primarily related to taxes paid on the extraction of our aggregates, which is based on the value of the aggregates extracted during the period, and an increase in salaries and employees during the period.

Changes in fair value of investment property

Changes in fair value of investment property was RUB 5,022.3 million for the six months ended June 30, 2007 and represented 63.9% of our results from operating activities during the period. The changes in fair value of investment property primarily related to our classification of our property at Electric City in St. Petersburg to commercial development in January 2007 and the resulting changes in fair market valuation of the property as of June 30, 2007. This amount also includes to a lesser extent the revaluation of five additional commercial properties in our portfolio that were revalued as of June 30, 2007. See “—Key Factors Affecting our Financial Results—Fair Value Calculation of Commercial Properties”.

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Results from Operating Activities

Our results from operating activities increased by RUB 6,821.2 million, or 660%, from RUB 1,034.2 million for the six months ended June 30, 2006 to RUB 7,855.4 million for the six months ended June 30, 2007. Operating margin calculated as a percentage of revenues increased from 11.0% for the six months ended June 30, 2006 to 49% for the six months ended June 30, 2007. Overall results from operating activities increased for the six months ended June 30, 2007 primarily due to an increase in operating profit in our Development, Building Materials and Aggregates segments. The following table sets forth our results from operating activities as a percentage of total results from operating activities.

Six months ended June 30,								
2006	% of total	Operating margin	2007	% of total	Operating margin	growth/ (decline)	growth/ (decline) %	
(in millions of Rubles, except percentages) (unaudited)								
Results from operating activities:								
Building Materials:								
Reinforced Concrete . .	(23.3)	—	—	443.5	6%	20%	466.8	—
Ready-mix Concrete . .	40.2	4%	3%	117.1	1%	6%	76.9	191%
Bricks	127.5	12%	17%	255.7	3%	24%	128.2	101%
Aerated Concrete	67.3	7%	13%	190.0	2%	24%	122.7	182%
Other	9.3	1%	2%	131.1	2%	10%	121.8	1310%
Eliminations	(1.8)	0%	—	(0.6)	0%	—	1.2	—
Total Building Materials	219.1	21%	10%	1,136.8	14%	—	917.7	419%
Construction	186.1	18%	10%	(50.0)	—	—	(236.1)	—
Aggregates:								
Sand	64.2	6%	7%	414.3	5%	35%	350.1	545%
Crushed Granite	123.2	12%	16%	193.5	2%	18%	70.3	57%
Eliminations	13.4	1%	—	(11.4)	0%	—	(24.8)	—
Total Aggregates	200.8	19%	12%	596.4	8%	27%	395.6	197%
Development:								
Elite	259.0	25%	19%	4,368.7	56%	229%	4,109.7	1587%
Mass-market	91.3	9%	10%	346.6	4%	15%	255.3	280%
Gated Communities . . .	(5.2)	—	—	6.5	0%	57%	11.7	—
Moscow	(30.0)	—	—	351.1	4%	23%	381.1	—
Western Europe	—	0%	—	(11.6)	0%	10%	(11.6)	100%
Eliminations	2.7	0%	—	(34.3)	0%	—	(37.0)	—
Total Development	317.9	31%	14%	5,027.0	64%	87%	4,709.1	1,481%
Construction Services:								
Tower Cranes	107.0	10%	37%	128.7	2%	31%	21.7	20%
Transportation	32.7	3%	14%	(3.0)	—	(1)%	(35.7)	—
Total construction services	139.7	14%	27%	125.7	2%	19%	(14.0)	(10)%
Commercial Real Estate	—	—	—	1,104.9	14%	4,473%	1,104.9	—
Others	41.7	4%	25%	36.4	0%	364%	(5.3)	(13)%
Unallocated expenses . . .	(233.8)	—	—	(286.9)	—	—	—	—
Eliminations	162.7	16%	—	165.2	2%	—	2.5	—
Total results from operating activities	1,034.2	100%	11%	7,855.4	100%	49%	6,821.2	660%

Building Materials. Results from operating activities in our Building Materials segment increased by RUB 917.7 million, or 418%, from RUB 219.1 million for the six months ended June 30, 2006 to RUB 1,136.8 million for the six months ended June 30, 2007. Operating margin in Building Materials increased from 6% for the six months ended June 30, 2006 to 17% for the six months ended June 30, 2007. The increase in results from operating activities was principally due to increases in profits in Reinforced Concrete, Bricks and Ready-mix Concrete. Due to the significant volume of cement we purchase from our cement supplier, we were not exposed to as high an increase in cement costs during the first half of 2007 in Reinforced Concrete and Ready-mix Concrete, which resulted in a positive effect on our operating margin

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for the period in these segments as market prices increased while our raw material costs increased to a lesser extent.

Results from operating activities from Reinforced Concrete increased by RUB 466.8 million from a loss of RUB 23.3 million for the six months ended June 30, 2006 to RUB 443.5 million for the six months ended June 30, 2007. This increase was attributable to an increase in sales prices due to the change in product mix to higher margin products, such as larger diameter concrete pipes, primarily produced in our Moscow factory, and the increase in the market price for raw materials such as cement, which was reflected in our increased sales price. We reduced costs in our Reinforced Concrete business by closing two obsolete production facilities, which reduced overhead costs significantly.

Ready-mix Concrete results from operating activities increased by RUB 77.0 million, or 191%, from RUB 40.2 million for the six months ended June 30, 2006 to RUB 117.2 million for the six months ended June 30, 2007. Operating margin increased from 3% for the six months ended June 30, 2006 to 6% for the six months ended June 30, 2007. Results from operating activities increased reflecting economies of scale that resulted from the increase in our capacity, allowing revenues to increase without a significant increase in our overhead costs. Additionally, market prices for concrete increased at a higher rate than the cost of cement, which had a positive effect on our operating margin.

Aerated Concrete results from operating activities increased by RUB 122.7 million, or 182%, from RUB 67.3 million for the six months ended June 30, 2006 to RUB 190.0 million for the six months ended June 30, 2007. Aerated Concrete results from operating activities increased due to increased capacity after the acquisition of businesses in Estonia and Latvia. Operating margin in this business unit increased from 13% for the six months ended June 30, 2006 to 24% for the six months ended June 30, 2007. Operating margin increased due to the increase in the number of production lines in our factories which increased volumes without significantly increasing costs.

Construction. Results from operating activities in our Construction segment decreased by RUB 236.1 million, or 127%, from RUB 186.1 million for the six months ended June 30, 2006 to RUB (50.0) million for the six months ended June 30, 2007. This decrease in results from operating activities resulted primarily from the reduced revenues recognized and higher costs incurred on several projects for the six months ended June 30, 2007 due to modernization of one of our prefabricated panel factories, which limited the output during this period. We also completed one lower margin project and partially constructed a second lower margin project in the first half of 2007 and, during construction of these projects, incurred costs relating to the testing and implementation of new technologies. Furthermore, based on these additional costs, we revised our total cost assumptions for four projects during the first half of 2007, which were used in our percent of completion revenue recognition methodology in 2006, which resulted in a higher percentage of project revenues being recognized in 2006 than in 2007. Operating margin was also affected by the higher costs of cement used in panel production, since we were not able to pass such increases to third-party customers during the period and increased depreciation expenses due to modernizing production equipment in the first half of 2007.

Aggregates. Results from operating activities in our Aggregates segment increased by RUB 395.6 million, or 197%, from RUB 200.8 million for the six months ended June 30, 2006 to RUB 596.4 million for the six months ended June 30, 2007. This increase resulted primarily from an increase in prices and volumes of sand sold. Operating margin in aggregates increased from 12% for the six months ended June 30, 2006 to 27% for the six months ended June 30, 2007.

Sand results from operating activities increased by RUB 350.1 million, or 546%, from RUB 64.2 million for the six months ended June 30, 2006 to RUB 414.3 million for the six months ended June 30, 2007. This increase was primarily due to increased sand prices, higher production volumes resulting from our having increased capacity during the period and lower costs. Due to the retrofitting of our specialty sea sand barges, we were able to increase capacity while reducing the number of trips necessary to transport the sand, resulting in substantially lower production and transportation costs. Two additional quarries became operational in the second half of 2006 and the first half of 2007. Additionally, we upgraded our quarried sand extraction and processing equipment to increase capacity, which resulted in both increased revenues from higher production during the period and increased depreciation expenses. Operating margin for this business unit increased from 7% for the six months ended June 30, 2006 to 35% for the six months ended June 30, 2007, primarily due to the cost savings from the retrofitted sea sand barges, partially offset by the additional depreciation expenses.

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Crushed Granite results from operating activities increased by RUB 70.3 million, or 57%, from RUB 123.2 million for the six months ended June 30, 2006 to RUB 193.5 million for the six months ended June 30, 2007. This was primarily a result of higher prices due to a change in product mix and the higher production volumes resulting from the installation of the new crushing equipment. Operating margin for this business unit increased from 16% for the six months ended June 30, 2006 to 18% for the six months ended June 30, 2007, primarily due to the change in product mix to smaller dimensional granite that became possible after the new processing equipment became operational. This smaller granite product can be sold at higher prices, while the production costs remain the same as our other crushed granite products. The increase in margin from the change in product mix was partially offset by the increased depreciation expense attributable to the new equipment.

Development. Results from operating activities in our Development segment increased by RUB 4,709.1 million, or 1481%, from RUB 317.9 million for the six months ended June 30, 2006 to RUB 5,027.0 million for the six months ended June 30, 2007. The increase was primarily the result of the change in fair value of investment property of RUB 3,928.5 million during the first half of 2007 due to the classification of the property at Electric City to commercial property. Results from operating activities in our Development segment (excluding the change in fair value of investment property) increased by RUB 780.6 million, or 245%, from RUB 317.9 million for the six months ended June 30, 2006 to RUB 1,098.5 million for the six months ended June 30, 2007. The increase was principally attributable to an increase in the amount of sellable space transferred to purchasers in our Mass-market business unit. Operating margin in Development (excluding the changes in fair value of investment property) increased from 14% for the six months ended June 30, 2006 to 19% for the six months ended June 30, 2007.

Results from operating activities in Mass-market properties increased by RUB 255.3 million, or 280%, from RUB 91.3 million for the six months ended June 30, 2006 to RUB 346.6 million for the six months ended June 30, 2007. This increase in results from operating activities was primarily due to a significant increase in sales prices and volumes in the business unit. The business unit is characterized by shorter cycle times as compared to other real estate development business unit, which allows us to recognize the effects of growth in sale prices sooner. Operating margin in the Mass-market business unit increased from 10% for the six months ended June 30, 2006 to 15% for the six months ended June 30, 2007.

Results from operating activities in our Elite properties business unit increased by RUB 4,109.7 million, or 1,586%, from RUB 259.0 million for the six months ended June 30, 2006 to RUB 4,368.7 million for the six months ended June 30, 2007. This increase was primarily due to the changes in fair value of investment property of RUB 3,928.5 million resulting from the reclassification of the Electric City property to commercial property. Results from operating activities in our Elite business unit (excluding the fair value of investment property) increased by RUB 181.2 million, or 70%, from RUB 259.0 million for the six months ended June 30, 2006 to RUB 440.2 million for the six months ended June 30, 2007. Operating margin in this business unit increased from 19% for the six months ended June 30, 2006 to 23% for the six months ended June 30, 2007. The increase reflected an increase in the amount of sellable space transferred to owners during the six months ended June 30, 2007.

Results from operating activities in Moscow properties increased from a loss of RUB 30.1 million for the six months ended June 30, 2006 to a profit of RUB 351.1 million for the six months ended June 30, 2007. The loss for the six months ended June 30, 2006 was attributable to incurring administrative and other expenses during the period without recognizing revenues from any development project.

Construction Services. Results from operating activities in our Construction Services segment decreased by RUB 14.0 million, or 10%, from RUB 139.7 million for the six months ended June 30, 2006 to RUB 125.7 million for the six months ended June 30, 2007. Operating margin in Construction Services decreased from 27% for the six months ended June 30, 2006 to 19% for the six months ended June 30, 2007. This decrease resulted from the loss generated by our Transportation business unit.

Tower Cranes results from operating activities increased by RUB 21.7 million, or 20%, from RUB 107.0 million for the six months ended June 30, 2006 to RUB 128.7 million for the six months ended June 30, 2007. Results from operating activities increased due to a larger number of cranes, a higher utilization rate and increased prices for the services. Our operating margin for Tower Cranes decreased from 37% for the six months ended June 30, 2006 to 31% for the six months ended June 30, 2007. The decrease in margin was primarily due to the increased depreciation expense in cost of sales due to the purchase of 20 additional cranes in the second half of 2005 and the first half of 2006. The operating margin

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was also affected by the mix of locations where the services were provided, with the Moscow operating margin being lower than in St. Petersburg, due to more competitive prices and higher wages in Moscow.

Transportation results from operating activities decreased by RUB 35.7 million, or 109%, from RUB 32.7 million for the six months ended June 30, 2006 to a loss of RUB 3.0 million for the six months ended June 30, 2007. This decrease was primarily due to the additional depreciation expenses associated with the purchase of new trucks in the second half of 2005 and the first half of 2006. The operating margin was further reduced due to the limited amount of maintenance services available for the new vehicles, which significantly decreased the utilization rate of the new fleet during the six months ended June 30, 2007 and resulted in lost revenues during the period.

Commercial Real Estate. Results from operating activities in our Commercial Real Estate segment for the six months ended June 30, 2007 were RUB 1,104.9 million, of which RUB 1,093.8 million were due to the affect of the revaluation of business centers classified as investment property. Operating margin in this segment (excluding the fair value adjustment) was 45% for the six months ended June 30, 2007.

Net Financial Expense

Net financial expense generally relates to interest income and expenses on borrowings. Interest income is recognized as it accrues, using the effective interest method. All borrowing costs are recognized in the income statement using the effective interest method. Net financial expense increased by RUB 381.3 million, or 121%, from RUB 313.1 million for the six months ended June 30, 2006 to RUB 694.4 million for the six months ended June 30, 2007. This increase consisted primarily of interest expenses relating to an increase in our group's loans and borrowings. Our group loans and borrowings increased as a result of investments as well as due to the change in the way that we finance development projects after the use of pre-sale funds became more limited under the Pre-Sale Law. It is expected that interest expense will decline over the next twelve to eighteen months as a result of the reduction of short-term indebtedness through the use of proceeds from the Closed Subscription. See "Use of Proceeds".

Income tax expense

Income tax expense includes expenses relating to profits tax, which consist of our current profits tax and deferred tax liabilities. Income tax expense increased by RUB 1,481.7 million, or 671%, from RUB 220.8 million for the six months ended June 30, 2006 to RUB 1,702.5 million for the six months ended June 30, 2007 of which RUB 1,149.1 million was recognized as an increase in deferred taxes. The deferred taxes were mainly as a result to the fair value revaluation of investment property during the six months ended June 30, 2007. The effective tax rate was 31% for the six-month period ended June 30, 2006 and was 24% for the six-month period ended June 30, 2007. The statutory tax rate in both periods was 24%.

Net profit for the period

As a result of the above, net profit for the period increased by RUB 4,958.2 million, or 991% to RUB 5,458.5 million for the six months ended June 30, 2007, as compared to RUB 500.3 million for the six months ended June 30, 2006.

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Year Ended December 31, 2006 compared to the Year Ended December 31, 2005

The following table sets forth income statement data, including as a percentage of revenues, for the years ended December 31, 2005 and 2006.

	Years ended December 31,			
	2005	% of revenues	2006	% of revenues
Consolidated Financial Statements Data				
Total revenues	13,085.6	100%	21,110.8	100%
Cost of sales	(9,371.3)	(72)%	(13,796.5)	(65)%
Gross profit	3,714.2	28%	7,314.3	35%
Distribution expenses	(694.0)	(5)%	(1,702.3)	(8)%
Administrative expenses	(1,890.6)	(14)%	(3,051.1)	(14)%
Changes in fair value of investment property	—	0%	130.1	1%
Other expenses	(101.2)	(1)%	(56.2)	—
Total results from operating activities	1,028.4	8%	2,634.8	12%
Financial income	140.1	1%	213.8	1%
Financial expenses	(787.2)	(6)%	(1,089.6)	(5)%
Profit before income tax	381.4	3%	1,759.0	8%
Income tax expense	(118.2)	(1)%	(658.0)	(3)%
Net profit from continuing operations	263.2	2%	1,101.0	5%
Loss from discontinued operations, net of income tax . . .	(149.8)	(1)%	—	—
Net profit for the year	<u>113.4</u>	<u>1%</u>	<u>1,100.9</u>	<u>5%</u>

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Revenues

Revenues increased by RUB 8,025.3 million, or 61%, from RUB 13,085.5 million for the year ended December 31, 2005 to RUB 21,110.8 million for the year ended December 31, 2006. The increase in revenues was due primarily to significant growth in our Building Materials, Construction and Aggregates segments, although we experienced strong growth in all segments. Demand for our Building Material and Aggregates products generally exceeded supply during the periods and therefore increases in production capacities contributed to increased revenues in these segments. The following table sets forth our revenues by segment and business unit, including as a percentage of total revenues.

	Years ended December 31,					
	2005	% of revenues	2006	% of revenues	growth/ (decline)	growth/ (decline) %
	(in millions of Rubles, except percentages)					
Revenues:						
Building Materials:						
Reinforced Concrete	1,834.3	14%	3,340.5	16%	1,506.2	82%
Ready-mix Concrete	1,659.7	13%	3,157.8	15%	1,498.1	90%
Bricks	1,411.5	11%	1,710.8	8%	299.3	21%
Aerated Concrete.	223.3	1%	1,059.8	5%	836.5	375%
Others	279.4	2%	1,285.7	6%	1,006.3	360%
Eliminations	(71.1)	—%	(1,259.7)	—%	(1,188.6)	1672%
Total Building Materials	5,337.1	41%	9,294.8	44%	3,957.7	74%
Construction	3,232.7	25%	4,893.3	23%	1,660.6	51%
Aggregates:						
Sand	1,489.7	11%	2,570.7	12%	1,081.0	73%
Crushed Granite	1,095.0	8%	1,879.0	9%	784.0	72%
Eliminations	(9.4)	0%	(28.1)	0%	(18.7)	199%
Total Aggregates	2,575.4	20%	4,421.6	21%	1,846.2	72%
Development:						
Elite	1,309.3	10%	1,764.7	8%	455.4	35%
Mass-market	1,123.4	9%	1,514.6	7%	391.2	35%
Gated Communities	3.1	0%	3.7	0%	0.6	19%
Moscow	0.2	0%	1.0	0%	0.8	400%
Eliminations	(7.2)	0%	(8.7)	0%	(1.5)	21%
Total Development	2,428.4	19%	3,275.3	16%	846.9	35%
Construction Services:						
Tower Cranes	533.2	4%	627.7	3%	94.5	18%
Transportation	327.8	3%	498.0	2%	170.2	52%
Eliminations	(0.8)	0%	—	0%	0.8	—
Total Construction Services	860.2	7%	1,125.7	5%	265.5	31%
Commercial Real Estate	—	—	17.6	0%	—	—
Others	302.8	2%	181.5	1%	(121.3)	(40)%
Eliminations	(1,651.5)	(13)%	(2,099.1)	(10)%	(447.6)	27%
Total Revenues	13,085.6	100%	21,110.8	100%	8,025.3	61%

Building Materials. Revenues from our Building Materials segment (before inter-segment eliminations) increased by RUB 3,957.7 million, or 74% (of which RUB 140.7 million were inter-segment), from RUB 5,337.1 million for the year ended December 31, 2005 to RUB 9,294.8 million for the year ended December 31, 2006. This increase resulted primarily from an increase in production and sales of construction materials as a result of a number of factors. In particular, this segment was affected by a general improvement in the market for building materials in St. Petersburg and the Leningrad region during the second half of 2005 and for the full year in 2006. This improvement was partially due to growth in consumer demand in the region (after a downturn in demand due to a decrease in construction activity in St. Petersburg in the first half of 2005) as well as higher prices. The depressed construction market in the first half of 2005 was due to macro-economic factors such as significant price inflation in earlier years, which created a temporary stagnation in the real estate market at the end of 2004 and into 2005, since the higher prices made properties temporarily unaffordable. Flat buyers deferred purchasing flats during the

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period. In 2006, however, sales volumes increased. The higher weighted average prices in 2006 were due to a change in the product mix to higher priced products. We broadened our product line in existing businesses, such as by producing larger diameter reinforced concrete pipes, and we increased our production capacity in new businesses such as aerated concrete. We also expanded our regional presence in the Moscow market, initially through 45 Moscow, our ready-mix concrete business and then ZhBI-6, our reinforced concrete business. Reinforced concrete, Ready-mix Concrete and Aerated Concrete represented the largest components of the increase in revenues.

Reinforced Concrete revenues (before inter-segment eliminations) increased by RUB 1,506.2 million, or 82% (of which RUB 121.8 million were inter-segment), from RUB 1,834.3 million for the year ended December 31, 2005 to RUB 3,340.5 million for the year ended December 31, 2006. This increase was primarily due to growth in prices, demand and capacity. Reinforced Concrete experienced a significant increase in demand in 2006 due to the construction of shopping malls, hypermarkets, factories and projects in the St. Petersburg region for defence and aeronautical manufacturing customers during the year. We upgraded the technology in our existing plants, which also contributed to our increased capacity in 2006 in St. Petersburg. Our factory in the Leningrad region was also not operating at full capacity in 2005 and we increased the utilization to almost full capacity in this factory in 2006. The weighted average price of Reinforced Concrete in St. Petersburg increased by RUB 1,800 per cubic meter, or 28%, from RUB 6,400 per cubic meter for the year ended December 31, 2005 to RUB 8,200 per cubic meter for the year ended December 31, 2006, primarily due to a large price increase during the second half of 2006 that resulted from increased cement prices.

Ready-mix Concrete revenues (before inter-segment eliminations) increased by RUB 1,498.1 million, or 90% (of which RUB 533.0 million were inter-segment), from RUB 1,659.7 million for the year ended December 31, 2005 to RUB 3,157.8 million for the year ended December 31, 2006. This increase was primarily due to an increase in capacity and an increase in prices. Two new ready-mix concrete plants were installed and commenced operating in Moscow in 2006. The weighted average price of ready-mix concrete in St. Petersburg increased by RUB 400 per cubic meter, or 17%, from RUB 2,300 per cubic meter for the year ended December 31, 2005 to RUB 2,700 per cubic meter for the year ended December 31, 2006.

Aerated Concrete revenues (before inter-segment eliminations) increased by RUB 836.4 million, or 374% (despite a RUB 53.6 million decrease in inter-segment), from RUB 223.3 million for the year ended December 31, 2005 to RUB 1,059.7 million for the year ended December 31, 2006. This increase in Aerated Concrete segment revenues was primarily due to the acquisition in June 2006 of Aeroc International AS, which reached full production capacity in 2006. In early 2005, we built Aeroc St. Petersburg, the Aeroc factory in St. Petersburg, but did not operate the factory at full capacity until 2006. Our Latvia and Estonia plants also became operational in 2006, which resulted in additional revenues for the year. The weighted average price of Aerated Concrete increased by RUB 60 per cubic meter, or 3%, from RUB 2,200 per cubic meter for the year ended December 31, 2005 to RUB 2,260 per cubic meter for the year ended December 31, 2006.

Construction. Revenues from our Construction segment (before inter-segment eliminations) increased by RUB 1,660.6 million, or 51% (despite a RUB 411.5 million decrease in inter-segment revenues), from RUB 3,232.7 million for the year ended December 31, 2005 to RUB 4,893.3 million for the year ended December 31, 2006. The decrease in inter-segment revenues during the period was due to our decision to use our in-house general contractor capacity for larger and higher margin third-party projects, which contributed to increased revenues, and engage other external general contractors to construct some of the mass market projects in our group. The increase in Construction segment revenues resulted primarily from an increase in both prices for panel housing construction projects as well as an increase in sales to external customers.

Aggregates. Revenues from our Aggregates (before inter-segment eliminations) increased by RUB 1,846.2 million, or 72% (of which RUB 479.7 million were inter-segment), from RUB 2,575.4 million for the year ended December 31, 2005 to RUB 4,421.6 million for the year ended December 31, 2006. This increase resulted primarily from increases in prices and sales volume. Sand revenues increased by RUB 1,081.0 million, or 73%, from RUB 1,489.7 million for the year ended December 31, 2005 to RUB 2,570.8 million for the year ended December 31, 2006. This increase was primarily due to increased demand for raw materials and increased prices. The production capacity of sea sand increased due to the upgrading of the specialty barges, which increased the average amount of sea sand transported per barge per trip from 1676 cubic meters in 2005 to 1702 cubic meters in 2006. The weighted average price of sea sand increased by RUB 37 per cubic meter, or 18%, from RUB 205 per cubic meter for the year ended

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December 31, 2005 to RUB 241 per cubic meter for the year ended December 31, 2006. The production capacity of quarried sand increased in 2006 due to the purchase of a quarry in the second half of 2006. The weighted average price of quarried sand increased by RUB 11 per cubic meter, or 9%, from RUB 121 per cubic meter for the year ended December 31, 2005 to RUB 132 per cubic meter for the year ended December 31, 2006. Sea sand is priced higher than quarried sand due to the higher quality of the sand and scarcity, since we are the only company licensed to extract the sea sand from the Gulf of Finland.

Crushed Granite revenues (before inter-segment eliminations) increased by RUB 784.0 million, or 72% (of which RUB 364.2 million were inter-segment), from RUB 1,095.0 million for the year ended December 31, 2005 to RUB 1,879.0 million for the year ended December 31, 2006. This increase was primarily due to increases in the weighted average price of granite between periods. In 2004, we purchased (and in 2005 we installed) new granite processing equipment that enabled us to produce much finer and smaller dimensioned granite stones. This smaller sized product is used in higher quality constructions and can be sold at much higher prices. As a result of the improved quality, our weighted average price of Crushed Granite increased by RUB 265 per cubic meter, or 76%, from RUB 351 per cubic meter for the year ended December 31, 2005 to RUB 616 per cubic meter for the year ended December 31, 2006.

Development. Revenues from our Development segment increased by RUB 846.5 million, or 35%, from RUB 2,428.7 million for the year ended December 31, 2005 to RUB 3,275.3 million for the year ended December 31, 2006. The increase was primarily the result of substantial growth in 2006 of the sale price per square meter of flats and offices and a significant increase in the number of buildings we completed, allowing us to recognize revenues for prior sales of our residences. Prices in all categories of developments increased in 2006. Our Development segment is sub-divided into Elite, Mass-market, Business and Gated Communities business units, however a majority of our Development revenues during the year ended December 31, 2006 were generated by our Elite and Mass-market business units. Revenues from Elite Properties increased by RUB 455.4 million, or 35%, from RUB 1,309.3 million for the year ended December 31, 2005 to RUB 1,764.7 million for the year ended December 31, 2006. Revenues from Mass-market properties increased by RUB 391.1 million, or 35%, from RUB 1,123.4 million for the year ended December 31, 2005 to RUB 1,514.6 million for the year ended December 31, 2006.

Construction Services. Revenues from our Construction Services segment (before inter-segment eliminations) increased by RUB 265.5 million, or 31% (of which RUB 135.2 million were inter-segment), from RUB 860.2 million for the year ended December 31, 2005 to RUB 1,125.7 million for the year ended December 31, 2006. This increase resulted primarily from an increase in construction orders, from a geographical expansion of our customer base and generally favorable market conditions for construction in 2006. Our subsidiary, UM-260, has over the past three years refurbished and improved the technology of its tower cranes, making them more competitive. Our subsidiary, GATP-Y, has both increased the size of its fleet, which increased our capacity, as well as utilization rates of its fleet during the period. Tower Cranes revenues increased by RUB 94.5 million, or 18%, from RUB 533.2 million for the year ended December 31, 2005 to RUB 627.7 million for the year ended December 31, 2006. Transportation revenues increased by RUB 170.2 million, or 52%, from RUB 327.8 million for the year ended December 31, 2005 to RUB 498.0 million for the year ended December 31, 2006 due to the operation of a larger fleet in 2006 as compared to 2005.

Commercial Real Estate. Revenues from our Commercial Real Estate segment were RUB 17.6 million for the year ended December 31, 2006 (none of which were inter-segment).

Cost of sales

Cost of sales increased by RUB 4,425.2 million, or 47%, from RUB 9,371.3 million for the year ended December 31, 2005 to RUB 13,796.5 million for the year ended December 31, 2006.

In general, increases in cost of sales in each of our segments are attributable to several factors, including (i) increases in production costs resulting from the growth in market prices in raw materials, such as cement; (ii) increases in average wages and (iii) an increase in depreciation related to the substantial increase in capital expenditures during the period. The overall increase in cost of sales was due primarily to increases in costs of inventory and labor. Cost of sales increased most significantly in our Building Materials, Aggregates and Construction Services segments. Cost of sales grew slower than revenue growth over the period.

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Distribution expenses

Distribution expenses increased by RUB 1,008.3 million, or 145%, from RUB 694.0 million for the year ended December 31, 2005 to RUB 1,702.3 million for the year ended December 31, 2006. This increase resulted primarily from a strategic change in the way we distribute certain products such as crushed granite. Prior to 2006, a substantial amount of our crushed granite was transported to our customers by rail and the customer was responsible for transporting the product from the rail station to the place of use. In 2006, we decided to improve our customer service by transporting the crushed granite by trucks directly to the place of use. Some of the transportation was supplied by our Transportation business unit, however a part of the transportation was provided by third-party suppliers, which resulted in increased “distribution expenses” for the year ended December 31, 2006.

Administrative expenses

The following table sets forth our administrative expenses as a percentage of total administrative expenses.

	Year ended December 31,			
	2005	% of Administrative Expenses	2006	% of Administrative Expenses
(in millions of Rubles, except percentages)				
Wages and salaries	942.4	50%	1,264.3	41%
Services	456.2	24%	836.9	27%
Materials	72.4	4%	74.2	2%
Depreciation and amortization	48.6	3%	36.1	1%
Taxes other than profit tax	113.8	6%	145.3	5%
Social expenditure	33.1	2%	315.0	10%
Insurance	10.9	1%	10.4	0%
Other administrative expenses	213.2	11%	368.8	12%
Total	<u>1,890.6</u>	<u>100%</u>	<u>3,051.1</u>	<u>100%</u>

Administrative expenses increased by RUB 1,160.5 million, or 61%, from RUB 1,890.6 million for the year ended December 31, 2005 to RUB 3,051.1 million for the year ended December 31, 2006. This increase primarily resulted from an increase in services, wages and salaries, and social expenditure. “Services” increased significantly as the number of development projects increased during the year ended December 31, 2006. Wages and salaries increased in 2006 primarily due to the increased number of employees after the acquisition of ZhBI-6 and Aeroc International AS, as well as an increase in salaries generally in line with inflation.

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Results from Operating Activities

Results from operating activities increased by RUB 1,606.4 million, or 156%, from RUB 1,028.5 million for the year ended December 31, 2005 to RUB 2,634.8 million for the year ended December 31, 2006. Operating margin increased from 8% for the year ended December 31, 2005 to 12% for the year ended December 31, 2006. Overall results from operating activities increased for the year ended December 31, 2006 primarily due to an increase in results from operating activities in our Development, Building Materials, Aggregates and Construction segments. The following table sets forth our results from operating activities as a percentage of total results from operating activities. Operating margin and growth/decline figures are unaudited.

	Years ended December 31,							
	2005	% of total	Operating margin	2006	% of total	Operating margin	growth/ (decline)	growth/ (decline) %
	(in millions of Rubles, except percentages)							
Results from operating activities								
Building Materials:								
Reinforced Concrete	176.3	17%	10%	269.3	10%	8%	93.0	53%
Ready-mix Concrete	125.1	12%	8%	129.9	5%	4%	4.8	4%
Bricks	224.1	22%	16%	282.4	11%	17%	58.3	26%
Aerated Concrete	7.6	1%	3%	74.6	3%	7%	67.0	882%
Others	11.2	1%	4%	53.6	2%	4%	42.4	379%
Eliminations	(3.9)	—	—	1.2	0%	—	5.1	—
Total Building Materials	540.3	53%	10%	811.0	31%	9%	270.7	50%
Construction	75.6	7%	2%	512.8	19%	10%	437.2	578%
Aggregates:								
Sand	207.2	20%	14%	562.2	21%	22%	355.0	171%
Crushed Granite	163.5	16%	15%	369.2	14%	20%	205.7	126%
Eliminations	(15.3)	—	—	25.8	1%	—	41.1	—
Total Aggregates	355.3	35%	14%	957.2	36%	22%	601.9	169%
Development:								
Elite	33.4	3%	3%	450.5	17%	26%	417.1	1249%
Mass-market	50.5	5%	4%	36.0	1%	2%	(14.5)	(29%)
Gated Communities	(21.1)	—	—	(2.0)	0%	—	19.1	(91%)
Moscow Business	(41.7)	—	—	(83.5)	—%	—	(41.8)	100%
Real Estate Europe				(7.7)	0%		(7.7)	100%
Eliminations	(14.4)	—	—	(10.7)	0%	—	3.7	—
Total Development	6.7	1%	0%	382.6	15%	12%	375.9	5,610%
Construction Services:								
Tower Cranes	206.8	20%	39%	187.5	7%	30%	(19.3)	(9)%
Transportation	85.4	8%	26%	86.1	3%	17%	0.7	1%
Total Construction Services	292.2	28%	34%	273.6	10%	24%	(18.6)	6%
Commercial Real Estate								
Others	58.2	6%	19%	50.9	2%	28%	(7.3)	(13)%
Unallocated	(255.4)	—	—	(527.5)	—%	—	(272.1)	107%
Eliminations	(44.5)	—	—	170.3	6%	—	214.8	—
Total results from operating activities	1,028.4	100%	8%	2,634.8	100%	12%	1,606.4	156%

Building Materials. Results from operating activities in our Building Materials segment increased by RUB 270.7 million, or 50%, from RUB 540.3 million for the year ended December 31, 2005 to RUB 811.0 million for the year ended December 31, 2006. Operating margin in the Building Materials segment decreased from 10% for the year ended December 31, 2005 to 9% for the year ended December 31, 2006. This increase in results from operating activities resulted primarily from an increase in prices and volumes and the expansion both geographically into Moscow as well as into new, higher margin aerated and reinforced concrete products.

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Reinforced Concrete results from operating activities increased by RUB 93.0 million, or 53%, from RUB 176.3 million for the year ended December 31, 2005 to RUB 269.3 million for the year ended December 31, 2006. Operating margin in the Reinforced Concrete business unit decreased from 10% for the year ended December 31, 2005 to 8% for the year ended December 31, 2006. This increase in results from operating activities was primarily due to growth in demand and price. Margins in Ready-mix concrete decreased from 8% for the year ended December 31, 2005 to 4% for the year ended December 31, 2006. This decrease in operating margin was primarily due to reduced output during modernization of plants in St. Petersburg and the expansion into the Moscow market, where pricing is more competitive and costs such as wages are higher. Bricks results from operating activities increased by RUB 58.3 million, or 26%, from RUB 224.1 million for the year ended December 31, 2005 to RUB 282.4 million for the year ended December 31, 2006. Operating margin in the bricks business unit was 16% in both the year ended December 31, 2005 and for the year ended December 31, 2006. This increase in results from operating activities was primarily due to growth in the construction markets in which we operate.

Construction. Results from operating activities in our Construction segment increased by RUB 437.1 million, or 578%, from RUB 75.6 million for the year ended December 31, 2005 to RUB 512.7 million for the year ended December 31, 2006. Operating margin in the Construction segment increased from 2% for the year ended December 31, 2005 to 10% for the year ended December 31, 2006. This increase resulted primarily from an increase in prices of panel housing assemblies, offset in part by increases in production costs.

Aggregates. Results from operating activities in our Aggregates segment increased by RUB 601.9 million, or 169%, from RUB 355.3 million for the year ended December 31, 2005 to RUB 957.2 million for the year ended December 31, 2006. This increase resulted primarily from the increased percentage of sea sand in our Sand production mix and an increase in prices. Sand results from operating activities increased by RUB 355.1 million, or 171%, from RUB 207.2 million for the year ended December 31, 2005 to RUB 562.2 million for the year ended December 31, 2006. Operating margin in the Sand business unit increased from 14% for the year ended December 31, 2005 to 22% for the year ended December 31, 2006. This increase was primarily due to higher margins from the sea sand due to the reduced extraction and storage costs from our first barge upgrading and the shift in the product mix to sea sand. Operating margin in the Aggregates segment increased from 14% for the year ended December 31, 2005 to 22% for the year ended December 31, 2006.

Crushed Granite results from operating activities increased by RUB 205.8 million, or 126%, from RUB 163.5 million for the year ended December 31, 2005 to RUB 369.2 million for the year ended December 31, 2006. Operating margin for Crushed Granite increased from 15% for the year ended December 31, 2005 to 20% for the year ended December 31, 2006. This increase was primarily due to increases in the weighted average price of granite between the periods due to the change in product mix to higher margin, smaller granite products. This increase was offset in part by the higher depreciation expense associated with the new granite processing equipment for the year ended December 31, 2006.

Development. Results from operating activities in our Development segment (before inter-segment eliminations) increased by RUB 375.9 million, or 5,610%, from RUB 6.7 million for the year ended December 31, 2005 to RUB 382.6 million for the year ended December 31, 2006. Operating margin in the Development segment increased from 0% for the year ended December 31, 2005 to 12% for the year ended December 31, 2006. The increase was primarily the result of the significant increase in the amount of sellable area that we transferred to purchasers, allowing us to recognize revenues for prior sales. Additionally, results from operating activities in our Development segment reflects a RUB 130.1 million fair market revaluation of one of our commercial property developments at Zologichesky Street in St. Petersburg. Results from operating activities in Elite properties (which includes the change in fair value of investments) increased by RUB 417.1 million, or 1,249%, from RUB 33.4 million for the year ended December 31, 2005 to RUB 450.5 million for the year ended December 31, 2006. Operating margin in the Elite business unit increased from 3% for the year ended December 31, 2005 to 26% for the year ended December 31, 2006. Results from operating activities in the Mass-market business unit decreased by RUB 14.3 million, or 29%, from RUB 50.5 million for the year ended December 31, 2005 to RUB 36.0 million for the year ended December 31, 2006. Operating margin in the Mass-market business unit decreased from 4% for the year ended December 31, 2005 to 2% for the year ended December 31, 2006.

Construction Services. Results from operating activities in our Construction Services segment (before inter-segment eliminations) decreased by RUB 18.5 million, or 6%, from RUB 292.1 million for the year

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ended December 31, 2005 to RUB 273.5 million for the year ended December 31, 2006. Operating margin in the Construction Services segment decreased from 34% for the year ended December 31, 2005 to 24% for the year ended December 31, 2006. This decrease resulted primarily from increased depreciation expenses relating to the modernization of the Tower Crane business unit's equipment. It also reflects an increase in wages and salaries in 2006 due the expansion into the Moscow market. In Moscow, cranes are operated in three shifts of six hours each, while in St. Petersburg, they are operated in two shifts of six hours each. The increased labor costs relating to the extra shift in Moscow resulted in lower margins. Tower Cranes results from operating activities decreased by RUB 19.3 million, or 9%, from RUB 206.8 million for the year ended December 31, 2005 to RUB 187.5 million for the year ended December 31, 2006. Operating margin in the Tower Cranes business unit decreased from 39% for the year ended December 31, 2005 to 30% for the year ended December 31, 2006. Transportation results from operating activities increased by RUB 0.7 million, or 1%, from RUB 85.4 million for the year ended December 31, 2005 to RUB 86.1 million for the year ended December 31, 2006. Operating margin in the Transportation business unit decreased from 26% for the year ended December 31, 2005 to 17% for the year ended December 31, 2006.

Commercial Real Estate. Results from operating activities in our Commercial Real Estate segment for the year ended December 31, 2006 were RUB 3.9 million.

Net financial expense

Net financial expense increased by RUB 228.7 million, or 35%, from RUB 647.1 million for the year ended December 31, 2005 to RUB 875.8 million for the year ended December 31, 2006. This increase consisted primarily of an increase in interest expense resulting from an increase in loans and borrowings over the period.

Income tax expense

Income tax expense increased by RUB 539.8 million, or 457%, from RUB 118.2 million for the year ended December 31, 2005 to RUB 658.0 million for the year ended December 31, 2006. The effective tax rate was 41% for the year ended December 31, 2005 and was 37% for the year ended December 31, 2006. The statutory tax rate in both periods was 24%.

Net profit from continuing operations for the year

As a result of the above, net profit from continuing operations for the year was RUB 1,100.9 million for the year ended December 31, 2006, as compared to RUB 263.2 million for the year ended December 31, 2005.

Loss from discontinued operations

In 2006, we recorded a RUB 149.8 million loss from discontinued operations related to our Road Construction Segment.

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

The following table sets forth income statement data, including as a percentage of revenues, for the years ended December 31, 2004 and 2005.

	Years ended December 31,			
	2004	% of revenues	2005	% of revenues
	(in millions of Rubles, except percentages)			
Consolidated Financial Statements Data				
Total revenues	7,530.9	100%	13,085.6	100%
Cost of sales	(6,461.6)	(86)%	(9,371.3)	(72)%
Gross profit	1,069.3	14%	3,714.2	28%
Distribution expenses	(169.5)	(2)%	(694.0)	(5)%
Administrative expenses	(793.9)	(10)%	(1,890.6)	(14)%
Changes in fair value of investment property	—	—	—	—
Impairment of good will	(717.1)	(10)%	—	—
Other expenses	(124.7)	(2)%	(101.2)	(1)%
Total Results from operating activities	(735.8)	(10)%	1,028.4	8%
Financial income	40.5	1%	140.1	1%
Financial expenses	(370.4)	(5)%	(787.2)	(6)%
Profit before income tax	(1,065.7)	(14)%	381.4	3%
Income tax expense	10.8	—	(118.2)	(1)%
Net profit from continuing operations	—	—	263.2	2%
Loss from discontinued operations, net of income tax	—	—	(149.8)	(1)%
Net profit for the year	<u>(1,054.9)</u>	<u>(14)%</u>	<u>113.3</u>	<u>1%</u>

Revenues

Revenues increased by RUB 5,554.6 billion, or 75%, from RUB 7,530.9 million for the year ended December 31, 2004 to RUB 13,085.5 million for the year ended December 31, 2005. The increase in revenues was due primarily to significant growth in our Building Materials, Construction and Aggregates segments, although we experienced strong growth in all segments. Results of operation by business unit were not reported by us for the year ended December 31, 2004 and therefore only segment revenues and results of operating activities are discussed below. The following table sets forth our revenues by segment, including as a percentage of total revenues.

	Years ended December 31,					
	2004	% of revenues	2005	% of revenues	growth	growth %
	(in millions of Rubles, except percentages)					
Revenues:						
Building Materials	3,362.0	45%	5,337.1	41%	1,975.1	59%
Construction	276.6	4%	3,232.7	25%	2,956.1	1,069%
Aggregates	1,311.8	17%	2,575.4	20%	1,263.6	96%
Development	2,129.6	28%	2,428.4	19%	298.8	14%
Construction Services	658.8	9%	860.0	7%	201.2	31%
Commercial Real Estate*	—	—	—	—	—	—
Others	116.0	1%	302.8	2%	186.8	160%
Eliminations	<u>(323.8)</u>	<u>(4)%</u>	<u>(1,651.5)</u>	<u>(13)%</u>	<u>(1,327.7)</u>	<u>409%</u>
Total Revenues	<u>7,530.9</u>	<u>100%</u>	<u>13,085.6</u>	<u>100%</u>	<u>5,554.7</u>	<u>75%</u>

* Commercial Real Estate was not a segment until 2006 and therefore no revenues are reported.

Building Materials. Revenues from our Building Materials segment (before inter-segment eliminations) increased by RUB 1,975.1 million, or 59% (of which RUB 329.4 million were inter-segment), from RUB 3,362.0 million for the year ended December 31, 2004 to RUB 5,337.1 million for the year ended December 31, 2005. This increase resulted primarily from both higher production volumes resulting from

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our having increased capacity during the period in some of our product lines, as well as a general increase in demand for building materials for construction projects. These increases were partially offset by a downturn in the construction market in St. Petersburg during the first half of 2005. Revenues from our Building Materials segment also increased substantially due to higher production of bricks as a result of our acquisition of the Pobeda brick factory in the middle of 2004 and higher production of aerated concrete resulting from the construction of our aerated concrete production facilities in St. Petersburg.

Construction. Revenues from our Construction segment (before inter-segment eliminations) increased by RUB 2,956.1 million, or 1069% (of which RUB 469.4 million were inter-segment), from RUB 276.6 million for the year ended December 31, 2004 to RUB 3,232.7 million for the year ended December 31, 2005. This increase resulted primarily from acquiring control of our primary construction companies, DSK Blok and ZAO GDSK in December 2004. Prior to December 2004, we operated only a smaller construction company and therefore our revenues increased substantially in 2005.

Aggregates. Revenues from our Aggregates (before inter-segment eliminations) increased by RUB 1,263.6 million, or 96% (of which RUB 346.3 million were inter-segment), from RUB 1,311.8 million for the year ended December 31, 2004 to RUB 2,575.4 million for the year ended December 31, 2005. This increase resulted primarily from a combination of increases in prices and sales volume. The weighted average price of sand increased RUB 48 per cubic meter, or 41%, from RUB 117 per cubic meter to RUB 165 per cubic meter. The weighted average price of crushed granite increased RUB 119 per cubic meter, or 67%, from RUB 179 per cubic meter to RUB 298 per cubic meter. In the second half of 2004 and in 2005, there was a substantial increase in road construction in the St. Petersburg area, including construction of the St. Petersburg ring road, which created high demand for our sand and crushed granite.

Development. Revenues from our Development segment (before inter-segment eliminations) increased by RUB 299.2 million, or 14% (of which RUB 15.8 million were inter-segment), from RUB 2,129.6 million for the year ended December 31, 2004 to RUB 2,428.8 million for the year ended December 31, 2005. We had a significant increase in the amount of sellable area transferred to customers. Prices in all categories of developments increased in 2005.

Construction Services. Revenues from our Construction Services segment (before inter-segment eliminations) increased by RUB 201.4 million, or 31% (of which RUB 189.0 million were inter-segment), from RUB 658.8 million for the year ended December 31, 2004 to RUB 860.2 million for the year ended December 31, 2005. This increase resulted primarily from an increase in construction orders, a geographical expansion of our customer base and generally favorable market conditions for construction in Russia in 2004.

Cost of sales

Cost of sales increased by RUB 2,909.7 million, or 45%, from RUB 6,461.6 million for the year ended December 31, 2004 to RUB 9,371.3 million for the year ended December 31, 2005. The overall increase in cost of sales was due primarily to increases in sales in all segments and increases in costs in raw materials. Growth in cost of sales was higher in our Construction and Building Materials segments.

Distribution expenses

Distribution expenses increased by RUB 524.5 million, or 309%, from RUB 169.5 million for the year ended December 31, 2004 to RUB 694.0 million for the year ended December 31, 2005. This increase resulted primarily from increased transportation costs associated with deliveries of aggregates to the St. Petersburg ring road project discussed above.

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Administrative expenses

The following table sets forth our administrative expenses as a percentage of total administrative expenses.

	Year ended December 31,					
	2004	% of Administrative Expenses	2005	% of Administrative Expenses	growth/ decline	growth/ decline %
(in millions of Rubles, except percentages)						
Wages and salaries	198.3	25%	942.4	50%	744.1	374%
Services	245.9	31%	456.2	24%	210.3	86%
Materials	80.3	10%	72.4	4%	(7.9)	(10)%
Depreciation and amortization . . .	17.6	2%	48.6	3%	31.0	176%
Taxes other than profit tax	89.6	11%	113.8	6%	24.2	27%
Social expenditure	11.6	1%	33.1	2%	27.0	185%
Insurance	—	—	10.9	1%	10.9	—
Other administrative expenses . . .	150.3	19%	213.2	11%	62.9	42%
Total	793.8	100%	1,890.6	100%	1,096.8	138%

Administrative expenses increased by RUB 1,096.7 million, or 138%, from RUB 793.9 million for the year ended December 31, 2004 to RUB 1,890.6 million for the year ended December 31, 2005. This increase resulted from a significant increase in personnel after acquiring Pobeda, DSK Blok and GDSK, as well as an increase in salary levels.

Impairment of goodwill

We recognized an impairment of goodwill of RUB 717 million in 2004 primarily due to our purchase of OOO PSF Dorstroiproekt, a road construction company, which had negative assets at the time of acquisition, and Pobeda brick factory.

Results from operating activities

Results from operating activities increased by RUB 1,764.2 million from a loss of RUB 735.8 million for the year ended December 31, 2004 to a profit of RUB 1,028.4 million for the year ended December 31, 2005. Operating margin was 8.0% for the year ended December 31, 2005. Overall results from operating activities increased for the year ended December 31, 2005 primarily due to an increase in operating profit in our Development, Building Materials, Aggregates and Construction segments. The following table sets forth our results from operating activities as a percentage of total results from operating activities. Operating margin and growth/decline figures are unaudited.

	Years ended December 31,					
	2004	Operating margin	2005	Operating margin	growth/ decline	growth/ decline %
(in millions of Rubles, except percentages)						
Results from operating activities						
Building Materials	50.5	2%	540.3	10%	489.7	970%
Construction	47.5	17%	75.6	2%	28.1	59%
Aggregates	(93.4)	—	355.3	14%	448.7	—
Development	(138.2)	—	6.7	0%	144.9	—
Construction Services	217.0	33%	292.2	34%	75.2	35%
Commercial Real Estate	—	—	—	—	—	—
Others	69.2	60%	58.2	19%	(11.0)	(16)%
Discontinued Operations	—	0%	12.9	0%	—	100%
Unallocated	(147.9)	—	(255.4)	—	(107.5)	—
Eliminations	(740.6)	—	(57.4)	—	683.2	—
Total Results from operating activities . .	(735.8)	10%	1,028.4	8%	1,764.2	—

Building Materials. Results from operating activities in our Building Materials segment increased by RUB 489.7 million, or 968%, from RUB 50.6 million for the year ended December 31, 2004 to RUB 540.3 million for the year ended December 31, 2005. This increase resulted primarily from an

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increase in prices and volumes. Operating margin in the Building Materials segment increased from 2% for the year ended December 31, 2004 to 10% for the year ended December 31, 2005.

Construction. Results from operating activities in our Construction segment increased by RUB 28.1 million, or 59%, from RUB 47.5 million for the year ended December 31, 2004 to RUB 75.6 million for the year ended December 31, 2005. This increase reflected increased volumes resulting from the acquisition of DSK Blok and ZAO GDSK. Operating margin in the Construction segment decreased from 17% for the year ended December 31, 2004 to 2% for the year ended December 31, 2005 due to the high operating expenses related to the businesses acquired during the period.

Aggregates. Results from operating activities in our Aggregates increased by RUB 448.7 million from RUB (93.5) million for the year ended December 31, 2004 to RUB 355.3 million for the year ended December 31, 2005. Operating margin in the Aggregates segment increased from (7)% for the year ended December 31, 2004 to 14% for the year ended December 31, 2005. This increase resulted primarily from an increase in prices and volumes of aggregates due to road construction activity.

Development. Results from operating activities in our Development segment increased by RUB 144.9 million from a loss of RUB 138.2 million for the year ended December 31, 2004 to a profit of RUB 6.7 million for the year ended December 31, 2005. The increase was primarily the result of increased finished projects. Operating margin in the Development segment was (6)% for the year ended December 31, 2004 and 0% for the year ended December 31, 2005.

Construction Services. Results from operating activities in our Construction Services segment (before inter-segment eliminations) increased by RUB 75.2 million, or 35%, from RUB 217.0 million for the year ended December 31, 2004 to RUB 292.2 million for the year ended December 31, 2005.

Net financial expense

Net financial expense increased by RUB 317.2 million, or 96%, from RUB 329.9 million for the year ended December 31, 2004 to RUB 647.0 million for the year ended December 31, 2005. This increase consisted primarily of interest expense from increased levels of loans and borrowings.

Income tax expense

Income tax expense increased by RUB 129.0 million from RUB 10.8 million for the year ended December 31, 2004 to RUB 118.2 million for the year ended December 31, 2005. The effective tax rate was 1% for the year ended December 31, 2004 and was 41% for the year ended December 31, 2005. The statutory tax rate in both periods was 24%.

Net profit for the year

As a result of the above, net profit for the year was RUB 113.3 million for the year ended December 31, 2005, as compared to a loss of RUB 1,054.9 million for the year ended December 31, 2004.

Liquidity and Capital Resources

A.10.10.1

Our liquidity requirements arise primarily from the need to fund our working capital and our capital expenditure program. During the periods covered by our consolidated financial statements, we have primarily financed our operations and investments through a combination of free cash flow, and short-term and long-term borrowings from banks and related parties. We intend to fund future acquisitions, if any, our real estate development activities and our capital expenditures in our other segments through free cash flow and borrowings.

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Cash Flows

For the years ended December 31, 2004, 2005 and 2006

The following table sets out our consolidated cash flows for the years ended December 31, 2004, 2005 and 2006 and the six-month period ended June 30, 2006 and 2007.

	For the year ended December 31,			For the six-months ended June 30,	
	2004	2005	2006	2006	2007
	(Rubles in millions)			(Rubles in millions) (unaudited)	
Net cash from/(used) in operating activities	(809.5)	(31.4)	557.4	(351.6)	(288.5)
Net cash used in investing activities	(2,028.9)	(1,575.6)	(6,036.6)	(2,105.8)	(3,082.7)
Net cash from financing activities	2,864.5	2,220.7	6,294.9	2,494.5	2,701.3
Net increase in cash and cash equivalents	26.1	613.7	815.7	37.3	(669.9)
Cash and cash equivalents at January 1	126.8	152.9	766.6	766.6	1,582.3
Cash and cash equivalents at December 31	152.9	766.6	1,582.3	803.8	912.3

Our capital requirements include both costs relating to our acquisition and development of real estate properties and capital expenditures relating to all of our business segments. Cash movements relating to the acquisition and development of our non-commercial real estate properties are reflected in “increases in inventory” in our net cash from/(used by) operating activities. Cash movements relating to the acquisition and development of commercial real estate properties are reflected in “acquisition of investment property under development” in our net cash used in investing activities. Cash movements relating to our capital expenditures in all segments are reflected as “acquisition of property, plant and equipment” in our net cash used in investing activities.

A10.5.2.1
A10.10.2

Net cash from/(used by) operating activities. Our cash flow from/(used by) operating activities is primarily affected by our EBITDA (excluding the non-cash item “change in fair value of investment property”) for the period; “increases in inventory” over the period, which primarily reflects increases in capitalized costs and acquisition of land relating to our residential real estate projects under development, although it also partially reflects increases in inventory relating to our building materials and aggregates businesses and other increases in inventory; prepayments by suppliers from our Business Materials segment, which are reflected in our cash flow statement as a component of “increase in trade and other receivables”; prepayments by our real estate customers, which is reflected in our cash flow statement as a component of “increase in trade and other payables”; and “interest paid”.

A10.5.2.2

Net cash utilized by operating activities decreased from RUB 351.6 million during the six month period ended June 30, 2006 to RUB 288.5 million during the six month period ended June 30, 2007, resulting in a decrease in cash flows utilized by operating activities of RUB 63.0 million. This was due to a significant increase in “increases in inventory”, a decrease in “increase in trade and other payables” and an increase in “interest paid”, offset in part by a significant decrease in “increase in trade and other receivables”. “Increase in inventories” increased from RUB 642.8 million during the six month period ended June 30, 2006 to RUB 2,869.6 million during the six month period ended June 30, 2007, reflecting an increase in non-commercial real estate projects under development in the first half of 2007 including, principally, our Mass-market class Dolgoozerniy, Antey and Dom na Chudnovskoy projects and our Elite class Paradniy Quarter and Dom u Morya projects. The primary reason for this decrease was lower prepayments from residential real estate customers during the six months ended June 30, 2007 due to our decision to change our policy regarding the stage of construction that we generally accept prepayments in from early stage to later stages of construction. In early 2005, the Pre-Sale Law, which is the federal law relating to prepayments was enacted, and prohibited the use of prepayments from one development project for the construction of another project. This change in law made the policy of accepting early stage prepayments less attractive financially. Additionally, due to price inflation in flats in recent years, our management decided to delay the stage when prepayments would be accepted to later stages of construction so that the growth in prices is better reflected in the prepayments we receive for the flats. “Interest paid” increased from RUB 446.3 million during the six month period ended June 30, 2006 to RUB 730.2 million during the six month period ended June 30, 2007, primarily due to an increase in loans outstanding during the period. “Increase in trade and other receivables” decreased from RUB 2,340.8 million during the six month period ended June 30, 2006 to RUB 803.8 million during the six month period ended June 30, 2007. The primary reason for this decrease between periods is the classification of the property at Electric City from a “lease

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incentive”, which is reflected in the line item “trade and other receivable” in cash utilized by operating activities, to “investment property under development”, which is reflected in the cash flows utilized by investing activities. “Lease incentives” movement decreased from RUB 569.8 million during the six months ended June 30, 2006 to a negative RUB 1,139.4 million during the six months ended June 30, 2007, reflecting this reclassification. Without the effect of the reclassification, “Increase in trade and other receivables” would have decreased from RUB 2,340.8 million during the six months ended June 30, 2006 to RUB 1,943.1 million during the six months ended June 30, 2007. “Increase in trade and other payables” decreased from RUB 1,629.9 million during the six month period ended June 30, 2006 to RUB 956.8 million during the six month period ended June 30, 2007.

Net cash used in operating activities was RUB 31.4 million during the year ended December 31, 2005 compared to net cash flow from operating activities of RUB 557.4 million during the year ended December 31, 2006. The primary reason for this positive cash flow was the increased EBITDA during the year ended December 31, 2006. This was partially offset by increases in “increase in inventories” and “interest paid”. “Increase in inventories” increased from RUB 2,906.9 million during the year ended December 31, 2005 to RUB 4,213.8 million during the year ended December 31, 2006, reflecting an increase in non-commercial real estate projects under development in 2006 including, principally, our Mass-market class Pulkovskiy Posad, Rzevka and Yougo-Zapad projects and our Elite class Konung and Robespiera projects. “Interest paid” increased from RUB 752.4 million during the year ended December 31, 2005 to RUB 1,056.4 million during the year ended December 31, 2006, primarily due to an increase in loans outstanding during the period.

Net cash used in operating activities was RUB 809.5 million, 2004 compared to RUB 31.4 million in 2005. The primary reason for this decrease in net cash used by operating activities was the increased EBITDA during the year ended December 31, 2005 offset in part by an increase in “interest paid”. “Interest paid” increased from RUB 330.5 million during the year ended December 31, 2004 to RUB 752.4 million during the year ended December 31, 2005, primarily due to an increase in loans outstanding during the period.

Net cash used in investing activities. Generally, our strategy is to sell the residential properties we develop and to lease the commercial properties we develop, subject to periodic reassessment of such properties based on prevailing market conditions. Because of this, we classify all of our commercial properties as “investment properties under development” and our residential properties as “inventory”. Net cash used by investing activities is primarily affected by: “acquisitions of property, plant and equipment”, which represents our capital expenditures during the period less our lease acquisition financings principally relating to the leasing of equipment such as tower cranes and transportation vehicles; “acquisition of investment property under development”, which reflects costs and expenses relating to our development of commercial properties; net loans given, which principally reflect related party loans that are given and repaid during the period; and cash issued or received from the acquisition and sale of subsidiaries and other investments.

Net cash used by investing activities was RUB 2,105.8 million during the six month period ended June 30, 2006 as compared to RUB 3,082.7 million during the six month period ended June 30, 2007. The increase reflected increases in expenditures under “acquisition of property, plant and equipment” and “acquisition of investment property under development”, offset in part by an increase in “loans given”. “Acquisition of property, plant and equipment” increased from RUB 539.9 million during the six month period ended June 30, 2006 to RUB 1,959.6 million during the six month period ended June 30, 2007, primarily as a result of increased capital expenditures relating to Tower Cranes, a new crushed granite facility, and Building Materials segment related expenditures. “Acquisitions of investment property under development” increased from RUB 9.2 million during the six month period ended June 30, 2006 to RUB 1,315.6 million during the six month period ended June 30, 2007, primarily as a result of the classification of the Electric City property to investment property in January 2007. Net loans given increased from RUB 824.9 million during the six month period ended June 30, 2006 to RUB 49.8 million during the six month period ended June 30, 2007.

Net cash used in investing activities increased by RUB 4,461.0 million, or 283.1%, from RUB 1,575.6 million during the year ended December 31, 2005 to RUB 6,036.6 million during the year ended December 31, 2006. This increase was primarily due to increased cash used for “acquisition of subsidiaries” in 2006 as compared to 2005. In 2006, we recorded total cash outflow from “acquisitions of subsidiaries, net of cash acquired” of RUB 3,927.5 million, as a consequence of our acquisitions of Aeroc International AS, ZHBI-6 OOO Velikan XXI, ZAO Ingeokom and OAO Zavod Elektrik in 2006, as

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compared to a total cash outflow from acquisitions of subsidiaries, net of cash acquired of RUB 2.4 million in 2005.

Net cash used in investing activities decreased by RUB 453.3 million, or 22%, from RUB 2,028.9 million during the year ended December 31, 2004 to RUB 1,575.6 million during the year ended December 31, 2005. This decrease was primarily due to decreased cash used for “acquisitions of subsidiaries” in 2005 as compared to 2004, offset in part by increased “acquisition of property, plant and equipment”. In 2004, we recorded total cash outflow from acquisitions of subsidiaries, net of cash acquired of RUB 1,152.0 million, as a consequence of our acquisitions of our construction segment companies, including DSK Blok and ZAO GDSK, as compared to a total cash outflow from acquisitions of subsidiaries, net of cash acquired of RUB 2.4 million in 2005. “Acquisition of property, plant and equipment” increased from RUB 971.9 million during the year ended December 31, 2004 to RUB 1,425.2 million during the year ended December 31, 2005.

Net cash from financing activities. Net cash from financing activities increased by RUB 206.7 million, or 8%, from RUB 2,494.6 million during the six month period ended June 30, 2006 to RUB 2,701.3 million during the six month period ended June 30, 2007. Net cash from financing activities increased primarily due to larger amounts of loans received in the first half of 2007 as compared to the first half of 2006 to finance our capital requirements.

Net cash from financing activities increased by RUB 4,074.2 million, or 183.4%, from RUB 2,220.7 million during the year ended December 31, 2005 to RUB 6,294.9 million during the year ended December 31, 2006. Net cash from financing activities increased primarily due to larger amounts of loans received in 2006 as compared to 2005 to finance acquisitions, including the acquisitions of interests in Aeroc International AS, ZhBI-6, OOO Velikan XXI, ZAO Ingeokom and OAO Zavod Elektrik.

Net cash from financing activities decreased by RUB 643.8 million, or 22%, from RUB 2,864.5 million during the year ended December 31, 2004 to RUB 2,220.7 million during the year ended December 31, 2005, primarily as a result of a lower level of net borrowings during the year ended December 31, 2005.

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Capital Resources

During the periods presented, we have met our cash needs principally through retained earnings and borrowings. As of June 30, 2007, our debt was comprised of the following:

A10.10.3
A10.10.4

<u>Currency</u>	<u>Contractual</u>	<u>Year of maturity</u>	<u>June 30, 2007 (Rubles in million outstanding)</u>
Secured bank loans:			
RUB	9.14%-12.05%	2007-2011	1,460.0
USD	9.38%-11.00%	2009-2011	881.2
USD	Libor+3.9%- Libor+4.1%	2009-2011	1,252.3
EUR	6.00%-8.8%	2007-2014	312.3
EUR	Eonia+2% Euribor+0.99% Euribor+4.5%	2007-2014	986.9
Current portion of secured bank loans:			
EUR	Euribor+0.99% Euribor+4.5%	2007-2008	48.1
EUR	6.00%-8.8%	2007-2008	191.9
RUB	10.00%-10.25%	2007-2008	72.9
Unsecured other loans:			
RUB	Mosprime+3%	2008	340.0
RUB	8.50%-12.00%	2007-2015	7,729.4
Unsecured bond issues:			
RUB	10.7%-14.0%	2008-2009	2,758.0
EUR	Euribor+0.99%- Euribor+4.5%	2009	277.7
Finance lease liabilities—RUB	11%-29%		<u>1,452.3</u>
Total			<u>17,763.1</u>

As at December 31, 2004, 2005, 2006 and June 30, 2007, our loans and borrowings were payable as follows:

	<u>As at December 31,</u>			<u>As of</u>
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>June 30, 2007</u>
				(Rubles in millions)
Current	2,854.6	5,639.0	5,730.7	5,676.6
Non-current	1,817.2	1,500.6	8,721.2	12,086.5
Total	<u>4,671.8</u>	<u>7,139.6</u>	<u>14,451.9</u>	<u>17,763.1</u>

Capital Requirements

We require capital to finance the following:

- capital expenditures, consisting of cash outlays for property, plant and equipment in each of our segments;
- capital investments in real estate development projects;
- the acquisition of real estate properties and land rights (ownership or leasehold);

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- acquisitions of other companies with building materials, production facilities or real estate holdings or activities;
- repayment of debt;
- changes in working capital; and
- general corporate activities.

We therefore expect to have significant ongoing liquidity and capital requirements in order to finance our growth strategy, including investing in new production facilities, properties and development projects in our target market segments, while making additional investments into our existing facilities, properties and real estate development projects. Our cash outlays for the years ended December 31, 2004, 2005, 2006 and the six months ended June 30, 2007, which were reflected in our cashflow statement as “acquisition of property, plant and equipment”, “acquisition of investment properties under development”, “acquisition of subsidiaries, net of cash acquired” and “increase in inventories” were, in aggregate, RUB 4,932.0 million, RUB 4,479.0 million, RUB 10,246.3 million and RUB 6,156.6 million, respectively.

In accordance with IFRS, cash used to develop our residential real estate properties is reflected in cash from/(used in) operating activities, while we classify cash used to fund our capital expenditures (primarily relating to our non-real estate businesses) as cash used in investing activities. The following is a table of our historical capital expenditures (not including our real estate investments) in 2004, 2005, 2006 and the six months ended June 30, 2007 by segment.

	2004	2005	2006	Six months 2007
		(Rubles in millions)		
Building materials	758.3	910.0	2,257.8	643.0
Construction services	692.7	168.3	469.6	616.7
Aggregates	500.5	318.0	470.9	640.5
Development	54.8	31.1	37.1	175.7
Construction	7.8	164.0	188.3	207.5
Commercial	—	—	—	125.5
Other/eliminations	73.9	40.5	(458.8)	212.1
Total	<u>2,088.0</u>	<u>1,631.9</u>	<u>2,964.9</u>	<u>2,621.2</u>

For the foreseeable future, we expect that we will continue to rely on our financing activities to support our investing and operating activities. We also expect that our capital requirements in connection with the development of our property, plants and equipment and investments in new properties will be the majority of our cash outflows for the foreseeable future.

A10.10.5

Between June 30, 2007 and September 30, 2007, we spent RUB 4,096.5 million to acquire projects and properties and to construct new and modernize existing production facilities. See “—Recent Developments”. Our cash requirements relating to potential acquisitions may vary significantly, depending on market opportunities and the availability of attractive acquisition opportunities.

We anticipate that we will spend up to approximately RUB 34,000 million from 2007 until 2011 in connection with developing our existing real estate projects, the acquisition of new projects and the construction and modernization of new production facilities. In particular, we anticipate to spend on the following projects between 2007 and 2011:

A10.5.2.3

- approximately \$598 million to construct a new cement factory by 2010 that is designed to have a production capacity of 1.85 million tons per year;
- approximately \$280 million to build a new brick factory to replace three obsolete factories by 2010, which is expected to increase our brick making capacity from 287 nf per year to 360 nf per year by 2011;
- approximately \$80 million to expand our concrete panel production capacity in our Construction segment to 750,000 square meter per year and modernize equipment by 2010;
- approximately \$70 million through 2011 to build our Aerated Concrete factories in Ukraine and Lithuania and double our current capacity in Latvia; and

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- approximately \$300 million through 2011 to increase production capacities, modernize equipment, and develop quarries in our Sand, Crushed Granite, Reinforced Concrete, Ready-mix Concrete, and Tower Cranes business units.

We expect to use some of the proceeds from this Offering to finance these capital expenditures. See “Use of Proceeds”.

Commitments and Contingent Liabilities

Contractual Obligations

We have various contractual obligations and commercial commitments to make future payments, including debt agreements, lease obligations and certain other committed obligations. The following table summarizes our future obligations under these contracts due by the periods indicated as of June 30, 2007.

	<u>Less than a year</u>	<u>Between one and five years</u>	<u>More than five years</u>	<u>Total</u>
	(RUB in millions)			
Contractual obligations:				
Loans and borrowings	5,098.9	10,978.6	233.4	16,310.8
Finance leases	<u>577.7</u>	<u>874.5</u>	<u>—</u>	<u>1,452.3</u>
Total	<u>5,676.6</u>	<u>11,853.1</u>	<u>233.4</u>	<u>17,763.1</u>

As of June 30, 2007, we had contractual obligations to purchase plant and equipment that have been entered into on the reporting date but have not yet been performed.

<u>Name of the entity</u>	<u>Total</u>
	(Rubles in millions)
OAO Aeroc SPB	2.4
OAO PO Barrikada	51.2
ZAO GDSK	2.4
OAO Granit-Kuznechnoe	120.1
OAO Rudas	134.1
ZAO DSK Blok	364.1
OAO UM-260	90.7
OOO St. Petersburg Port	11.4
OAO Obiedinenie 45	104.8
OJSC LSR Group	<u>808.6</u>
Total as of June 30, 2007	<u>1,689.8</u>

Our construction contracts with contractors and subcontractors for our real estate developments are in the form of framework agreements that provide for payments to the contractors or subcontractors on a monthly basis. Under the terms of the framework agreements, we may terminate the contracts at the end of each month period without any commitments to make future payments with respect to any projects.

In addition, as of October 15, 2007, we had deferred payment obligations under certain material sale and purchase agreements relating to real estate transactions of RUB 4,155.2 million in aggregate.

Qualitative and Quantitative Disclosures About Market Risk

We are exposed to market risks from changes in both foreign currency exchange rates and interest rates. We do not use financial instruments, such as foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks. To date, we have not utilized any derivative or other financial instruments for trading purposes.

Foreign currency risk

Our functional currency is the Ruble and substantially all of our revenues are in Rubles. However, as of the date of this prospectus, a significant amount of our borrowings and capital expenditures are in US Dollars and Euro. We are therefore exposed to fluctuations in the Ruble against the US Dollar and the Euro.

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Interest rate risk

We are subject to market risk deriving from changes in interest rates, which may affect the cost of our current floating rate indebtedness and future financing. As of December 31, 2006, 17% of our indebtedness was floating rate which had an aggregate outstanding principal amount of RUB 2,457.3 million as of December 31, 2006.

Credit risk

We do not require collateral in respect of financial assets. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount. As of June 30, 2007 there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Critical Accounting Policies

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

A detailed description of certain of the main accounting policies we use in preparing our consolidated financial statements is set forth in our consolidated financial statements.

Determination of deemed cost

In 2005 we commissioned American Appraisal Inc. to independently appraise property, plant and equipment as at January 1, 2005 in order to determine its deemed cost. The majority of our property, plant and equipment is specialized in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales of comparable property, plant and equipment for using a market-based approach for determining fair value. Consequently the fair value of property, plant and equipment was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence. The depreciated replacement cost was estimated based on internal sources and analysis of the Russian and international markets for similar property, plant and equipment. Various market data were collected from published information, catalogues, statistical data etc, and industry experts and suppliers of property, plant and equipment were contacted both in the Russian Federation and abroad.

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

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

- Cash flows were projected based on actual operating results and the five-year business plan.
- Total production at the group companies for which assessment of the reasonableness of values has been done was projected at RUB 22,456 million in the first year of the business plan. The anticipated annual production growth included in the cash flow projections was from 6% to 13% for each year since 2007 to 2011.
- Cash flows for further periods during which property plant and equipment is planned to be used were extrapolated assuming no further growth in production, and revenue and expenses increasing in line with inflation.
- Discount rates from 17.48% to 22.68% were applied in determining the recoverable amount of the plants. The discount rate was estimated based on an industry average weighted average cost of capital.

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

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The above estimates are particularly sensitive in the following areas:

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

Fair value valuation of investment property

Investment property is property held either to earn rental income or for capital appreciation or for both but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change therein recognized in the income statement. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

An external, independent valuation company, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, values our investment property portfolio periodically. The fair values are based on market values, being the estimated amount for which the property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

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

The fair value of land component is based on valuation by independent valuers who hold recognized and relevant professional qualifications and who have recent experience in the location and category of the investment property being valued. The valuations are based on a Residual Site Appraisal, undertaken according to the requirements of RICS Appraisal and Valuation Standards ("Red Book").

The annual rental rates used to determine the fair values are within the range \$650 to \$1,000 per square meter.

Independent valuers revalue our investment property portfolio on a regular basis. The expected rate to be derived from letting these premises after the construction is completed ranges from \$500 to \$750 per square meters a year.

Provisions for loss-making contracts

The provision for loss-making contracts relates to a number of contracts for the construction of roads.

Provisions for site restoration

We record provisions in respect of our obligation to clean up the surrounding area after construction of apartment buildings in St. Petersburg. The damage caused during construction is cleaned up after the construction of buildings is completed, however since the cost of site restoration is incurred following transfer of the properties and recognition of the related revenues and costs of sales, we record a provision for such activities. As at June 30, 2007, we recorded a provision of RUB 232.6 million in respect of site restoration work. Site restoration work typically takes less than one year to complete after the property is transferred.

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Contingencies for environmental liabilities

We are engaged in dredging sand from the sea bed and quarrying sand in forested areas. There is no liability to perform any restoration work in relation to the sea bed after the dredging is complete but a liability arises in relation to quarrying sand. Before June 2006 we rented land from which sand is quarried from a related party which is liable for the restoration work. The related party that rented land to us was acquired by us in June 2006. As at the date of purchase by us, the site restoration recorded in books of the acquired company amounted to RUB 23.7 million.

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We are engaged in crushed granite production in three areas covered by forests. According to existing legislation and the terms of licenses obtained by us there is a liability to restore these sites when quarrying is complete. The costs associated with restoration cannot be determined as, in accordance with existing licences on crushed granite production, the methods of restoration and its cost will be determined in the future based on discussions between us and Russian Environment Authorities after the quarrying is complete. Accordingly, no provision has been recognized in the consolidated financial statements for expected expenses on restoration. It is planned that quarrying will be completed for the currently used three areas in the years 2051, 2154 and 2157 respectively.

Recent Accounting Pronouncements

The IASB has recently promulgated certain new International Financial Reporting Standards, amendments to standards and amendments to interpretations. These new standards and amendments are described in note 3 to our consolidated financial statements.

These new standards and amendments were not yet effective for the six months ended June 30, 2007 and have not been applied in preparing our consolidated financial statements. However, we do not expect that the application of these new standards and amendments will have a material effect on our consolidated financial statements.

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INDUSTRY

Set out below is a discussion of the macroeconomic environment in Russia and the industry conditions in each of the markets in which we operate.

Macroeconomic and Demographic Overview

In each of the last three years, real GDP in Russia has increased by between 6% and 7% per annum, driven by a combination of fiscal and budgetary discipline, falling interest rates, structural economic reforms, decreasing unemployment, as well as growing fixed investments.

	As of and for the year ended December 31,			
	2003	2004	2005	2006
Real GDP growth, year on year ^(a)	7.3%	7.2%	6.4%	6.7%
Real disposable income growth, year on year ^(a)	15.0%	10.4%	11.1%	10.2%
CPI, Dec/Dec ^(a)	12.0%	11.7%	10.9%	9.0%
RUB/\$ exchange rate, end of period ^(b)	29.45	27.75	28.78	26.33
Fixed investments, year on year ^(a)	12.5%	11.7%	10.7%	13.7%
Budget balance (% of GDP) ^(c)	2.4%	4.9%	7.5%	7.7%
Construction real growth, year on year ^(a)	12.8%	10.1%	10.5%	15.7%

Source: (a) Rosstat, (b) CBR, (c) Economist Intelligence Unit

Russia has in recent years been assigned investment grade ratings of Baa2 (Moody's) and BBB+ (S&P). According to published press reports, Russia is expected to enter the World Trade Organization by 2008 although uncertainty exists as to whether this will actually happen. Over the last decade, the size of Russia's population has been impacted by high mortality and low birth rates, which, although partially offset by immigration, primarily from CIS countries, has resulted in a net decline in population since 1995. Despite this decline, the number of registered households has grown from 49.8 million in 1990 to 52 million in 1997 and 52.7 million in 2002, according to Rosstat.

Real Estate Market Overview

The Russian real estate market continues to experience strong growth, due to increased availability of bank financing, a growing mortgage industry and increased levels of per capita disposable income.

According to Jones Lang LaSalle, \$4.2 billion was invested in commercial real estate in Russia in 2006, a figure approximately nine times higher than the previous year. The Russian residential real estate market has also experienced strong growth in recent years. According to the Federal State Statistics Service, the volume of residential construction grew by 44% between 2000 and 2005 (CAGR 7.5% per year), which is on a par with GDP growth in Russia over the same period. However, in 2006, growth in residential construction volumes accelerated to 16% as approximately 50.6 million square meters of residential properties were completed. Despite this growth, the real estate market remains immature and suffers from a lack of transparency.

St. Petersburg Commercial Property Market

The St. Petersburg office market has experienced a high growth rate both in terms of supply and demand over the recent past and in particular during 2007. There are favorable economic conditions in the region that have stimulated local corporate growth, as well as attracting investment from both Moscow and abroad. All of these factors have fueled demand for quality office premises to which developers are responding.

Office Classification Standards

According to the Moscow Research Forum Office Building Classification, office buildings are classified according to certain criteria, including location, building systems, building structure, parking and other amenities. Class B and Class C buildings are defined in reference to the qualities of Class A buildings. There is no specific formula by which buildings can be placed into classes. Class A office space can be characterized as buildings that benefit from an excellent location and access, attract high caliber tenants, and are managed professionally. Class B buildings are typically well constructed and located in good areas

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but do not enjoy the same level of services as Class A buildings. Class C buildings are typically 15 to 20 years old but continue to enjoy steady occupancy rates.

Demand

The commercial property market is currently characterized by growth in demand for quality office premises. As well as local businesses seeking to move to new modern office buildings, foreign businesses typically look for Class A office premises. As such, the majority of new office buildings in the city are fully pre-let prior to completion.

According to DTZ, the most popular size of offices ranges between suites of 100 square meters and 300 square meters. These suites currently make up approximately 40% and 27% of Class A and Class B markets, respectively. Larger office premises (more than 500 square meters) are increasingly in demand. Larger premises currently make up 15% of the Class B and approximately 20% of Class A markets, respectively. The proportion of businesses interested in smaller office premises (less than 150 square meters) is gradually decreasing.

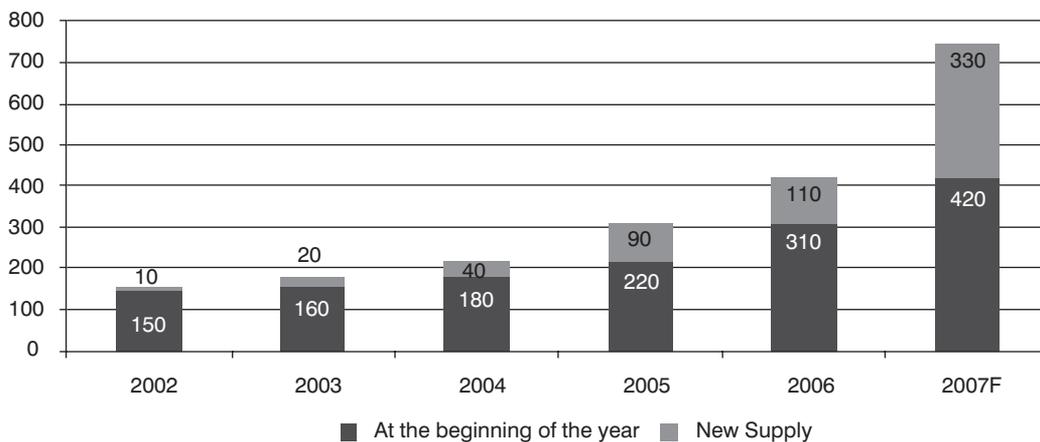
Supply

The St. Petersburg market experienced a period of active development throughout 2006. By the end of the year, there was approximately 1,065,000 square meters of office space on the market, of which approximately 108,000 square meters had been completed during 2006. According to DTZ, at the end of 2006, Class A and B office space totalled approximately 420,000 square meters. During the first six months of 2007, a further 56,120 square meters of Class A and B office premises were completed.

The amount of high quality, Class A office space on the market doubled in 2006 to approximately 64,000 square meters. At the end of 2006, the total space of existing Class B offices in St. Petersburg reached 356,000 square meters. New class B offices completed in 2006 accounted for 75,000 square meters and during the first 6 months of 2007, Class B supply increased by roughly 46,000 square meters.

DTZ estimates that by the end of 2007 St. Petersburg quality office stock (class A and B) will reach 750,000 sqm. More than half of the proposed 2007 developments will be Class A space, a trend DTZ expects to continue.

Class A and B Office Stock ('000 square meters)

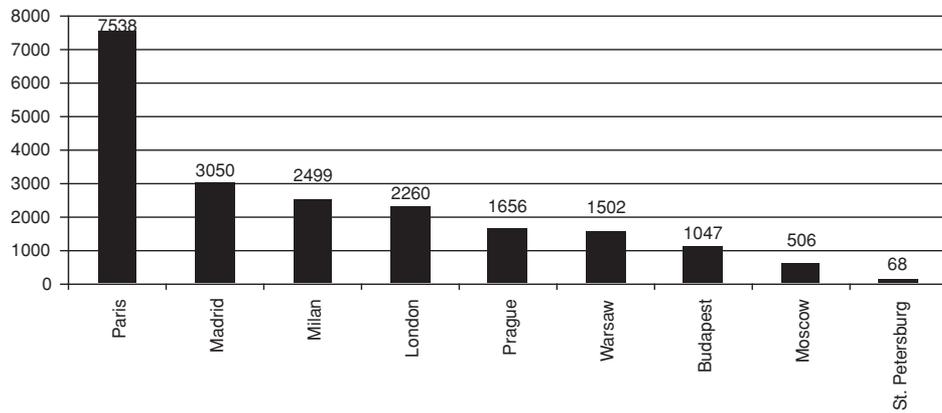


Source: DTZ Research

Analysing supply from a per capita perspective as shown in the table below, St. Petersburg would appear significantly undersupplied, trailing Moscow and other large European cities.



Quality Office Stock per 1,000 inhabitants (2006)



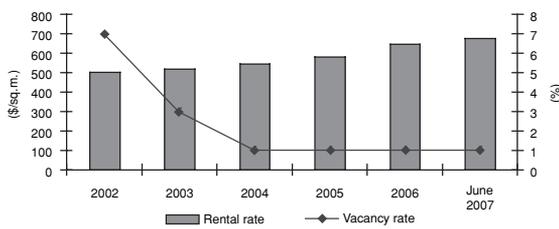
Source: DTZ Research

Rental Rates

According to DTZ, rents are increasing and during the first half of 2007, Class A rents grew by 5%. Current average rental rates in Class A business centers vary from \$460 to \$900 per square meter per annum, excluding operational expenses and VAT. Occupancy rates in office centers is close to 100% with any vacant space being found mainly in newly opened business centers.

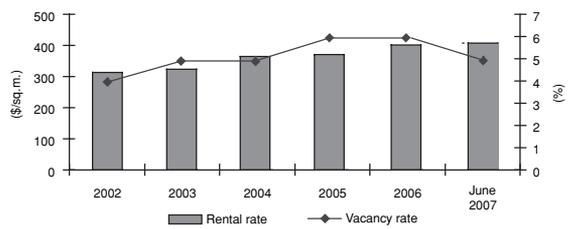
Rental rates in Class B office centers range from \$290 to \$540 per square meter per annum, excluding operating expenses and VAT depending on the quality of office centre and its location.

Base rental rate (sq m/year) and vacancy rate (%) dynamics, class A



Source: DTZ Research

Base rental rate (sq m/year) and vacancy rate (%) dynamics, class B



Source: DTZ Research

Rental rates in Class C office premises range between \$160 and \$330 per square meter per annum, excluding operating expenses and VAT.

Yields

The recent St. Petersburg office market remains immature with no evidence of recent sales on the open market of modern Class A office space that can be corroborated. However, DTZ anticipates that a modern office building in St. Petersburg could generate initial yields of approximately 9%.

St. Petersburg Residential Market

According to DTZ, supply is starting to meet demand in the St. Petersburg residential market.

Demand

The residential real estate market is generally divided into three main price categories: the mass market segment (lower prices), business segment (mid-range prices) and elite class segment (high prices).

Elite segment. Elite residential properties are characterized by the following features: prime location, high quality of construction, developer with a track record in elite property, small number of apartments in the



building, parking spaces for each property and other amenities and maintenance services provided by a professional property management company.

Business segment. Business residential properties are characterized by the following features: good location, individually designed building, parking spaces for each property and maintenance services provided by a professional property management company.

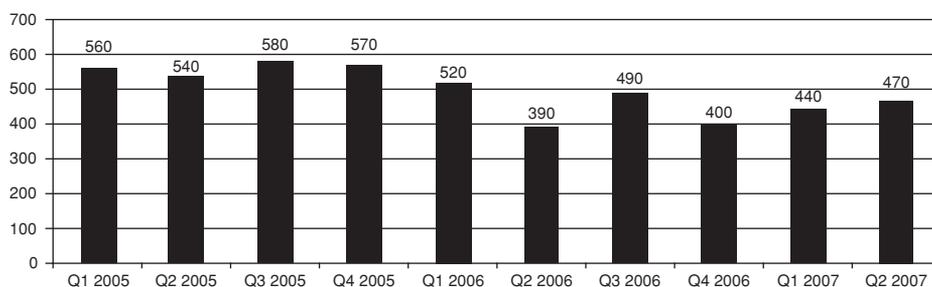
Mass market segment. Mass market residential properties characterized by the following features: price, location outside the city center and prefabricated concrete panel construction method.

Supply

According to SPb Realty, as of July 2007, the St. Petersburg residential property market consisted of approximately 4,702,000 square meters of liveable space, of which mass market properties made up approximately 71%, business class properties approximately 18% and elite properties approximately 11%.

As of July 2007, there were 43 elite buildings containing 514,300 square meters of liveable space. The majority of new elite residential properties are constructed in the Petrogradskiy and Centralniy districts of St. Petersburg.

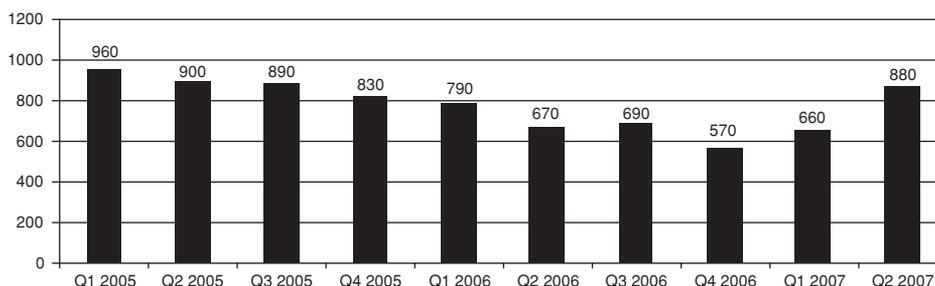
Elite segment supply dynamics, '000 square meters



Source: SPb Realty

As of July 2007, there were 61 business class buildings containing 834,100 square meters of liveable space. The majority of these properties are located in the Moskovskiy, Vasileostrovskiy, Vyborgskiy, and Petrogradskiy districts of St. Petersburg.

Business segment supply dynamics, '000 square meters

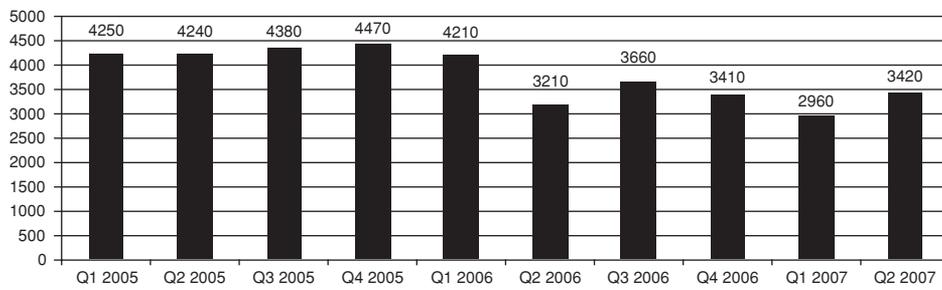


Source: SPb Realty

As of July 2007, there were 173 mass market buildings containing approximately 3,354,000 square meters of liveable space. Most mass market properties are constructed in the Primorskiy, Kalininskiy, and Vyborgskiy districts of St Petersburg.



Mass market segment supply dynamics, '000 square meters

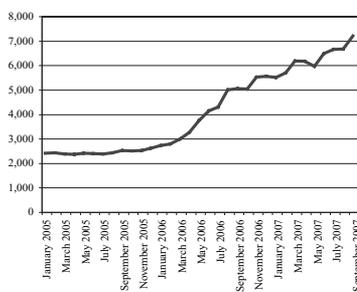


Source: SPb Realty

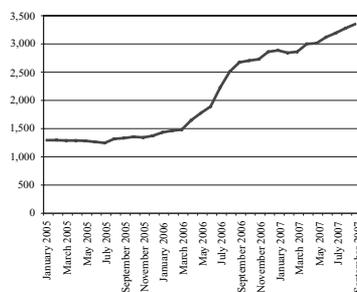
Prices

According to DTZ, between January and July 2007, price growth in the elite segment was significantly higher than in other segments, averaging approximately 17%. Price growth in the same period was approximately 9% in respect of business class properties and approximately 4% in respect of mass market properties.

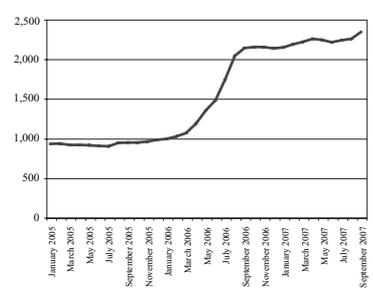
Elite segment (\$/sq. m.)



Business segment (\$/sq. m.)



Mass-market (\$/sq. m.)



Source: SPb Realty

DTZ expects mass market price stabilization to continue in the long term, as growing demand is being satisfied by large scale development projects. On the other hand, market differentiation is expected. Residential complexes constructed on the new territories outside the city are expected to be less popular and therefore lower in price than residential projects that are located within the city limits.

Leningrad Region Gated Communities

The suburban Leningrad region residential real estate market is currently experiencing increased demand for second homes from St. Petersburg residents. This demand is being driven in part by easier access to bank financing and mortgages, as well as increased levels of disposable income generally among the St. Petersburg population.

Gated communities are typically located a certain distance from the city, enjoy landscaped grounds with features such as lakes and forests and are limited to a certain number of buildings per community. The communities benefit from the same amenities that would typically be found on a business class residential development.

According to SPb Realty, Leningrad Region gated communities can be separated into four classifications: elite class, business class, middle class and economy class.



Gated communities classification characteristics

<u>Class</u>	<u>Community area</u> (hectares)	<u>Number of cottages</u>	<u>Cottage area</u> (square meters)	<u>Land plot area</u> (100 square meters)
Elite	4-20	10-30	230-550	20-40 and more
Business	5-60	20-70	180-350	15-25
Middle	More than 5	50-100	130-250	12-20
Economy	More than 10	More than 50	90-180	6-15

Source: SPb Realty

Demand

Demand for gated communities depends on the class of development and location. Among the most popular areas are the Vyborgskiy and Vsevolzhskiy districts of the Leningrad Region.

According to DTZ, the business and elite class markets are approaching saturation point. At the same time, there remains high levels of unsatisfied demand for relatively inexpensive middle and economy class cottages. A significant proportion of the population is considering such properties as an alternative to an apartment in St. Petersburg.

Reaching market equilibrium depends on several factors. Implementation of large-scale economy and middle class cottage construction projects is financially viable only in the regions that are located further from St. Petersburg where land plots are relatively inexpensive. However, most of these regions lack the infrastructure necessary to construct properties, such as roads and utilities. Another demand factor that will also affect market equilibrium is the availability of mortgages for cottage purchases.

Supply

The majority of gated communities are located in the northern part of the St. Petersburg suburbs and the Leningrad Region. Over 80% of these communities are located in the districts to the north of the city, which include Vyborgskiy, Vsevolzhskiy, Priozerskiy, and Kurortniy.

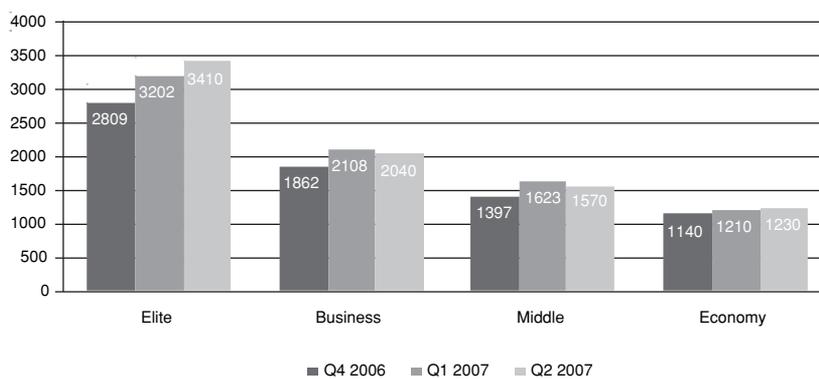
According to SPb Realty, business class gated communities form the largest share of the market (59.8%), followed by elite class (28.1%), middle class (9.6%) and economy class (2.5%). In the near future, several large-scale economy class projects are planned, and its share is expected to increase accordingly.

According to DTZ, in the long term, economy and middle class houses will be more popular as they become more affordable, and their market share is expected to increase.

Prices

The average prices of properties in gated communities per square meters as of June 30, 2007 are presented below.

Primary market average gated communities prices, \$/square meter



Source: SPb Realty



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According to DTZ Research, in the second quarter of 2007, elite class gated communities enjoyed the strongest price growth of approximately 6.5%.

Building materials and aggregates

A10.12.1
A10.12.2

Sales prices for building materials in Russia are not materially below those in Western Europe and the supply/demand imbalance creates a favorable pricing environment. Russia benefits from materially lower production costs across most categories, in particular labor and energy, which typically account for a substantial proportion of production costs.

Details of our market share for each segment are set out below:

*LSR market share market position and volume growth
in St. Petersburg and Leningrad region, 2006*

	<u>Market Share</u>	<u>CAGR 06-12 market growth, by volume</u>	<u>Market Position</u>
Building Materials			
Reinforced concrete	50%	7%	1
Ready-mix concrete	28%	6%	1
Bricks	69%	6%	1
Aerated concrete	48%	7%	1
Aggregates			
Crushed granite	43%	6%	1
Sand	70%	6%	1
Construction Services			
Tower cranes	26%	8%	1
Transportation	9%	7%	1

Source: Reshenie

Aggregates

Sand

The market for sand in St. Petersburg and the Leningrad region has grown rapidly over the past few years, driven principally by road building, real estate construction, land reclamation and other major infrastructure projects. Sand is an important material in the manufacture of concrete and other building materials.

In St. Petersburg and the Leningrad region, sand is either mined from quarries or dredged from the seabed of the Gulf of Finland. Sea sand is of a superior quality to quarried sand and is used in the manufacture of building materials. Quarried sand tends to be used in road construction or as landfill in land reclamation projects.

	<u>Year</u>				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Market size, '000 m ³	6,300	7,450	11,500	12,900	16,700
Growth, %	—	18%	54%	12%	29%

Source: Reshenie

According to Reshenie, the market share in sand in St. Petersburg and the Leningrad region in 2006 was divided between our subsidiary, Rudas, with a 70% share, CBI (Gepard) with a 14% share, Semiozerskoe kareroupravlenie with a 6% share and the remaining 10% from other suppliers.

According to Reshenie, over a third of the sand produced in St. Petersburg and the Leningrad region is used by the road construction industry, which is undertaking several major road construction projects over the next few years. Major land reclamation projects, such as the “Maritime Façade” project, located at the western tip of Vasilevsky Island in St. Petersburg, are major consumers of sand. According to Reshenie,

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2 million cubic meters of sand were used on this project in 2006 alone, with another 3.3 million cubic meters estimated for 2007.

Rising demand, fuelled by the construction boom in St. Petersburg and these major land reclamation projects, has seen the price of sand increase significantly over the past few years. According to Reshenie, the sand market is set for continuous growth between 2007 and 2012, as the table below shows:

*Market outlook for sand production levels
in St. Petersburg and Leningrad Region*

	2007	2008	2009	2010	2011	2012
Market size, '000 m ³	20,300	21,150	22,000	22,700	23,250	23,850

Source: Reshenie

Crushed granite

Crushed granite has a wide variety of uses within the construction and building materials industries, including in the manufacture of reinforced and ready-mix concrete.

In European Russia, all but one granite quarries are located in the Northwest region of Russia and crushed granite produced in this region supplies both the St. Petersburg and Moscow markets. According to Reshenie, approximately 20% of the crushed granite produced in St. Petersburg and the Leningrad region is exported to other regions in Russia. The remainder is used in real estate construction, road construction and the manufacture of reinforced and ready-mix concrete.

According to Reshenie, the market for crushed granite in St. Petersburg and the Leningrad region is set to grow over the next five years, fuelled by anticipated growth in the real estate construction and road building industries, as the table below shows:

Growth in the Crushed Granite Market

	2006	2007	2008	2009	2010	2011	2012
St. Petersburg and Leningrad region, '000 m ³	8,440	9,700	10,050	10,600	11,150	11,600	12,050
Moscow and Moscow region, '000 m ³ . . .	15,000	15,900	16,700	17,700	18,450	19,400	20,200

Source: Reshenie

According to Reshenie, there are only two large suppliers of crushed granite in the St. Petersburg and Leningrad region: our subsidiary, OAO Granit-Kuznechnoe, with a 43% market share and Lenstroyateriali with a 37% market share. The remaining 20% of the market is serviced by a number of smaller suppliers.

Moscow and the Moscow region are reliant on imports of crushed granite. As a result, many construction segments use inferior substitute products, such as crushed gravel and limestone. However, the growth in construction of high-rise, poured concrete structures in Moscow has resulted in increased demand for crushed granite since its use in the manufacture of concrete results in a stronger and more durable product.

Building materials

Ready-mix concrete

St. Petersburg and Leningrad region

Ready-mix concrete has been one of the fastest growing segments in the building materials industry in St. Petersburg and the Leningrad region over the past few years, driven principally by rapid growth in the construction industry and a growing number of large-scale infrastructure projects.

According to Reshenie, the market share in ready-mix concrete in St. Petersburg and the Leningrad region in 2006 is divided between our subsidiary, OAO Obyedinenie 45, with a 28% market share, Lenstroydetal





with a 9% market share, SZNK-beton with a 8% market share, Beton-Voxrozhdenie and Betomix each with a 7% market share, Peterasfalt with a 6% market share and other suppliers with a 35% market share.

Moscow

The ready-mix concrete market has witnessed significant growth in Moscow in recent years, driven in part by the growth in construction of poured concrete buildings. There are more than 70 manufacturers of ready-mix concrete in Moscow, approximately half of whom are part of larger, integrated real estate development companies. The majority of the ready-mix concrete produced in Moscow is used by the real estate development and road building industries.

According to Reshenie, the market share in ready-mix concrete in Moscow and the Moscow region in 2006 is divided between Mosinzheboten, with an 11% market share, Company Beton, Stroyholding and Evrobeton each with a 7% market share, Glavmosstroybeton with a 5% market share, Krost with a 4% market share, our subsidiary, Obyedinenie 45 with a 2% market share and other suppliers with a 57% market share.

Growth in the ready-mix concrete market

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
St. Petersburg and the Leningrad region ('000 m ³)	3,700	4,200	4,400	4,600	4,850	5,050	5,250
Moscow and the Moscow region ('000 m ³).	8,800	9,500	10,100	10,800	11,350	12,050	12,600

Source: Reshenie

Reinforced concrete

Reinforced concrete is used in all segments of the construction industry in products such as pylons, floor spans, stair units, elevator wells and balcony slabs. Prefabricated panel buildings depend heavily on reinforced concrete products in their construction, as well as other products, as do poured concrete buildings, in which reinforced concrete is used to provide structural strength. Reinforced concrete is also used heavily in the road building industry.

Rising demand for reinforced concrete has resulted in significantly higher prices over the past 18 months. According to Reshenie, the concrete market is expected to grow by 50% between 2006 and 2012 in St. Petersburg and the Leningrad region and 51% in Moscow and the Moscow region.

Growth in the reinforced concrete market

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
St. Petersburg and the Leningrad region ('000 m ³)	810	900	950	1,050	1,100	1,150	1,200
Moscow and the Moscow region ('000 m ³).	3,500	3,850	4,100	4,450	4,700	5,050	5,300

Source: Reshenie

Market share in St. Petersburg and the Leningrad region is divided between our subsidiary, Barrikada, with a 50% market share, Lenstroydetal with a 9% market share, Sib-Centr with a 6% market share, Tolmachevsky Plant, Obukhovskiy Plant SMK each with a 5% market share and other suppliers with a 25% market share according to Reshenie.

The market for reinforced concrete is more competitive in Moscow and the Moscow region according to Reshenie, the market share in reinforced concrete in Moscow and the Moscow region in 2005 is divided between DSK-1, with a market share of 22%, PIK Group and Glavmosstroy each with market shares of 16%, SU-155 with a market share or 15%, our subsidiary, ZhBI-6 with a market share of 3% and other suppliers making up the remaining 28%.

Bricks

The brick industry is currently facing serious competition from other building materials segments as construction methods change and developers focus on cutting construction costs. More and more





developers are adopting construction methods that rely on reinforced concrete, prefabricated concrete panels and aerated concrete rather than bricks, since they reduce construction time and are generally more cost effective. However, bricks are still used extensively in stand-alone construction, ancillary structures, walls, walkways, etc. and are also being used increasingly as façade finishers rather than core construction materials. Façade bricks are typically more expensive than construction bricks and therefore have the potential to be more profitable for manufacturers.

Despite these competitive pressures, demand for bricks has nevertheless increased, resulting in higher prices. According to Reshenie, the brick market in St. Petersburg and the Leningrad region is expected to grow by 40% between 2006 and 2012, as shown in the table below:

*Supply/Demand balance of brick production
in the St. Petersburg and Leningrad region, 2006*

	Year						
	2006	2007	2008	2009	2010	2011	2012
	mf (mn)						
Demand	356	390	410	440	470	480	500
Existing production capacity and known capacity additions .	322	365	365	365	365	440	440
Shortfall	34	25	45	75	105	40	60

Source: Reshenie

According to Reshenie, the brick market in St. Petersburg and the Leningrad Region is divided between our subsidiary, OAO Pobeda LSR, with a market share of 69%, Etalon with a market share of 9%, Petrokeramika with a market share of 8%, Novgorod KSM with a market share of 4%, Pskov KZ with a market share of 3% and other suppliers, with a market share of 7%.

Aerated concrete

Aerated concrete blocks are an increasingly important building material in the real estate development industry. Less expensive than traditional clay bricks and with superior heat insulation properties, aerated concrete bricks are increasingly being used in poured concrete buildings in St. Petersburg and the Leningrad region. Aerated concrete is also increasingly being used in the construction of stand-alone homes.

Until recently, aerated concrete was in short supply in St. Petersburg and the Leningrad region, which resulted in long time lags between order and delivery.

Despite these supply problems, the aerated concrete market grew by 61% between 2002 and 2006, according to Reshenie, as presented below.

Aerated Concrete Market in St. Petersburg and the Leningrad Region

	Year				
	2002	2003	2004	2005	2006
Aerated concrete market, '000 m ³	350	420	487	496	564
Growth	—	20%	16%	2%	14%

Source: Reshenie

It is expected to grow by a further 51% in St. Petersburg and the Leningrad region between 2006 and 2012 due to increased construction activity and increased product range.

*Growth in the aerated concrete market
in St. Petersburg and the Leningrad region*

	2007	2008	2009	2010	2011	2012
Aerated concrete market, '000 m ³	600	700	750	800	850	850

Source: Reshenie



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Currently, there are two aerated concrete production facilities under construction in the Leningrad region: (i) Euroaerobeton, which is expected to be operational by the end of 2007 with an initial annual production capacity of 265,000 cubic meters, and (ii) H+H, which is expected to be operational in 2009 with an expected annual production capacity of 400,000 cubic meters.

According to Reshenie, the aerated concrete market in St. Petersburg and the Leningrad Region in 2006 was divided between Aeroc with 48%, Belorussian producers with 31%, KzhBI with 16% and other Russian producers with 5%.

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BUSINESS

Overview

We are one of the leading real estate development, construction and building materials companies in St. Petersburg and the Leningrad region. We operate in a number of complementary segments, including as the market leader in St. Petersburg in:

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- the development of elite residential real estate projects. We are also the second largest developer of residential real estate in St. Petersburg; and
- the production of prefabricated concrete panels and the construction of mass-market class large panel housing developments;

and as the market leader in St. Petersburg and the Leningrad region in:

- the production of building materials such as reinforced and ready-mix concrete, bricks and aerated concrete for use in construction projects;
- the extraction and processing of aggregates such as sand and crushed granite; and
- the provision of tower crane services and the transportation of building materials.

Our complementary business segments enable us to produce and manufacture a large proportion of the building materials, and provide a number of the services required to undertake our real estate development projects. However, the greatest share of our sales from these activities are from supplying other construction companies.

We manage and operate our businesses principally through two divisions:

- our Real Estate Development, Commercial Real Estate and Construction Division, which represented 35% of our consolidated revenues in 2006 (before inter-segment eliminations); and
- our Building Materials, Aggregates and Construction Services Division, which represented 64% of our consolidated revenues in 2006 (before inter-segment eliminations).

In our Real Estate Development, Commercial Real Estate and Construction Division, we identify and develop real estate projects in the elite, business, mass market, gated community and commercial segments of the real estate market from concept to completion. Our activities include identifying opportunities in the Russian property market and performing feasibility studies, which are undertaken using in-house expertise and some external consultants. In addition, we prepare business plans and procure designs from architectural firms. We also obtain the required construction permits and other permissions, engage general contractors and oversee construction, raise financing and engage in marketing activities. For the year ended 2006, our elite and mass market development sub-segments represented 54% and 46%, respectively, of total revenues in our Development segment. The construction business segment in this division manufactures concrete panels and constructs large panel housing developments and pile foundations. The commercial real estate segment is responsible for the management and leasing of office and retail complexes that we develop. Our portfolio of real estate development projects includes 34 completed projects to date and 32 projects at various stages of development. We also have a number of potential projects currently under consideration. Our sizeable land bank as of June 30, 2007 consisted of approximately 965 hectares of land, including approximately 239 hectares attributed to seven plots of land yet to be acquired pursuant to preliminary sale and purchase agreements, located in the Ruch'i Development. We estimate that approximately 7.8 million square meters of net sellable and leasable residential and commercial real estate (excluding parking space) can be developed on this land.

Our Building Materials, Aggregates and Construction Services Division produces and sells a variety of building material products, including reinforced concrete products, ready-mix concrete, bricks and aerated concrete. This division also mines, extracts and processes the aggregate raw materials such as sand, clay and crushed granite for use as building materials and in the production of building products. The construction services segment of this division provides tower crane services and operates a fleet of vehicles for the transportation of building materials. As of the date of this prospectus, we have 19 production facilities in St. Petersburg and the Leningrad region that produce our building material products and 18 active quarries from which we extract our aggregates and clay. Although historically our center of operations has been in St. Petersburg and the surrounding Leningrad region, we have recently started to expand into other regions of Russia, including Moscow and the Moscow region. We have five building materials production facilities in Moscow producing reinforced and ready-mix concrete, and a production

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facility in each of Estonia and Latvia that produce aerated concrete. As of June 30, 2007, we had 14,909 employees.

For the year ended December 31, 2006 and for the six months ended June 30, 2007, we had revenues of RUB 21,110.8 million and RUB 16,062.0 million respectively, and as of June 30, 2007 we had total assets of RUB 50,955.4 million.

We were incorporated in 1992 as a closed joint stock company and, on August 14, 2006, we reorganized as an open joint stock company under the laws of the Russian Federation. We were registered with the Ministry of Taxes and Duties of the Russian Federation under the principal state registration number 5067847227300 on August 14, 2006. The Company's main executive offices are located at 36 Kazanskaya Street, St. Petersburg, 190013 Russian Federation. Our telephone number is +7 (812) 312 0772. Our Internet address is www.lsrgroup.ru. Information posted on our websites and on those of our affiliates is not a part of this prospectus.

A10.5.1.2
A10.5.1.3
A10.26.1
A10.5.1.4

Competitive Strengths

We believe that we benefit from the following competitive strengths:

A10.6.5

Leading position in a rapidly growing development market. We have been operating in the Russian real estate market since 1994. Over the past 13 years, we believe that we have earned a strong reputation for developing high quality real estate in prime locations throughout St. Petersburg, which has contributed to our strong brand recognition in the real estate market in this area. We believe that our reputation in the elite market is based on the high quality and excellent location of our properties and in the mass market is based on the timely manner in which we successfully complete our projects and value for money. Since 1997, we have completed 25 elite residential development projects with a total area of approximately 193,000 square meters and, since 2003, we have completed 8 mass market residential development projects with a total area of approximately 274,000 square meters in St. Petersburg and the Leningrad region. According to St. Petersburg Realty Research Center, our share of construction of residential real estate in St. Petersburg in 2006 was 6.3% (the second largest), with a 23% market share of the elite market (the largest) and 5% of the mass market segment (the fourth largest) of the St. Petersburg real estate market, respectively. While our development operations have historically been concentrated in St. Petersburg, we are expanding our activities into the Leningrad region and Moscow, where in 2007 we completed a development project at Davydkovskaya Street and expect to complete another project in 2008. In addition, we are the market leader in the St. Petersburg pre-fabricated construction market with 61% market share.

Largest and most diversified building materials company in the Northwest region of Russia. We currently maintain a leading position in St. Petersburg and the Leningrad region in all of the key segments of the building materials market in which we operate. For example, according to Reshenie, in 2006 we had a number one market position in St. Petersburg and the Leningrad region in each of the reinforced concrete, ready-mix concrete, bricks and aerated concrete segments. We produce a diverse and wide range of high quality building materials, which we believe allows our customers to view us as a "one-stop shop" from which they can easily and efficiently satisfy the majority of their building material needs. We believe that some of these products, such as our "45" ready-mix concrete, Rauf bricks and Aeroc aerated concrete products have strong brand recognition in the market. Additionally, by having access to a significant reserve of raw materials as well as benefiting from the economies of scale that we have developed through our growth and leadership in the market, we believe that we are able to produce our building materials efficiently and cost effectively. According to Reshenie, in 2006 we had a number one market position in St. Petersburg and the Leningrad region in the crushed granite and sand markets. High barriers to entry into the market also make it very difficult for potential competitors to enter. We expect that all of these factors will help us to further increase our market share in these segments.

Synergies between two complementary businesses. The development of our real estate projects relies in part on materials and services that we produce and provide within our group, which allows us to manage and control the most important stages of the development and construction processes. Our operations also include the extraction and production of key raw materials such as sand, crushed granite and clay; the production of building materials for our operations; the manufacture of the concrete panels required for the construction of mass market developments; the identification and evaluation of real estate development opportunities and the procurement of all necessary planning approvals; the implementation of the design, construction and sale of residential properties; and providing services to our clients before, during and after the sale. Although our development business relies on materials and services that we

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produce and provide within our group, the amount sold to our development business constitutes a relatively small percentage of our total production capacity and most of the materials we produce are sold to third parties. Our individual business unit management teams share both financial information and market knowledge, which we believe makes each business unit more efficient and increases transparency of cash flow and capital expenditure requirements for our entire group. We believe that the synergies between our businesses provide us with several advantages, including (i) a natural hedge against rising building materials costs, (ii) guaranteed supply of certain building materials for our construction projects, (iii) efficiencies derived from development, construction and sale functions, allowing us to manage costs and achieve higher profit margins, (iv) operational flexibility and reliability, allowing us to build quickly and deliver products to meet market demand, (v) better quality control through most stages of the development process and (vi) strong market knowledge and understanding obtained from our own sales and relationship teams, which can then be used to tailor our future construction projects to market demand.

Large and diversified land bank. As of June 30, 2007, we owned approximately 965 hectares of undeveloped land primarily in St. Petersburg, of which we intend to develop 617 hectares and hold for investment the remaining 348 hectares including approximately 239 hectares attributed to seven plots of land yet to be acquired pursuant to preliminary sale and purchase agreements. We estimate that, at our current development rates, this land bank will allow for an additional seven years of development in the elite housing segment and up to 20 more years of development in the business class and mass market residential segments. We have obtained, or have contracted to obtain, the development rights to approximately 7.8 million square meters of net sellable area, much of which is located in prime locations throughout St. Petersburg and the Leningrad region. Our real estate development portfolio is diversified both in the stage of development as well as the type of development planned and includes land suitable for various types of development, including over 335,000 square meters for elite residential development and 319,000 square meters for commercial developments in St. Petersburg. We also are currently evaluating a significant pipeline of land that, if acquired or leased, would allow for varying stages of additional development.

Well balanced, yet focused business model. Our real estate portfolio consists of residential real estate in the elite, business and mass market segments, as well as a recent expansion into the gated community and commercial property segments. We believe that the diversification of our development portfolio among the segments helps to protect our real estate development business from the effects of market downturns in individual property segments, since the properties that we develop and sell are aimed at a variety of price points based on different population demographics and income levels. We expect to diversify our portfolio further as we develop more commercial properties, which are expected to generate income streams from leasing activities. Additionally, our building materials, aggregates, and construction services businesses produce and provide a wide range of products and services. Our building materials are purchased by customers for use in a wide range of market segments, including for infrastructure, industrial, commercial and residential projects. We believe that this broad range of products and development segments provides us with both risk diversification and a broader range of growth alternatives.

Strong management team. Our senior management team has extensive experience in the Russian real estate development, construction, building materials and aggregates markets. All of our senior managers have worked closely together since the early 1990s and have an average of 15 years of experience in the Russian real estate or building material markets. In addition to experience in managing the design, construction and sales aspects of projects, our management team also has extensive expertise in land acquisition, zoning and planning, which often require managing intricate regulatory processes to change the zoning classification of land, obtain necessary approvals and arrange access to public infrastructure, as well as building and maintaining long-standing relationships with federal and local authorities. We believe that our strong reputation and scale in St. Petersburg and the Leningrad region has enabled us to continue to maintain these long-standing relationships and to accumulate extensive know-how with respect to federal and local real estate regulations and procedures. Additionally, the depth of expertise of our management team allows us to rotate experienced personnel across different segments and geographies. We believe that this depth of expertise, along with a management structure that empowers our management to make key operational decisions, at the individual business unit level enables us to manage our businesses efficiently as well as successfully expand into new product and geographical markets.

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Strategy

We aim to maximize value for our shareholders by pursuing the following strategies:

Focus on the successful execution of our real estate development projects. We are committed to the successful and timely completion of our existing portfolio of development projects, which we believe will help us maintain and strengthen our leading market position in the elite residential market in St. Petersburg, increase our share in mass market residential development, and become a significant player in commercial real estate in St. Petersburg, as well as increase our presence in Moscow and other selected regions in Russia.

Expand and diversify our land bank. We plan to continue to purchase land and acquire development rights for properties in St. Petersburg and the Leningrad region and in other regions across Russia, including Moscow. We intend to increase our capacity for new developments in each of the elite, business and mass market segments, as well as continue our expansion into the commercial real estate and gated communities markets.

Optimize the use of our real estate assets. We periodically evaluate our land bank and other properties we own in order to consider whether we are maximizing our profitability through the use of our land. As land becomes scarcer in St. Petersburg, it may become lucrative to redevelop some of our more centrally located production facilities as residential or commercial properties and move our production facilities to industrial zones outside the city. Further, we may also decide to undertake development projects that are outside of our normal sphere of activities. For example, due to location, zoning and infrastructure, some of our land may be more profitable if we develop logistics and distribution centers on the properties.

Increase pre-fabricated panel capacity to capture mass market demand growth. We intend to increase our market position in mass market developments in St. Petersburg and other regions by benefiting from the efficiencies gained through producing and assembling the prefabricated concrete panels used in the construction of mass market developments, as well as develop the capacity to manufacture pre-fabricated panels.

Capitalize on leading positions in the building materials sector to further increase our market share. Our operations are concentrated primarily in St. Petersburg and the Leningrad region. We believe that this region will continue to provide strong growth opportunities in the building materials market. We will seek to increase our already leading market share in the segment and improve our margins by modernizing our production facilities and improving operational efficiencies.

Modernize and increase the efficiency of our operations. We continually seek ways in which to improve the operating efficiency of all of our production facilities through the modernization of equipment, the improvement of environmental conditions and the reduction of operating costs. For example, we intend to begin construction on a new brick production facility that will be substantially more efficient than our existing brick factories. We plan on replacing three of our five existing brick plants with this new plant, which is expected to increase our total annual capacity of bricks from 287 million to 360 million and which will be capable of producing higher margin facing and soft mud bricks. We also intend to upgrade the technology used in the production of certain of our building materials businesses, such as the crushing machinery we use to produce crushed granite, which will be automated, portable, environmentally friendly and will have significantly higher production capacities.

Exploit new opportunities and expand into promising markets. We continually analyze demographic and other data to determine the regions and products in which we could most profitably expand our operations. We intend to develop a market presence in other regions in Russia, such as Moscow and the Moscow region, in real estate development and the manufacture of ready-mix concrete and bricks, as well as diversify into new complementary building materials businesses such as cement production in St. Petersburg. We are currently in negotiations with a contractor to construct a new cement plant, which is expected to be completed and operational by 2010, will have a design capacity of 1.85 million tons per year, and is expected to fully meet the internal cement demands for our group in addition to providing extra capacity for third party sales. We also intend to geographically expand our aerated concrete production business, particularly into Lithuania and Ukraine, through the construction of production facilities.

Undertake selective acquisitive growth. We have an extensive and successful track record of both acquiring companies and integrating complementary businesses within our group. In order to increase our market share and enter new markets, from time to time we will seek to acquire regional building material producers and construction companies that we believe may complement our business or otherwise

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contribute to our growth. We also plan to evaluate opportunities to acquire additional production and construction facilities, as well as developers with an existing land bank and/or production capacity to further enhance our vertically integrated development model.

History and Development

We were founded on May 21, 1992 as AOZT “R&M Company” and, in 1993, acquired joint-stock company “Stroydetal”, a building materials company specializing principally in the production of reinforced concrete. In 1994, we entered the real estate development market, with a focus on constructing properties in central St. Petersburg. In the same year, we acquired joint-stock company “GRST-6”, a leading contractor involved in the construction and renovation of buildings in the city center. In 1999, we acquired real estate construction company OAO “Lenstroyrekonstruktsiya”. Since then, we have become the leading developer of elite residential real estate properties and the fourth largest developer of mass market real estate properties in St. Petersburg.

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We have since sought to expand our scope of operations by strategically acquiring existing companies in our key market segments and fully integrating them within our group to create a leading real estate development, construction and building materials group that we believe to be self sufficient in the majority of products and services required to undertake the types of real estate development projects in which we are involved.

Between 1997 and 2000, we acquired a number of building materials manufacturers in the St. Petersburg region to supply the needs of our growing real estate development business. In 2001 we acquired a stake in ZAO Gatchinsky DSK (“**Gatchinsky DSK**”) and we established a development company, OOO GDSK, to develop residential properties using prefabricated concrete panels produced by Gatchinsky DSK. In 2003, we acquired a minority stake in ZAO Blok DSK (“**DSK Blok**”), and in 2004 this entity was consolidated. In July 2005, we merged the production capacities of three brick production subsidiaries, ZAO NPO Keramika, OAO Lenstroykeramika and ZAO Pobeda by transferring them to ZAO Pobeda (now called OAO Pobeda LSR), which is now the single largest manufacturer of ceramic bricks in St. Petersburg and the Leningrad region.

Since 2001, we have sought to expand into the lucrative but highly competitive Moscow real estate development market. We are currently developing two residential and commercial projects in Moscow and intend to increase our market share and expand our operations into targeted market segments in Moscow and the Moscow region by establishing production facilities and developing business class, mass market residential and commercial real estate projects.

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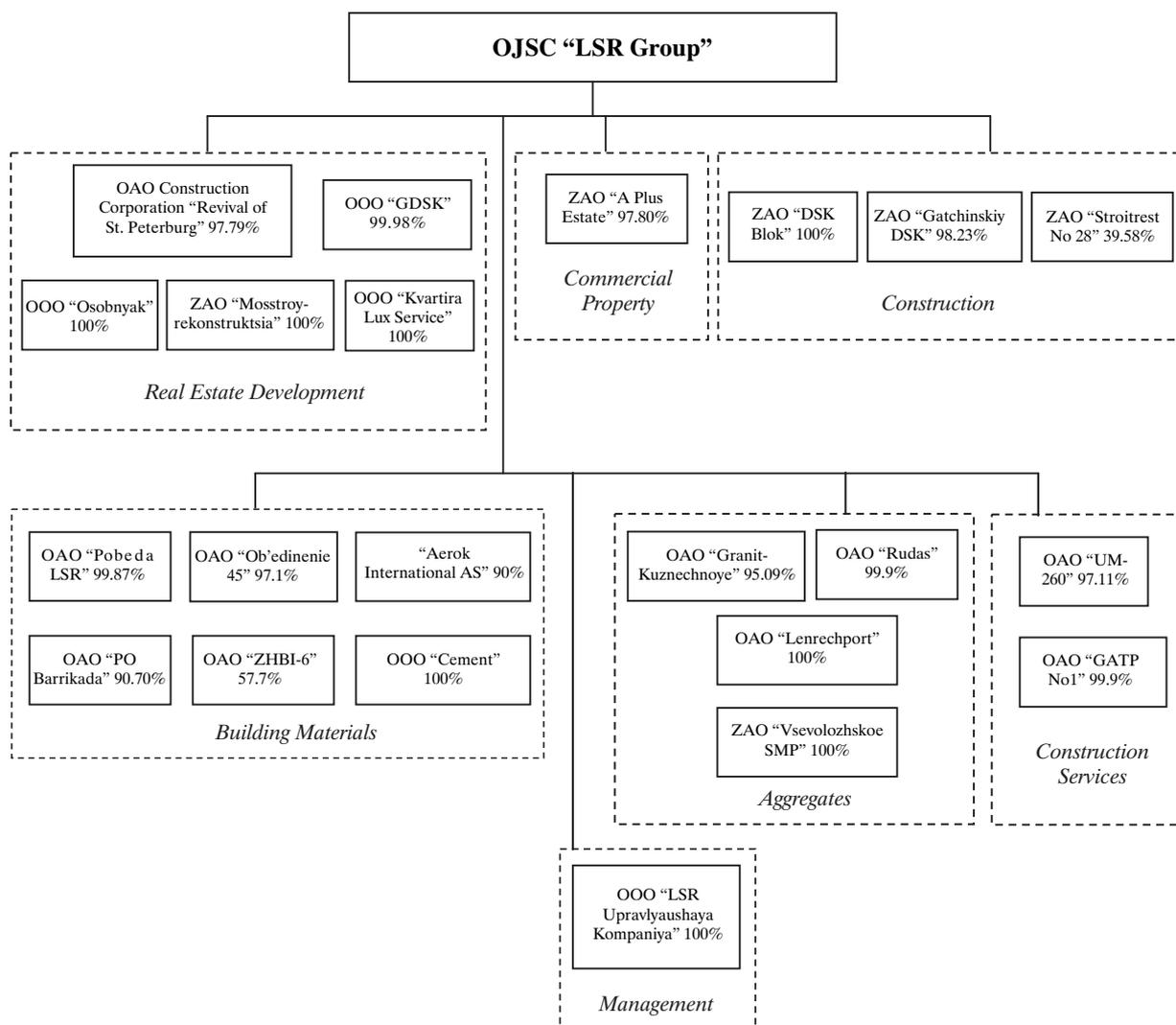
Set out below is a list showing when we acquired a controlling stake of principal companies that engage in real estate development, produce building materials or undertake prefabricated construction:

Year of Acquisition	Entity Acquired	Description of entity's activities
1993	ОАО Stroydetal	Reinforced concrete manufacturer
1994	ОАО GRST-6	Construction company
1997	ОАО Lenstroykeramika	Brick manufacturer
1997	ОАО Rudas	Sand extractor
1999	ОАО Lenstroyrekonstruktsiya	Real estate development company
2002	ОАО Granit-Kuznechnoye	Granite extractor
2002	ZАО PO Barrikada	Reinforced concrete manufacturer
2003	ОАО Sankt-Peterburgskiy rechnoy port	Freight loading and unloading, processing and storage
2003	ОАО Zavod stroitelnykh konstruktsiy No. 19	Producer of building materials and concrete products
2003	ОАО Leningradsky rechnoy port	Sea sand extractor
2003	ОАО GATP-1	Transport of building materials and concrete
2003	ZАО Upravleniye mekhanizatsii No. 260	Tower crane services provider
2004	АООТ Nazievsky kombinat sroitelnykh materialov	Reinforced concrete manufacturer
2004	ZАО Gatchinsky DSK	Concrete panel manufacture and assembly for residential buildings
2004	ZАО NPO Keramika	Brick manufacturer
2004	ZАО Pobeda	Brick manufacturer
2004	ZАО DSK Blok	Concrete panel manufacture and assembly for residential buildings
2006	Aeroc International AS	Aerated concrete manufacturer
2006	ОАО Zavod Zhelezobetonnich Izdeliy-6	Reinforced concrete manufacturer

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Corporate Structure

The diagram below sets out our corporate structure, showing our principal subsidiaries and our beneficial interest in each of them as of the date of this prospectus. A10.7.1



Real Estate Development and Construction

Real estate development and construction are key areas of our operations, accounting for \$120 million and \$180 million, or 16% and 23%, respectively, of our revenue in 2006, and \$221 million and \$91 million, or 36% and 15%, respectively, of our revenue in the six months ended June 30, 2007. In 2006, as a developer, we completed the development of 142,000 square meters of real estate and our manufacturers of prefabricated concrete panels constructed 331,000 square meters of panel housing. We are able to produce a large proportion of the aggregates and building materials required by our real estate development projects, which enables us to more effectively plan our development projects and manage our costs. A10.6.1.2

Types of property

We develop real estate properties for a number of different customer segments in St. Petersburg, the Leningrad region and Moscow.

Elite real estate

We construct elite real estate properties in what we believe to be some of the most desirable areas of central St. Petersburg through our subsidiary, OAO Construction Corporation "Revival of St. Petersburg"

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(**Construction Corporation “Revival of St. Petersburg”**). Our developments consist of both renovated historical buildings and new developments, each individually designed to suit the character of the surrounding area. These properties are built according to advanced construction standards using high quality and technologically advanced materials and fittings. We market these properties, which currently sell to wealthy customers for between \$6,000 and \$20,000 per square meter, as of September 30, 2007. As of June 30, 2007, since the beginning of our development activities, we had completed 25 elite developments in the historic center of St. Petersburg.

In 2006, we developed the Shpalernaya Street elite residential development consisting of eight towers of nine-stories each, interlinked by glass passageways on the upper floors, offering panoramic views of the city center and the Smolny cathedral. The buildings contain 19,793 square meters of net sellable residential area, 240 parking spaces for cars and 3,922 square meters of net sellable commercial real estate comprising offices, retail space and a gym. This project has received numerous architectural awards.

In 2006, we also completed a self-contained, elite residential development at Robespiera Embankment consisting of four buildings of between seven and twelve stories, with more than 45,000 square meters of net sellable residential and commercial area. The development also includes commercial real estate, including shops and a gym. To date, this is the largest elite real estate development project we have completed in St. Petersburg.

In total, between the start of 1997 and the end of 2006, we completed 25 projects with a total area of 193,000 square meters of elite residential real estate.

Business class real estate

In St. Petersburg, Moscow and other regions, we construct business class housing. These properties are aimed at upper middle class customers seeking well located properties that benefit from modern amenities and high quality fittings. The properties are constructed using bricks and poured concrete, which gives us flexibility in design. Typical business class properties currently sell for approximately \$6,500 to \$9,000 per square meter in Moscow and \$2,800 to \$3,200 per square meter in St. Petersburg. Mostroirekonstruktsia, our Moscow-based subsidiary, made a successful entry into the business housing segment in 2005 where we are experiencing a growing market share. In 2007, we completed the development of one project in Moscow (Davydkovskaya) with a total net sellable area of 17,299 square meters. Our business class land bank in St. Petersburg and Moscow stands at approximately 28.7 hectares with a total buildable area of 491,610 square meters, valued by DTZ at \$352.8 million.

Mass market real estate

In St. Petersburg, our subsidiary, OOO GDSK, develops large-scale developments of mass market real estate. These developments consist of prefabricated concrete panel buildings which are less expensive than poured concrete buildings, and currently sell for approximately \$2,150 to \$2,600 per square meter as of September 30, 2007. We source these panels from within the group. Although less expensive than our other real estate developments, these properties, which may be constructed to a height of up to 17 stories, nonetheless benefit from modern amenities, some with underground parking. We market properties in this segment principally to middle class families and young professionals. In 2006 we completed 109,000 square meters of residential and commercial premises.

As a recent history of mass market residential real estate projects completed, in 2003 we completed one project with a total area of 15,000 square meters. By 2004 we completed a further project with a total area of 39,000 square meters. In 2005, we completed a further two projects with a total area of 45,000 square meters. In 2006, we completed a further project with a total area of 90,000 square meters. By 2007, we completed a further three projects with a total area of 75,000 square meters. In total, between the start of 2003 and the end of 2007, we completed eight projects with a total area of 274,000 square meters of mass market residential real estate.

For development purposes in this category we have a land bank of 334.8 hectares, with net sellable area of 3,544 thousand square meters and 21,197 parking lots (or spaces). The open market value of the land is estimated to be \$992.5 million. For investment purposes we have a land bank of 347.9 hectares and net sellable area of 2,859 square meters, with 22,450 parking lots. The estimated Market Value is \$713.1 million.

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Gated communities

We develop gated communities through our subsidiary, OOO Osobnyak. We build these developments primarily on land in the suburbs of St. Petersburg and elsewhere in the Leningrad region. We aim to offer all the amenities that can typically be found in our business class developments. We also construct and install the necessary infrastructure, such as roads, water, drainage and telecommunications. We mainly sell these properties to consumers seeking second homes outside the city. In our Repino-Leninskoe development, prices range from \$2,700 to \$3,200 per square meter and in our Zhemchuzhina Razliva development, the prices range from \$4,600 to \$6,000 per square meter.

For development purposes in this category we have a land bank of 214 hectares, with a net sellable area of 168,270 square meters. The estimated Market Value is \$164.1 million.

Commercial real estate

We have also recently started developing commercial properties through our subsidiary, Construction Corporation "Revival of St. Petersburg". These properties are managed by our subsidiary ZAO "A Plus Estate". These properties are being developed for the business consumer and, after construction, the properties will be transferred to our commercial property management unit for leasing. There are three business centers in operation with total leasable area of 10,158 square meters, and the occupancy rate stands at 99%. Our commercial property projects are under development in urban St. Petersburg.

Stages of development

We categorize the development projects in which we are currently involved as either portfolio projects or pipeline projects based on our judgment of the business considerations and legal rights relating to the projects. We have obtained external valuations with respect to each of our major portfolio projects. Our beneficial interests in the projects in our current portfolio (including properties held as investments and properties for future development) were valued by DTZ, subject to the assumptions set out in the Valuation Report, at approximately \$4.9 billion as at June 30, 2007 (of which \$479.2 million is contingent on the transfer of seven land plots located in the Ruch'i Development that are yet to be acquired and subject to preliminary sale and purchase agreements for those plots).

Our portfolio projects are at various stages of completion, ranging from concept stage to construction stage, and a small portion of our portfolio projects generate rental income. Approximately 80% of our portfolio projects by value are in the preliminary design or design stages.

Pipeline projects refer to potential development projects on land plots to which we currently have no rights. They encompass both land plots which we are in the process of purchasing or negotiating to purchase and those which we are assessing for suitability. Accordingly, there can be no assurance that we will decide to pursue any of these projects or, if we do pursue these projects, that they will be brought to a successful conclusion.

Development Process

Overview

Generally, our development projects involve a series of steps that are completed in four phases over a period of, on average four years, although often the construction phase actually commences prior to the completion of the design phase. The construction phase typically lasts two years, with properties transferred to purchasers following completion. The process consists of the following:

- *Rights acquisition/concept:* this includes conducting market studies and market analysis, acquiring a land plot or obtaining development rights (through land leases or investment contracts) and carrying out preliminary design work. This phase also includes determining a strategy for the project, performing an investment analysis and obtaining the initial permit to build on the property.
- *Design and permitting:* this includes appointing a team of architects and engineers to finalize the design plans and obtaining the relevant construction permits. In certain circumstances, we may begin preliminary construction of the development before plans have been finalized and before we have received all the necessary construction permits and authorizations.
- *Construction:* the organizing and tendering process through which contracts for the engagement of construction firms (in segments where we do not perform construction ourselves such as elite

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housing and commercial properties) typically occurs during this phase. This stage also includes coordinating construction work, performing ongoing quality control and monitoring costs. Construction costs are substantially financed from customer advances paid during the process of construction. This stage also includes marketing and sales and monitoring of the building and its key systems after construction is completed.

- *Exit or hold for investment portfolio:* we transfer the property to the purchaser and the purchaser formally acquires ownership of the particular property upon completion of a prescribed registration procedure following completion of construction. Sales are typically recognized 6 to 12 months after completion as the acceptance deeds for the apartments are signed.

Acquiring land plots or obtaining development rights

Furthermore, in the case of land owned by the federal or St. Petersburg government, a building owner has the right under the Land Code to require the owner of the land on which the building is situated to lease that land to the building owner under standard rent rates or sell it to the building owner for a fixed price represented by the value of the land for land tax purposes multiplied by a coefficient set out in the relevant regulations.

There are three principal ways in which we acquire development rights to land plots and/or buildings located on land plots, which differ to a certain extent depending on whether we are acquiring these rights in St. Petersburg or Moscow.

- *Purchase or lease of land through an auction process*

We participate in auctions organized by the city authorities in respect of land plots which can be either leased or transferred to us in order to be developed. As a condition for entering into such agreements the prospective developer obtaining rights must also pay a fee for entering into a contract, the amount of which is determined in advance. In Moscow, however, in addition to receiving a fee paid by the prospective developer the City of Moscow will also retain an interest in the development project.

Usually, the scope and scale of the development project will have been determined by the city authorities prior to the auction process. It is also common for a developer to be required to develop infrastructure, such as roads, water and electricity in the vicinity of the development project. In the case of land leases, the amount of rent to be paid to the city authorities will also have been determined beforehand.

- *Acquisition of a land plot and/or a building*

We commonly purchase the freehold of land plots (together with any buildings thereon) in order to obtain development rights in St. Petersburg. We are aware at the time of purchase of all available development options and restrictions in relation to a land plot since we can consult the City Development Master Plan, which has already been approved by the St. Petersburg Government.

In Moscow, the situation is different since land is very rarely transferred into private ownership and is instead leased to the owner of a building situated on the land plot. For this reason, it is common practice to acquire a building and thereby obtain a lease right to the underlying land plot. Following acquisition of lease to a land plot, we carry out demolition of the existing buildings and begin new construction on the land plot or, alternatively, reconstruction of the existing buildings. Where a development project leads to an increase in the total floor area of the building, we are under an obligation to transfer a share in the new development to the City of Moscow.

Alternatively, in order to obtain ownership of a land plot, we may choose to purchase an entity that currently owns the land plot.

- *Investment agreements*

Where there is no auction process and the seller is a governmental authority, we are often asked to enter into investment agreements with state authorities. Subject to certain requirements, prior to October 2005 it was possible to enter into investment agreements for both residential and commercial real estate development without going through an auction process. Subsequent legislation means that this option is now available for non-residential development only. Investment agreements in St. Petersburg typically require the payment of monetary consideration to the city authorities in return

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for the right to carry out the relevant project. In Moscow, the city authorities will almost always seek to obtain an interest in the new development instead of monetary compensation.

In order to obtain development rights, we also enter into investment agreements with the Federal Government as well as private owners of land. In practice, some of the state authorities that participate in such development projects (in particular, the Ministry of Defense and the Federal Security Service) may give us the option to buy-out their share in the new development in exchange for premises located in other developments.

Alternatively, in order to obtain development rights for a land plot, we may choose to purchase an entity that is already a party to an investment agreement in relation to that land plot.

Restrictions in the St. Petersburg Preservation Zone

Some of our development projects are located in the historical center of St. Petersburg, which has been declared a “preservation zone” in respect of historical buildings. All projects within this zone are subject to special requirements established by Federal and local legislation which are designed to preserve the existing system of city planning and the surroundings of the historical buildings, prevent increased pollution levels and fire risks around historical buildings, to remove industrial enterprises and renovate workshops and storage facilities which have a negative physical or aesthetic impact on historical buildings. Under these local laws, the St. Petersburg Authority for Monument Conservation must approve the project documentation for any development located within the preservation zone. In addition, the demolition, replacement, or alteration of an historical building, or part of a building, such as a façade, which has been declared historical under heritage laws, is prohibited within the preservation zone, unless carried out in strict compliance with approved project documentation. For example, if only the façade of a building is protected for heritage purposes, we may be permitted to completely redevelop the property so long as the façade remains intact.

Assessing Development Opportunities

Before purchasing land for development or acquiring development rights in relation to a land plot we already own, we carry out an investment analysis of the project to determine its potential profitability. In doing this, we consider certain financial indicators such as net present value and internal rate of return. We also consider other factors, such as the payback period, the growth potential for the project and how the project fits in more generally with our development strategy.

We discuss the potential development project, based on our preliminary designs, with the relevant government authorities to establish whether there are any significant obstacles that could hinder our ability to deliver the project on time and within budget. Before we can begin work on the final design plans for a development project, it is necessary to submit our preliminary design plans to the relevant government authorities and secure their approval. It is important at this stage to estimate accurately the overall cost and value of the development project so that we can arrange sufficient financing.

Financing our Development Activities

To date, our residential development activities have primarily been financed by pre-sales of apartments and bank financing. Pre-sales provide us with a steady flow of income during the period of construction. We finance our commercial real estate developments using bank loans. The majority of our bank loans are arranged through Sberbank and OAO Bank VTB-North-West.

We will review additional financing opportunities on a case-by-case basis, in each of our market segments.

The Construction Phase

A typical construction phase of a development will take, on average, two years. Once we have decided to proceed with a project and have obtained all of the development approvals and permits from the relevant federal and local authorities, we can begin the construction phase of the project. At this stage, we also appoint third party contractors and suppliers where necessary for our elite, business, country and commercial real estate properties. For residential housing developments in which we use prefabricated concrete panels produced by our subsidiaries DSK Blok and Gatchinsky DSK, we typically appoint either DSK Blok or Gatchinsky DSK as general contractors. Many of the materials and services required to undertake development projects are provided by members of the group.

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We appoint contractors based on a number of criteria. Most importantly, contractors should be reliable and capable of producing work of a sufficiently high quality. It is also important that they complete their work on time and within budget. In the case of contractors with whom we have not previously worked, we generally inspect work they have carried out recently on other projects. We also consult our clients and other contractors for recommendations as to suitable new contractors.

Upon completion of construction, the relevant regulatory authorities involved in the development process inspect the completed development to ensure that we and the general contractor have complied with the terms and conditions of any federal and local approvals and regulations.

Sales

Prior to completion of a particular development, we commence marketing activities and pre-sell properties. Typically, by the time a development project is completed, we will have pre-sold between 90% and 100% of the properties. New legislation in Russia provides purchasers of pre-sold properties with statutory protections. Where a purchaser pays for a property that is yet to be completed, they automatically become the pledgee of a part of the land plot and the construction in progress proportional to their investment.

Upon completion of the development project, we are required to go through an inspection process in respect of the property, known as state commissioning, after which we are legally entitled to operate and use the properties. Once a property has received state commissioning, we prepare all the documents necessary to transfer the properties to purchasers. It is the responsibility of individual purchasers to ensure that they then register themselves as owners.

Land Bank

As of June 30, 2007, we estimate that our land bank of approximately 965 hectares (including approximately 239 hectares attributed to the seven plots in the Ruch'i Development) offers development potential of approximately 7.8 million square meters of net sellable area, the vast majority of which is located in St. Petersburg and the Leningrad region. This figure includes (i) land for which we have obtained development rights (for example, by executing an investment contract) but do not own and (ii) land that has been purchased or which is under contract to be purchased by us. In addition our land bank can be used for developing over 335,000 square meters of elite residential properties, much of which is located in prime locations in central St. Petersburg. See “—Strategy—Optimize the use of our real estate assets”.

Our Real Estate Development Projects

We currently develop elite, business, and mass market and commercial properties in St. Petersburg, gated communities in the Leningrad region, and business class residential and commercial properties in Moscow. Revenues for our real estate development business totaled \$120 million in 2006 or 14% of our total revenues.

The following table sets forth our cumulative history of completed elite and mass-market class developments by year of completion.

Year	Elite		Mass-market	
	Cumulative projects completed	Cumulative area built, th.sqm	Cumulative projects completed	Cumulative area built, th.sqm
1997	1	6	—	—
1999	4	13	—	—
2000	5	16	—	—
2001	7	23	—	—
2003	11	45	1	15
2004	19	105	2	54
2005	23	157	4	109
2006	25	193	5	199
First 6 months 2007	25	193	8	274

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No	Development Project	Address	Site area in ha	Gross buildable area in sq m	Net sellable/ leaseable area, excluding parking, sq m	Breakdown of area (net sellable / leaseable area), sq m	Unsold/ unleased parking lots	Current selling prices / rent rates*, per sq m	Construction completion date (month/year)	Estimated completion date (month/year)	Outstanding construction cost, \$ mil	Construction budget, \$	Estimated outstanding construction cost, \$	Project completion condition, %	Presold/ pre-leased areas, excluding car parking, %	Development strategy	Developer's profit used, %	Market Value ownership, \$	Value added (ISR Share)	Market Value, \$	
					Residential			Offices													
					Residential	Offices	Retail	Other	Other	Other	Other	Other	Other	Other	Other	Other	Other	Other	Other	Other	Other
25	Pulkovskiy Posad	Pulkovskoye shosse, filer K, 30	8,25	140,466	99,705	96,699	3,006	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Phase 1		8,25	16,074	13,543	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Phase 2			27,269	20,676	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Phase 3			25,660	22,656	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Phase 4			22,250	17,500	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Phase 5			34,277	25,630	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Phase 6—parking			11,056	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
26	Astny	Kononovtov prospect, site 10, 43	7,08	186,938	126,484	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Phase 1			37,054	26,670	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Phase 2			57,530	36,945	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Phase 3			52,544	37,752	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Phase 4			39,810	25,117	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
27	Dom na Chudnovskogo	Chudnovskogo street, near 42	1,18	28,175	22,554	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Office centers			9,161	6,778	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
28	TDC na Leningradskom	Vyborg town, Leningradskiy prospect, 17	0,19	9,161	6,778	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
29	Kayshibaeva	Kayshibaeva street, 13 filer B	0,19	11,637	7,165	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
30	Smolnyy Quarter (offices)	Central district, quarter 1030A-1 and 1030A-2	4,39	132,200	96,654	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
31	Paradnyy Quarter (offices) Phase 1	Paradnaya St., 1-3, Radislava St., 35-39	9,63**	18,000	9,657	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
32	Paradnyy Quarter (offices) Phase 3	Paradnaya St., 1-3, Radislava St., 35-39	9,63**	12,500	5,930	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
33	Hermitage View House (offices) lane, 2-4	Zoologicheskyy lane, 2-4	0,15	16,931	9,361	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
34	Electric City	Medikov street, 10	7,38	340,892	172,230	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Country houses			207,86	160,670	160,670	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
35	Repinno-Lentinskoe	Leningradskaya Region, Lentinskoe settlement	207,86	160,670	160,670	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Phase 1—Novyy Mir		20,00	15,810	15,810	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Phase 2—Park Way		8,66	5,700	5,700	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Phase 3—Malaya Gollandiya		5,70	5,400	5,400	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Phase 4—Severnoe		64,72	21,700	21,700	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Phase 5—Country Club		18,59	18,590	18,590	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Phase 6—Park Perspektiv		12,57	15,300	15,300	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Phase 7—Pobeda L-Park		18,44	17,160	17,160	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Phase 8—Khuapala, Country villa		32,88	26,000	26,000	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Phase 9—Baiterfly		14,92	13,760	13,760	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Phase 10—Dachnaya		29,97	21,250	21,250	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
36	Zhemchuzhina Razliva	Leningradskaya Region, Sestroretsk town, 10B	6,84	7,600	7,600	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

No	Development Project	Address	Site Area, ha	Gross buildable area, sq m	Net sellable / leaseable area, sq m	Breakdown of areas (net sellable/leaseable area), sq m			Current selling prices/rent rates*, per sq m			Unsold/ unleased net area, parking, sq m	Unsold/ unleased net area, parking, sq m	Construction start date (month/year)	Estimated completion date (month/year)	Outstanding land acquisition cost, \$****	Construction budget, \$	Estimated construction costs, \$	Percent completion, %	Percent of total available parking, %	Development strategy	Developer's profit used, %	Market Value of 100% ownership, \$	Value of Interest, % (LSR Share)	Market Value, \$		
						Residential	Offices	Retail	Other	Residential	Offices															Retail	Other
Moscow & Moscow Region																											
All properties																											
37	Newy Batching	Sadomshchenskaya street, 9, bldgs. 1,2,3	0.42	24,815	15,815	—	—	170	15,815	170	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
38	Daydovskoyaya	Daydovskoyaya street, 16	1.14	41,819	17,299	—	—	130	2,681	20	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
39	Grumald	Moscow Region, Zarechye settlement	4.10	61,829	24,419	23,138	1,281	254	13,397	254	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total Properties in the course of development																											
Saint Petersburg & Leningradskaya Region																											
Elite class residential																											
40	Deputatskaya	Deputatskaya street, 34 liter A	0.83	16,400	11,300	—	—	90	11,300	90	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
41	Kovenskyy	Moskovy lane, 5	0.39	11,108	6,192	4,701	1,491	67	6,192	67	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Business class residential																											
42	Sophia	Yuzhnye shosse, 49, 55	20.00	513,000	410,400	—	—	3,000	410,400	3,000	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
43	Kovsh	Vyborg town, Restrovskaya, Dimitrova St.	1.25	39,360	23,803	12,641	5,750	5,412	202	23,803	202	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Economy class residential																											
44	Yugniy	Leningnitskiy prospect, sites 1,2,5,6,7,8	9.32	332,503	260,806	255,949	4,857	—	226	260,806	226	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Phase 1			3.34	136,566	110,512	106,801	3,711	—	204	110,512	204	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Phase 2			0.99	36,041	28,374	27,808	566	—	22	28,374	22	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Phase 3			5.00	52,455	40,344	40,344	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Phase 4			54.994	41,232	40,652	80	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Phase 5			52.447	40,344	40,344	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
45	Karolina	Narodnaya street, site 1	2.20	46,306	35,130	35,130	—	—	72	35,130	72	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
46	Isvetnoy Gorod	Pskarskiy prospect	274.40	3,906,828	2,474,000	2,130,000	344,000	—	19,160	2,474,000	19,160	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Phase 1			7.00	287,733	130,000	130,000	—	—	2,160	130,000	2,160	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Phase 2			267.40	3,668,095	2,344,000	2,000,000	344,000	—	17,000	2,344,000	17,000	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
47	Yugnaya Aquatoria	Doblesti street	23.90	441,600	353,280	318,800	34,400	—	520	353,280	520	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Office centers																											
48	Paradnyy Quarter (offices) Phase 2	Paradnaya St., 1-3, Radshcheva St., 35,39	9.63**	6,608	4,453	—	—	40	4,453	40	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
49	Kamennostrovskaya Kolketskiya prospect, 58-60	Kamennostrovskaya Kolketskiya prospect, 58-60	0.77	8,158	7,460	—	—	—	7,460	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total Properties held for future development																											
GRAND TOTAL PORTFOLIO																											
																						Market Value of 100% ownership, \$	\$2,894,412,331	Market Value, \$	\$2,894,412,331		
																						Value of Interest, % (LSR Share)	99.999%	Value of Interest, % (LSR Share)	99.999%		
																						Market Value, \$	\$1,228,445,459	Market Value, \$	\$1,228,445,459		
																						Market Value, \$	\$5,063,100,333	Market Value, \$	\$5,063,100,333		

* annual rent rates, excluding VAT and OpEx
 ** site area for all Paradnyy Quarter phases
 *** including car parking rent
 **** including ground lease for a construction period, city share, investment contract conditions payment, settling, land redemption, etc.
 ***** the Company has yet to acquire the majority of land at Buzhi, although has concluded preliminary agreements dated 30 May, 2007 to acquire this land.

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Projects under Development

St. Petersburg

Elite properties

Hermitage View House (Zoologicheskij Lane, 2-4)

Stage of Development

This project is currently at the design stage. Construction is expected to commence in March 2008 and to be completed by December 2010.

Description of the Project

Through our subsidiary, Construction Corporation “Revival of St. Petersburg” we are developing a mixed-use development consisting of a residential building and an office building. We expect that the completed development will contain a total of 6,363 square meters of net sellable residential and commercial real estate and 9,361 square meters of leasable office space. The development is also expected to include a three-level underground car park with 185 parking spaces.

Two buildings that have been partially demolished currently occupy the land for the project. We intend to restore the façades to their original appearance but we will demolish all other parts of the current buildings on the site. The works we expect to effect on the land plot will include construction of a three-level underground car park, erection of solid-cast skeletons of the buildings, walls and brick partitions, laying engineering systems, reconstruction of the façades to their original appearance and interior finishing works.

We estimate that the total remaining costs for the project from June 30, 2007 up to completion will be \$58.2 million, as set out in the Valuation Report. For more information on the types of costs that are included in this cost estimate, see the Valuation Report and “—*Valuation of our Properties*”.

As of June 30, 2007, DTZ assessed the Market Value of our interest in the Hermitage View House (Zoologicheskij Lane) development at \$148.7 million. The Market Value of the development as assessed by DTZ is the estimated value of the planned development at completion, less all costs up to completion (including a profit margin for the developer), less any minority stake in the project. For a full discussion of how Market Value is determined, see the Valuation Report and “—*Valuation of our Properties*”.

For a full discussion of the valuation, valuation methodology, cost calculations and assumptions, please refer to the Valuation Report prepared by DTZ that is included as Annex A to this prospectus.

Legal Rights

Our subsidiary, ZAO Severnaya Venetsiya (“**Severnaya Venetsiya**”) holds a freehold interest in the development plot. We entered into a joint venture agreement with an unrelated third party in 2004 under which Severnaya Venetsiya was established. We subsequently acquired the third party’s share in the joint venture under a sale and purchase agreement. We subsequently acquired 100% of the share capital of Severnaya Venetsiya in June 2006. We intend for Severnaya Venetsiya to hold the land and for our subsidiary Construction Corporation “Revival of St. Petersburg” to manage the development. Accordingly Construction Corporation “Revival of St. Petersburg” has entered into agreements with third parties such as design managers, in relation to the project documentation, and construction contractors.

The land underlying the development plot is zoned as urban land, and the permitted use of the land is for the development of commercial and residential real estate.

The two partially demolished buildings on the project land and the land plot itself are currently mortgaged to OAO Bank VTB-North-West as security for a loan provided by the bank to Construction Corporation “Revival of St. Petersburg” for the development of the Electric City project. We have to seek the bank’s consent in relation to the demolition of these buildings.

Financing Arrangements

We intend to finance the project without seeking any co-investors, using internal funds and revenues raised from pre-sales of residential apartments to purchasers before completion. We may explore opportunities to raise additional finance from other sources in the future.

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Key Steps for Completion

We are currently in the process of obtaining a permit to demolish the two existing buildings located on the land and expect to obtain this permit, state approval of the design documentation and a construction permit in the first half of 2008. Construction works could commence immediately after we receive our construction permit.

Upon completion of construction, we will need to obtain an operational permit from the relevant government authorities and procure the registration of ownership rights in the completed project with the federal registration authority. See “*Regulation of Real Estate in Russia*”.

Electric City (Medikov Prospekt, 10)

Stage of Development

This project is currently at the design stage. Construction is expected to commence in early 2008 and to be completed by the middle of 2011.

Description of the Project

The project is a mixed-use development located on the site of a factory in the Petrograd district of St. Petersburg, a developing area of the city.

Approximately 90% of the factory will be demolished, and in its place we plan to construct eight buildings of between six and eight stories and one 19-story tower. The principal construction works will include construction of a two-level car park and the superstructure of the buildings, installation of engineering systems and restoration of the structures that have been designated as heritage buildings.

The development is expected to comprise 172,230 square meters of net leasable commercial real estate and underground parking for 2,645 cars. Approximately 97% of the development, or 166,570 square meters, will be devoted to Class A offices, with the remaining 3%, or 5,660 square meters, consisting of retail properties.

We estimate that the total remaining costs for the project from June 30, 2007 up to completion will be \$419.3 million, as set out in the Valuation Report. For more information on the types of costs that are included in this cost estimate, see the Valuation Report and “—*Valuation of our Properties*”.

As of June 30, 2007, DTZ assessed the Market Value of our interest in the Electric City development at \$532.2 million. The Market Value of the development as assessed by DTZ is the estimated value of the planned development at completion, less all costs up to completion (including a profit margin for the developer), less any minority stake in the project. For a full discussion of how Market Value is determined, see the Valuation Report and “—*Valuation of our Properties*”.

For a full discussion of the valuation, valuation methodology, cost calculations and assumptions, please refer to the Valuation Report prepared by DTZ that is included as Annex A to this prospectus.

Legal Rights

Our subsidiary OAO Zavod Elektrik (“**Zavod Elektrik**”) holds a freehold interest in the project land, which it purchased after the factory was privatized. Our subsidiary, Construction Corporation “Revival of St. Petersburg”, owns 96.96% of the share capital of Zavod Elektrik, and has made an offer for the remaining 3.04%. We intend for Zavod Elektrik to hold the land and for our subsidiary Construction Corporation “Revival of St. Petersburg” to manage the development. Accordingly, Construction Corporation “Revival of St. Petersburg” has entered into agreements with third parties such as design managers in relation to the project documentation.

The land for the project is zoned as urban land, and the permitted use of the land is for the location of industrial facilities and/or office buildings.

The Electric City project is situated within the preservation zone of historical and cultural landmarks of St. Petersburg, and accordingly is subject to the development restrictions that apply within this zone. See “—*Development Process—Restrictions in St. Petersburg Preservation Zone*”. As a result, we are required to restore several buildings located on the land plot that have been designated as historical landmarks. The cost of this restoration work is reflected in the DTZ Market Value set out above.

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Financing Arrangements

In July 2006 we established a \$30 million facility with OAO Bank VTB-North-West to acquire shares in Zavod Elektrik. As security for the loan, we have pledged to the bank 220,601 shares in Zavod Elektrik (representing 25.95% of the total number of shares outstanding), and in addition our subsidiary Severnaya Venetsiya has provided the Bank with a mortgage over the land for the Hermitage View House (Zoologicheskii Lane) project and the two partially demolished buildings on that land.

We may explore opportunities to obtain additional finance in the future but do not intend to seek co-investors. We may explore opportunities to raise additional finance from other sources in the future.

Key Steps to Completion

State approval of the design documentation (including the approval of the St. Petersburg authority for monument conservation) is expected to be secured by the second quarter of 2008. Immediately following that we expect to obtain a construction permit and commence construction works on the land plot. In the meantime, we have obtained a permit to demolish part of the buildings located on the site and have commenced demolition works.

Upon completion of construction, we will need to obtain an operational permit from the relevant government authorities and register our ownership rights in the completed project with the federal registration authority. See “*Regulation of Real Estate in Russia*”.

Smolnii Quarter (Smolnaya Street, 4)

Stage of Development

We obtained a construction permit for part of this project in March 2007 and commenced demolition and preparatory construction works on this part of the project in June 2007. We anticipate that we will complete this project by the end of 2012.

Description of the Project

The Smolnii Quarter project, located in the historic center of St. Petersburg, is a large-scale, mixed-use development project that, upon completion, is expected to offer 96,654 square meters of net leasable commercial real estate, which we plan to sell and/or lease to businesses including cafes, restaurants and shops. We also plan to include within this development a further 42,359 square meters of net sellable elite residential and retail real estate, and 2,422 car parking spaces. Some existing buildings on the land, including a mental health hospital, are owned by the state and must be relocated at our expense. We will also need to demolish the St. Petersburg State Hospital buildings and commence construction works on the site.

The original project plan envisaged when the construction permit was obtained in March 2007, foresaw a development of 109,150 square meters of residential apartments, 23,370 square meters of commercial real estate and 1,078 parking spaces. Our existing construction permit relates to part of the commercial real estate element of the development. After the scope of the project was revised, we submitted amended documentation to the relevant state authorities for review, and they are in the process of considering the proposed revisions. If these revisions are approved, our construction permit will be amended accordingly. We will also need to pay a fee on completion because our revised project plan is for a greater floor area than was permitted in the original lease agreement. Any additional expenses we incur undertaking work that is outside the scope of the lease agreement can be set off against this fee.

We estimate that the total remaining costs for the proposed project from June 30, 2007 up to completion will be \$280 million, and a further \$27.1 million in order to acquire the land, in each case as set out in the Valuation Report. For more information on the types of costs that are included in this cost estimate, see the Valuation Report and “—*Valuation of our Properties*”.

As of June 30, 2007, DTZ assessed the Market Value of our interest in the Smolnii Quarter which assumes the development will be completed as per the proposed revised plan, (Smolnaya Street) development at \$585.4 million. We have a 100% share in the project. The Market Value of the development as assessed by DTZ is the estimated value of the planned development at completion, less all costs up to completion (including a profit margin for the developer), less any minority stake in the project. For a full discussion of how Market Value is determined, see the Valuation Report and “—*Valuation of our Properties*”.

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For a full discussion of the valuation, valuation methodology, cost calculations and assumptions, please refer to the Valuation Report prepared by DTZ included as Annex A to this prospectus.

Legal Rights

One of our subsidiaries, OOO Smolny Kvartal, has assumed all rights and obligations under a land lease with investment conditions granted by the St. Petersburg Administration of Municipal Property. The lease was originally granted to LenSpetsSMU, one of our competitors, in June 2004. LenSpetsSMU subsequently transferred all its rights and obligations under this agreement to OOO Smolny Kvartal in July 2006.

Under the original land lease, a land plot of approximately 61,836 square meters was leased to LenSpetsSMU, and a further 24,662 square meter land plot would be leased to LenSpetsSMU if LenSpetsSMU fulfilled the following conditions:

- construction of two new buildings for the Social Services Department of the St. Petersburg State Hospital and the relocation of the department into one of these new buildings;
- construction of a new St. Petersburg Municipal Young People's Arts Center and the relocation of the Center into the new building; and
- construction of a new pre-school and the relocation of the school into the new building.

The lease for both land plots expires four and a half years after the date of satisfaction of these conditions.

Having assumed all rights and obligations under the lease, we are focusing on fulfilling the above conditions so that we will be entitled to acquire the additional 24,662 square meter plot of land. We have already completed all construction works in connection with the relocation the St. Petersburg Municipal Young People's Arts Center and the pre-school, although we are yet to have the formal completion documentation signed by the relevant government authorities.

In relation to the final condition, we have not yet constructed the two new buildings for the Social Services Department of the St. Petersburg State Hospital; however, we expect that we will have done so by December 31, 2008. After completion, we would own the commercial part of the real estate and would have rights to buy the corresponding land or enter into a 49-year lease of that land, provided that an operational permit is obtained and our ownership rights are registered as discussed below. The residential part of the real estate (and a small amount of non-residential retail premises) will be sold to individuals and businesses.

Our construction permit for the project expires on September 30, 2008, and accordingly we will need to extend it until the expected date of project completion at the end of 2012. We expect that this extension will be approved by the relevant authorities.

The land for the project is zoned as urban land, and the permitted use of the land is for the location of residential buildings and offices.

Financing Arrangements

We intend to raise finance for the project without seeking any co-investors, using funds raised from pre-sales of residential apartments to purchasers before completion. We may explore opportunities to raise additional finance from other sources in the future.

Key Steps for Completion

To continue construction works, we will need for a construction permit to be amended to reflect the revised project plans.

To satisfy the conditions for the extension of the lease and the grant of the right to acquire the additional 24,662 square meters of land, we will need to construct two new buildings for the Social Services Department of the St. Petersburg State Hospital, relocate the Department into those buildings and obtain operational permits for those buildings (including arranging all necessary inspections and approvals). We will also need to obtain formal approval from the government that all conditions to the lease have been met across the three relocation projects.

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Upon completion of construction, we must obtain an operational permit from the relevant government authorities and procure registration of ownership rights in the completed project with the federal registration authority. See “*Regulation of Real Estate in Russia*”.

Paradny Quarter (Paradnaya Street, 1-3, Radisheva Street, 35, 39)

Stage of Development

Construction on this project has commenced and we expect to complete the first phase of the development by the end of 2007. The second phase of the development is currently planned for completion by the end of 2008 and the third and final phase by March 2013.

Description of the Project

Paradny Quarter will be a mixed-use project that will include elite residential and commercial real estate properties located in the center of St. Petersburg. The buildings will be set in landscaped grounds near a park and will be equipped with shops and other amenities such as boutiques, retail stores, sports clubs and beauty salons as well as the largest underground car park in central St. Petersburg.

Overall, the residential development is expected to include 119,493 square meters of net sellable residential real estate and 1,493 parking spaces. The commercial real estate part of the development is expected to consist of 20,040 square meters of net leasable space and 217 parking spaces.

The first phase of development will include 9,657 square meters of net leaseable commercial real estate, 81 parking spaces. The second phase of the development is expected to include 54,507 square meters of net sellable residential apartments including office space that will be sold and 516 parking spaces and 4,453 square meters of net leaseable retail and office space. The third and final phase of development is expected to offer 64,986 square meters of net sellable residential and commercial real estate, 5,930 square meters of net leasable offices and 1,077 parking spaces.

We are currently constructing the first and second phases of the development and demolishing existing buildings to make way for the third phase of the development, which we expect to begin in mid 2009.

We estimate that the total remaining costs for the project from June 30, 2007 up to completion will be \$232.3 million and a further \$56.7 million in order to acquire the land, in each case, as set out in the Valuation Report. For more information on the types of costs that are included in this cost estimate, see the Valuation Report and “—*Valuation of our Properties*”.

As of June 30, 2007, DTZ assessed the Market Value of our interest in the Paradny Quarter development at \$423.5 million. We have a 100% share in the project. The Market Value of the development as assessed by DTZ is the estimated value of the planned development at completion, less all costs up to completion (including a profit margin for the developer), less any minority stake in the project. For a full discussion of how Market Value is determined, see the Valuation Report and “—*Valuation of our Properties*.”

For a full discussion of the valuation, valuation methodology, cost calculations and assumptions, please refer to the Valuation Report prepared by DTZ included as Annex A to this prospectus.

Legal Rights

Our interest in the project is held through two subsidiaries, ZAO Paradny Kvartal (“**Paradny Kvartal**”) and Construction Corporation “Revival of St. Petersburg”, under certain contracts with ZAO Pyotr Velikiy SPb (“**Pyotr Velikiy**”), a third party construction company unrelated to our group, which entered into the original investment agreement for the project in March 2005.

Pyotr Velikiy entered into the original investment agreement with the Ministry of Defense to develop a plot of land on which naval buildings are located. The land for the project is zoned as urban land, and the permitted use of the land is for residential and commercial real estate properties. Under the terms of the investment agreement, the Ministry of Defense will be entitled to 30% of the residential properties to be built on the land, although Pyotr Velikiy could provide the Ministry of Defense with residences in other developments in return for reducing the Ministry’s interest in the Paradny Quarter project if the Federal Property Agency and the Russian Ministry of Defense agree. Upon completion, Pyotr Velikiy will be entitled to the remaining 70% of the residential properties (or more, if residences in other developments are substituted) and 100% of the commercial properties and car parking spaces. The Ministry of Defense also has the option to require Pyotr Velikiy to fund the relocation costs of certain existing facilities located

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on the land. If the Ministry exercises that option, its interest in the Paradniy Quarter project will be reduced accordingly.

In September 2005, Pyotr Velikiy entered into an investment agreement with Paradniy Kvartal, one of our subsidiaries, under which Pyotr Velikiy agreed to be the project manager (*zakazchik*) for the development in exchange for Paradniy Kvartal's undertaking to finance the project up to completion. Further, the agreement provided that, upon completion, Pyotr Velikiy would be entitled to approximately 12,000 square meters of real estate in the development, and Paradniy Kvartal would be entitled to the remainder of the development, subject to the rights of the Ministry of Defense.

Also, in September 2005, Pyotr Velikiy entered into an investment agreement with another of our subsidiaries, Construction Corporation "Revival of St. Petersburg", under which Construction Corporation "Revival of St. Petersburg" agreed to invest RUB 186,114,054 in the development in exchange for the right to receive 5,575 square meters of non-residential premises and an apartment with an area of approximately 130 square meters on completion.

In September 2005, Paradniy Kvartal also entered into an agency agreement with Construction Corporation "Revival of St. Petersburg" under which Construction Corporation "Revival of St. Petersburg" agreed to procure prospective purchasers for pre-sales of residential apartments in exchange for receiving 10% of the proceeds from any such sales. In February 2006, Paradniy Kvartal entered into a separate investment agreement with Construction Corporation "Revival of St. Petersburg" under which Construction Corporation "Revival of St. Petersburg" undertook to invest RUB 168,840,000 in the project in exchange for 27,132 square meters of garage space in the development.

Upon completion, the Ministry of Defense, the Federal Agency for Federal Property Management (the "FAFPM") and Pyotr Velikiy must sign a formal acknowledgement that completion has occurred, and that also confirms the shares of each party in the development. The final shares of the parties are subject to the decision of the Ministry of Defense, and there can be no assurances that the Ministry will agree to reduce its share to what we expect under the investment agreement. After completion, we would own or partly-own the finished buildings comprising the commercial part of the development and would have the right to buy the land or enter into a 49-year lease of such land, provided that an operational permit is obtained and our ownership rights are registered as discussed below. After completion, the residential part of the development will be owned by the purchasers who have purchased individual apartments from us during the construction period, and we will own any remaining apartments that are not sold at completion.

Financing Arrangements

We intend to raise finance for the project without any co-investors using funds raised from pre-sales of residential apartments to purchasers before completion. We may explore opportunities to raise additional finance from other sources in the future.

Key Steps for Completion

After completion of the third phase of the development, we would need for the Ministry of Defense and Pyotr Velikiy (with our consent) to sign a formal acknowledgement that completion has occurred as discussed above.

We will also need to obtain an operational permit from the relevant government authorities and procure registration of ownership rights in the completed project with the federal registration authority. See "*Regulation of Real Estate in Russia*".

Dom u Morya (Martynova Embankment, 62, 70, 74)

Stage of Development

Construction on this project has commenced and we expect to complete by December 2007.

Description of the Project

This project is located on three adjoining land plots in the Petrograd district of St. Petersburg, on the Martynova Embankment. On each of two of the three land plots, we are constructing one complex that will offer 28,800 square meters of net sellable residential space and 2,843 square meters of sellable commercial real estate. On the third land plot, we are reconstructing and renovating a historic building with

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1,168 square meters of net sellable area, which will be sold as a single residence. The two residential complexes will offer 248 car parking spaces.

We estimate that the total remaining costs for the project from June 30, 2007 up to completion will be \$38.9 million, as set out in the Valuation Report. For more information on the types of costs that are included in this cost estimate, see the Valuation Report and “—*Valuation of our Properties*”.

As of June 30, 2007, DTZ assessed the Market Value of our interest in the Dom u Morya development at \$114.9 million. We have a 100% share in the project. The Market Value of the development as assessed by DTZ is the estimated value of the planned development at completion, less all costs up to completion (including a profit margin for the developer), less any minority stake in the project. For a full discussion of how Market Value is determined, see the Valuation Report and “—*Valuation of our Properties*”.

For a full discussion of the valuation, valuation methodology, cost calculations and assumptions, please refer to the Valuation Report prepared by DTZ included as Annex A to this prospectus.

Legal Rights

We are developing this project through our subsidiary, OOO Martynovka. A freehold interest in one of the plots for the residential complexes was purchased by OOO Martynovka in June 2003. The other two plots were leased from the City of St. Petersburg pursuant to lease agreements entered into in 2002 and 2005 that expire in December 2007 and May 2008 respectively. Construction permits have been granted in respect of all three plots, two of which expire in December 2007 and one in May 2008. Should we fail to complete construction before the expiry of these lease agreements the term of the leases will automatically extend for another nine months though we may be required to pay a fine, typically less than 1% of the amount paid to enter into the investment agreement. If, after this nine month period we still have not completed construction, we must formally apply for an extension of the land lease agreements.

The three land plots for the project are zoned as urban land. The permitted use under town planning regulations is for the location of residential premises.

Construction Corporation “Revival of St. Petersburg” entered into separate agreements with OOO Martynovka under which it agreed to finance the project, take the role of project manager and to conduct marketing activities for the residential apartments in exchange for 2,636 square meters of residential space, all of the parking spaces (except for four parking spaces attached to the residence) and 10% of any proceeds from pre-sales.

Financing Arrangements

We intend to raise finance the project internally without any co-investors, using funds raised from pre-sales of residential apartments to purchasers before completion. We may explore opportunities to raise additional finance from other sources in the future.

Key Steps for Completion

We will need to obtain an operational permit from the relevant government authorities and procure the registration of ownership rights in the completed project with the federal registration authority. See “*Regulation of Real Estate in Russia*”.

Residence at Suvorovskiy (Suvorovskiy Prospekt, 63, Lit. V)

Stage of Development

This project is currently at the construction stage of development. We expect that the development will be completed by the end of 2008.

Description of the Project

Through our subsidiary, ZAO Ingeocom SPb, we are constructing a mixed-use development that, upon completion, is expected to offer 38,274 square meters of net sellable real estate, including 31,159 square meters net sellable area of residential apartments and 7,115 square meters net sellable area of retail and office premises. We also plan to include 272 parking spaces. To finish the construction works we will need to complete the underground car park, erect solid-cast skeletons walls and brick partitions, install engineering systems and finish the interiors.

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The original project plan when the construction permit was obtained in March 2007 envisaged a development of 5,860 square meters of net sellable commercial real estate and 30,554 square meters of net sellable residential apartments. After the scope of the project was revised, we submitted amended documentation to the relevant state authorities for review, and they are in the process of considering the proposed revisions. If, as we expect, these revisions are approved, our construction permit will be amended accordingly.

We estimate that the total remaining costs for the project from June 30, 2007 up to completion will be \$60.7 million and a further \$29,000 in order to acquire the land, in each case as set out in the Valuation Report. For more information on the types of costs that are included in this cost estimate, see the Valuation Report and “—*Valuation of our Properties*”.

As of June 30, 2007, DTZ assessed the Market Value of our interest in the Suvorovskiy development at \$147.5 million. Construction Company “Revival of St. Petersburg”, has a 100% share in the project. The Market Value of the development as assessed by DTZ is the estimated value of the planned development at completion, less all costs up to completion (including a profit margin for the developer), less any minority stake in the project. For a full discussion of how Market Value is determined, see the Valuation Report and “—*Valuation of our Properties*”.

For a full discussion of the valuation, valuation methodology, cost calculations and assumptions, please refer to the Valuation Report prepared by DTZ included as Annex A to this prospectus.

Legal Rights

The land plot being developed is owned by the Russian Federation (represented by the Ministry of Defense) and leased to our subsidiary, ZAO Ingeocom SPb, under a land lease agreement that expires on December 30, 2008. The land for the project is zoned as urban land, and the permitted use of the land under town planning regulations is for the location of residential and commercial real estate premises.

With the consent and order of the FAFPM, we concluded an investment agreement with the Ministry of Defense. The development must be completed by the December 30, 2008 or otherwise we will be in breach of the investment agreement. Pursuant to the investment agreement, on completion:

- 32% of the total residential area of the development or 10,019 square meters, whichever is the largest, which in either case must be valued at not less than \$8,609,144, will be transferred to the Ministry of Defense; and
- all of the office and retail areas and the remaining part of the residential area of the development will be acquired by us.

Instead of providing the Ministry of Defense with properties located within this development, we may, with the consent of the FAFPM and the Ministry, provide the Ministry with mass-market class residential properties of equivalent value that are located in other buildings in St. Petersburg. In 2006 and 2007, we entered into two agreements with the FAFPM and the Ministry of Defense, under which we transferred 10,450 square meters of residential apartments located in a settlement near St. Petersburg to the Ministry of Defense. In the contracts governing the transfers, the FAFPM and the Ministry agreed to set off these transfers when determining what we must do in order to satisfy our obligations to the Ministry under the investment agreement. We have been in negotiations with the FAFPM and the Ministry and as a result of these negotiations we expect that we will receive a 100% share in the development upon completion as a result of making the transfers.

After entering into the investment agreement with the Ministry of Defense, ZAO Ingeocom SPb leased the 12,500 square meter development plot. The purpose of the land lease was to enable us to comply with the legal requirements relating to the sale of residential apartments off-plan. To our knowledge, the relevant subdivision of the Ministry of Defense retained its right of so-called unlimited use (quasi-ownership title available to state institutions and similar organisations) to the project land plot as well. Under applicable legislation, two persons cannot hold the unlimited use title and the lease title to the same land plot simultaneously. Accordingly, there is a risk that our title to the project land plot could be invalidated if it were challenged. If this were to occur, we expect that we would be able to proceed with the development unaffected under the investment agreement and there would be no need to obtain a new land lease.

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Financing Arrangements

We intend to raise finance the project without any co-investors, using funds raised from pre-sales of residential apartments to purchasers before completion.

Key Steps for Completion

To continue construction works, we will need our construction permit to be amended to reflect the revised project plans.

We will need to obtain an operational permit from the relevant government authorities and procure registration of ownership rights in the completed project with the federal registration authority. See “*Regulation of Real Estate in Russia*”.

Mass-market/Business class properties

Tsvetnoy Gorod (Piskarevskiy Prospekt) and the Ruch'i Development

Stage of Development

This project is currently at the pre-design stage of development with construction of the first phase planned to commence in 2010. We have begun work on the town-planning documentation that details all of the infrastructure, roads and facilities for the project, and specifies the purpose of the buildings to be constructed. This documentation must be in place before we can begin work on constructing the development, and must be approved by the St. Petersburg town-planning committee. We expect to provide the St. Petersburg town planning committee with our proposals during the second half of 2008.

The entire project is expected to be completed by 2020 and our share in the entities that own the land will be 94%.

Description of the Project

This is a mass-market class residential development, located in the Krasnogvardeisky district, a green area on the outskirts of St. Petersburg, to be constructed by DSK Blok. The project plan provides for a completed development containing 2,474,000 square meters of sellable properties and 19,160 car parking spaces spread over a development area of 274.4 hectares. The buildings being constructed in this development by DSK Blok will be high-rise Series 137 panel buildings. The development will also include a significant amount of commercial real estate, comprising business centers, entertainment centers, supermarkets, car showrooms and shopping complexes with a total sellable area of 344,000 square meters.

We estimate that the total remaining costs for the project from June 30, 2007 up to completion will be \$3,106 million and a further \$63.9 million in order to acquire the land, in each case, as set out in the Valuation Report. For more information on the types of costs that are included in this cost estimate, see the Valuation Report and “—*Valuation of our Properties*”.

As of June 30, 2007, DTZ assessed the Market Value of our interest in the Tsvetnoy Gorod development at \$665.1 million. We have a 94% share in the project. The Market Value of the development as assessed by DTZ is the estimated value of the planned development at completion, less all costs up to completion (including a profit margin for the developer), less any minority stake in the project. For a full discussion of how Market Value is determined, see the Valuation Report and “—*Valuation of our Properties*”.

We also own, through our subsidiaries, the Ruch'i Development, comprising 336.9 hectares of land also in the Krasnogvardeisky district, which we currently intend to hold as investments and do not expect to develop until 2020. As of June 30, 2007, DTZ assessed the Market Value of our interest in the 336.9 hectares of land at \$634.4 million.

For a full discussion of these valuations, valuation methodology, cost calculations and assumptions, please refer to the Valuation Report prepared by DTZ included as Annex A to this prospectus.

Legal Rights

In August 2007, we purchased 94% share interests in two companies that indirectly own freehold interests in 13 land plots and conditional entitlement to a further seven land plots pursuant to preliminary sale and purchase agreements. These plots are located in the Krasnogvardeisky district of St. Petersburg. We purchased one of the companies, ZAO Oblstroy (“**Oblstroy**”), for €47.5 million from Mely Management S.A., shortly after it purchased Oblstroy for €42 million from ZAO Rekonstruksia, which was owned by a member of our board of directors and Managing Director for business development,

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Mr. Mikhail Romanov. We are required to pay \$127 million for the other company, OOO Argus, (“**Argus**”) before November 20, 2007. The owner of that company, as well as the owner of the remaining 6% interest in each of these two companies, are unrelated to the group and our management.

The 13 freehold land plots comprise an aggregate area of 372.2 hectares. The seven land plots, our ownership of which remains subject to the satisfaction of certain conditions precedent contained in the preliminary sale and purchase agreements, comprise an aggregate area of 239.2 hectares. See “*Related Party Transactions—Transactions with Related Parties*”.

Prior to our acquisition of Oblstroy and Argus, these companies had entered into agreements with the Ruch'i Seller, which has the statutory right to purchase these land plots from the City of St. Petersburg (the “**City Government**”) pursuant to a regulation dated May 16, 2006. The transfers of seven of these plots from the City Government to the Ruch'i Seller however, are still in progress. We believe that all transfers of the remaining seven land plots will be completed by the end of January 2008. Our subsidiaries have already prepaid to the Ruch'i Seller RUB 294.4 million of the aggregate purchase price of approximately \$15.5 million for these seven plots.

Our ownership of five of the seven plots yet to be acquired is subject to fulfilment by the Ruch'i Seller of certain conditions set forth in settlement agreements entered into between the Ruch'i Seller and the City of St. Petersburg, in respect of certain court proceedings brought by the Ruch'i Seller against the City Government between 2005 and 2007.

The land for the project is zoned as urban land, and the permitted use of the land is for agricultural purposes.

Financing Arrangements

We intend to raise finance for this project without seeking any co-investors, using funds raised from pre-sales of residential apartments to purchasers before completion. We may explore opportunities to raise additional finance from other sources in the future.

Key Steps for Completion

We will need to purchase all of the land plots from the Ruch'i Seller, which requires the City of St. Petersburg to complete the privatization of the project land.

We will need to change the permitted use of the land so that we can develop residential and commercial real estate properties. This requires an amendment to the St. Petersburg city master plan, which can only be effect by the adoption of new municipal legislation. Timing of this is not within our control.

Once the basic town-planning documentation has been approved, we will need to prepare the design documents and submit them to the relevant authorities for approval.

Following receipt of this approval, we would then need to apply for construction permits. Following receipt of such permits we could commence construction.

Upon completion of construction, we would need to obtain an operational permit from the relevant government authorities and procure the registration of ownership rights in the completed project with the federal registration authority. See “*Regulation of Real Estate in Russia*”.

Sophia (Yuzhnoe Shosse, 49, 55)

Stage of Development

This project is currently at the pre-design stage of development with construction planned to commence in 2010. We are currently obtaining the site planning documentation in respect of the development land, which is expected to occur by late 2008 or early 2009. Once it is secured, we will apply for the permits and authorizations allowing for the proposed development. We anticipate that construction will be completed by the end of 2016.

Description of the Project

We are developing this project, which we expect to be a large scale, business class residential housing complex located to the south east of St. Petersburg that will comprise approximately 410,400 square meters of net sellable residential premises and 3,000 parking spaces, through our subsidiary, OOO GDSK. Two factories that currently occupy the land plots will be demolished and new buildings constructed in their place.

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We estimate that the total remaining costs for the project from June 30, 2007 up to completion will be \$646.2 million and a further \$46.5 million in order to acquire the land, in each case, as set out in the Valuation Report. For more information on the types of costs that are included in this cost estimate, see the Valuation Report and “—*Valuation of our Properties*”.

As of June 30, 2007, DTZ assessed the Market Value of our interest in the Sophia (Yuzhnoe Shosse) project development at \$267.8 million. The Market Value of the development as assessed by DTZ is the estimated value of the planned development at completion, less all costs up to completion (including a profit margin for the developer), less any minority stake in the project. For a full discussion of how Market Value is determined, see the Valuation Report “—*Valuation of our Properties*”.

For a full discussion of the valuation, valuation methodology, cost calculations and assumptions, please refer to the Valuation Report prepared by DTZ included as Annex A to this prospectus.

Legal Rights

The two development plots are currently owned by ZAO NPO Keramika and ZAO Stroyfarfor, two of our subsidiaries. OOO GDSK has acquired 88% of the share capital of ZAO NPO Keramika and 85.65% of the share capital in ZAO Stroyfarfor. This will enable us to begin the process of relocating the factories.

The land for the project is zoned as urban land, and the permitted use of the land is currently for industrial purposes. We will apply to the town planning authorities to change the permitted land use.

Financing Arrangements

We intend to finance the project without seeking any co-investors, using funds raised from pre-sales of residential apartments to purchasers before completion. We may explore opportunities to raise additional finance from other sources in the future.

Key Steps for Completion

We will need to change the permitted use of the land so that we can develop residential and commercial real estate properties. This requires an amendment to the St. Petersburg city master plan which can only be approved by adopting a local law of St. Petersburg. We expect that this will be completed by the end of 2007, although this timing is not within our control.

No town-planning documentation has been submitted to the St. Petersburg town-planning authorities as yet. However, we expect to receive approval of the site planning documentation by 2009. Once we have received the necessary approvals, we will need to demolish the existing buildings so that construction work can begin.

Upon completion of construction, we must obtain an operational permit from the relevant government authorities and transfer respective premises to the individuals that entered into cost sharing agreements with us. See “*Regulation of Real Estate in Russia*”.

Gated communities

Repino-Leninskoe (Leninskoe Settlement, Leningrad Region)

Stage of Development

Three gated communities are nearing completion, and seven further gated communities are at the end of the design phase. We intend to construct the remaining communities one-by-one, and we have commenced construction on the next community. We expect that the entire development will be completed in 2015.

Description of the Project

Repino-Leninskoe project comprises 207.9 hectares of development land located in the Leningrad Region. Each gated community is a village made up of around one hundred cottages located in a rural area. We plan to carry out construction of ten gated communities, three of which are close to completion. For the remaining seven, we are currently developing infrastructure such as utilities networks and roads. We have received planning permission in respect of the remaining seven communities and will in due course apply for construction permits. When completed, the entire development will offer approximately 1,000 individual cottages comprising over 160,670 square meters of net sellable real estate. The plan for developing the gated communities was approved by the Vyborg District Municipal Administration in March 2004.

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We estimate that the total remaining costs for the project from June 30, 2007 up to completion will be \$199.0 million, as set out in the Valuation Report. For more information on the types of costs that are included in this cost estimate, see the Valuation Report and “—*Valuation of our Properties*”.

As of June 30, 2007, DTZ assessed the Market Value of our interest in the Repino-Leninskoe project development at \$151.0 million. The Market Value of the development as assessed by DTZ is the estimated value of the planned development at completion, less all costs up to completion (including a profit margin for the developer), less any minority stake in the project. For a full discussion of how Market Value is determined, see the Valuation Report and “—*Valuation of our Properties*”.

For a full discussion of the valuation, valuation methodology, cost calculations and assumptions, please refer to the Valuation Report prepared by DTZ attached as Annex A to this prospectus.

Legal Rights

The land for the Butterfly settlement, which has a total area of 149,200 square meters, is zoned as urban land, with a permitted use of cottage development. The remaining land for the project, which has a total area of 58,600 square meters, is zoned as agricultural land, with a permitted use of small scale cultivation and dacha construction.

Federal law prohibits the development for profit of real estate properties by commercial enterprises on land that is zoned as agricultural land and designated for small scale cultivation and dachas. Consequently, we have established not-for-profit partnerships to own such land, with which we then enter into trust agreements to construct and develop residential housing. The partnerships are named Penati-2 and Alacul. While we believe these structures to be legal, there can be no assurance that such structures will not be challenged and found to violate Federal law. Penati-2 and Alacul were founded by private individuals unrelated to our group. The freehold title to the remaining land, which is zoned as urban land, is owned by our subsidiary ZAO Zarechie.

Under the trust agreement, our subsidiary, OOO Osobnyak manages the construction of cottages on the plots owned by the above not-for-profit partnerships. OOO Osobnyak acts as a building contractor and receives money from private persons who purchase the cottages.

We will carry out the development of real estate properties on this land.

Financing Arrangements

The development is generally being funded through pre-sales and bank loans.

However, in order to fund development networks and infrastructure, Sberbank has provided two credit lines to OOO “Osobnyak” in the amount of \$10 million and RUB 229.5 million, respectively, of which \$4.1 million and RUB 229.5 million has been drawn down as at 30 June, 2007. The loans are secured by mortgages granted by Penati-2 and Alacul over project land with a total area of approximately 94 hectares and a pledge of 26% participatory interest in OOO “Osobnyak”. One of our subsidiaries, OOO GDSK, agreed to provide a surety to the bank in respect of the loan. We expect that we will start repaying these loans in July 2009 and March 2011 with funds from expected sales of cottages.

We may explore opportunities to raise additional finance from other sources in the future.

Key Steps for Completion

We must apply for construction permits in respect of the seven remaining communities.

Upon completion of each individual cottage development, the cottage, together with the land plot underneath, are transferred to individual purchasers. See “*Regulation of Real Estate in Russia*”.

Moscow

Noviy Balchug (Sadovnicheskaya Street, 9)

Stage of Development

The project is currently at the design stage of development. We anticipate that construction will commence in early 2008 and will be completed by the second half of 2010.

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Description of the Project

We are constructing an office development consisting of three buildings located in the very center of Moscow, just a short distance from the Kremlin and Red Square. Once completed, it is expected to offer 15,815 square meters of Class A net leasable office premises and 170 parking spaces.

We originally intended to reconstruct the buildings currently situated on the development land plot. Since then, we have decided to demolish the existing buildings and construct new ones in their place, albeit preserving the existing façades.

We estimate that the total remaining costs for the project from June 30, 2007 up to completion will be \$36.2 million and a further \$19.2 million in order to acquire the land, in each case, as set out in the Valuation Report. For more information on the types of costs that are included in this cost estimate, see the Valuation Report and “—*Valuation of our Properties*”.

As of June 30, 2007, DTZ assessed the Market Value of our interest in the Noviy Balchug project development at \$134.2 million. The Market Value of the development as assessed by DTZ is the estimated value of the planned development at completion, less all costs up to completion (including a profit margin for the developer), less any minority stake in the project. For a full discussion of how Market Value is determined, see the Valuation Report and “—*Valuation of our Properties*”.

For a full discussion of the valuation, valuation methodology, cost calculations and assumptions, please refer to the Valuation Report prepared by DTZ which is set out in this prospectus.

Legal Rights

We became party to an investment agreement with the Moscow Central Administrative District on July 13, 2003 and a lease agreement dated May 2, 2006 with the City of Moscow through OOO Velikan-XXI Century, which became our subsidiary in mid-2006. Under the terms of that investment agreement, the development plot of 4,200 square meters has been leased to us until December 25, 2007. We will be required to extend the lease, since we do not expect to complete the development until 2010. We expect that an extension will be granted.

Under the investment agreement, we are also required to comply with the following obligations:

- upon completion, allocate to the City of Moscow 30% of the total floor area in the commercial premises and 20% of the parking spaces in the development. The area of the property to be owned by the City of Moscow must be separated physically from the remainder of the premises, and must have its own entrance;
- relocate the owner-occupiers of 282 square meters of office space in one of the existing buildings to alternative premises during the construction phase, and provide them with space in the completed office building; and
- arrange the permanent resettlement, at our own expense, of 87 families residing in the residential buildings on the development plot as of the date of the investment agreement. We have relocated 64 of these families already and are in the process of arranging the relocation of the remaining 23.

Subject to the agreement of the relevant city authorities, we can set off all or part of the apartments purchased for the purposes of resettlement of the residents against the share of the property that we are obliged to allocate to the City of Moscow according to the exchange coefficient for such set-off to be determined by the relevant resolution of the Moscow Government. If the Moscow Government were to determine the coefficient in a way favorable to itself we may receive a lesser interest in the property than expected.

We are also negotiating to provide the office owner-occupiers with permanent premises instead of space in the completed office building.

The initial term for resettlement of the residents has been recently extended from December 25, 2007 until the end of 2009. Accordingly, the term for construction which is currently expected to end on December 25, 2007 is expected to be extended as well.

Upon fulfillment of the investment agreement and completion of the construction, the terms of a new lease should be agreed further.

The land for the project is zoned as urban land, with a permitted use of commercial real estate properties.

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Financing Arrangements

We intend to raise finance the project without seeking any co-investors, using bank loans.

Key Steps for Completion

In order to complete this development, we need to achieve the following:

- obtain a resolution of the Moscow Government on extension of the term of construction;
- complete the resettlement of current residents;
- finalize the project documentation, secure approval from the relevant state authorities and obtain a construction permit;
- effect construction works and obtain operational permit;
- transfer respective premises to the City of Moscow (as the case may be); and
- register our ownership rights to the remainder of the building with the federal registration authority.

Current Pipeline Development Projects

We currently have a number of potential projects under consideration at various stages of evaluation, internal approval and negotiation. For example, we are in negotiations to develop plots outside of St. Petersburg in the Dunes region. Nearly all of the pipeline projects are at a very preliminary stage. We have not yet finalized the negotiations with respect to such projects, and we have not yet finalized or in some cases commenced our formal due diligence and in all cases we have not yet acquired land for the project. We can give no assurance that any of these projects will be entered into and/or successfully completed.

A10.6.1.2

Valuation of our Properties

We retained DTZ to value certain of our real estate properties and development projects, which we generally refer to in this description as “properties”. The valuations and a discussion of the valuation methodology and other assumptions and methodologies are contained in the Valuation Report. The properties in the Valuation Report are valued as of June 30, 2007.

DTZ has assessed the Market Value of each property using the methodology set out in the Valuation Report and summarized in “Valuation Methodology” below, in each case in accordance with the Practice Statement contained in the RICS Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors which is defined as: “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

According to DTZ, as of June 30, 2007, the aggregate Market Value of our beneficial share of the properties was \$4.9 billion (of which \$479.2 million is contingent on the transfer of seven land plots located in the Ruch’i Development that are yet to be acquired and subject to preliminary sale and purchase agreements).

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

Valuation Methodology

DTZ used the residual site appraisal method of valuation for all plots of land and all developments in the course of construction. In the case of standing investment property, DTZ used the rent and yield method of valuation. Each method has its own limitations, especially in Russia where the market remains immature, and we urge you to read the Valuation Report for a full discussion of these limitations. Below we have generally described the basic premises of each of these approaches.

To value a development using residual site appraisal methodology, the valuation of the development on completion is calculated by applying achievable rent per square meter (in the opinion of the valuer and using prices as of June 30, 2007) to the predicted net area of the building on completion. The valuer then

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applies a market capitalization rate to the resultant net operating income. In the case of residential property, the valuer applies its opinion of an appropriate capital rate per square meter to gross internal area, producing the gross development value of the proposed development. Once the gross development value is calculated, all costs associated with the development must then be subtracted. This includes all costs associated with the development up to completion including building costs, infrastructure, drainage, professional fees for contractors, finance costs, sales and letting fees throughout the development process, and the developer's profit. Once all outgoings have been deducted, the sum left is the residual site value. To arrive at the Market Value, a proportion of the residual site value is deducted that represents the interest of any minority investors in the project.

To value a standing investment using the rent and yield approach, the valuer applies an appropriate capitalization rate to its opinion of the net operating income of the investment.

Certain Assumptions and Methodologies

The valuations are based on various assumptions that are discussed in full in the Valuation Report and include:

- properties will be completed on time and the buildings will be commissioned in accordance with the local regulations upon completion;
- where a development scheme differs from that considered in the original plans, the required variation to the landlord's permission will be forthcoming without material delay or cost;
- all relevant planning consents for the properties will be received within a normally acceptable timescale and that there are no issues which would materially delay the issuance of the required consent, or have a material effect on value or marketability;
- land leases from the local authorities will be extended, effectively in perpetuity, on similar terms to the existing leases;
- where construction permits have not been issued, there will be no delay with such issue.

DTZ has based its valuation of the properties on an assumption as to the expected highest and best use of each property by a typical local developer in Russia. The "Highest and Best Use" is defined in Paragraph 3.4 of International Valuation Standard as "the most probable use of a property which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of the property being valued". Therefore, DTZ's valuations do not necessarily reflect our intended investment/development program.

In addition, the valuations are based on the information which we have supplied to DTZ. DTZ has relied on such information as being correct and complete, without independent verification.

See also "*Risk Factors—Risks Relating to Our Business—The real estate appraisal with respect to the properties and projects included in this prospectus may vary over time and may not reflect the actual market values of the properties appraised. In addition, the appraisal may not be comparable to those given to similar portfolios held by other real estate development companies in the Russian market because assumptions and methodologies may differ and determining such values is an inherently subjective process*".

Construction

We are a leading manufacturer of concrete panels and in the construction of mass market, large panel housing in St. Petersburg, through our subsidiaries, DSK Blok and Gatchinsky DSK. As well as constructing panel buildings as part of our own developments, we also act as a general and sub-contractor for the Russian government, St. Petersburg government and as a general and sub-contractor for other developers. Our current construction capacity is 370,000 square meters of panel housing per year.

A10.6.1.2

Prefabricated panel buildings can be built more quickly and less expensively than poured concrete buildings and can also be constructed in the extreme weather conditions often experienced in Russia during the winter months. Accordingly, construction volumes of prefabricated panel housing are not greatly influenced by seasonality. Poured concrete buildings are often built where design flexibility is required as they can be specifically tailored to the development project. Although the majority of our panel buildings are constructed according to standardized designs, which helps minimize costs, our design capability is flexible due to our in-house architectural team which can modify designs according to our clients' requirements.

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We produce two types of panel residential buildings: Series 121 buildings and Series 137 buildings, each of which can be built up to a maximum of 17 stories and usually take 18 months to complete.

We believe that our integrated structure is a significant competitive advantage in constructing residential housing and, in particular, mass market housing. In the mass market residential segment, we are able to produce all necessary construction components, transport them to the construction site and construct them without relying on third party contractors. Consequently, we believe that we can manage the entire construction process (including the financing of construction projects) more efficiently, reducing costs.

Another of our strengths is the flexibility with which our production facilities can respond to the demands of clients. As well as having a range of pre-designed concrete panels, we have our own in-house architectural and design service that can design and produce bespoke panels. Each of Gatchinsky DSK and DSK Blok has roughly 50 architectural and design solutions for constructing panel buildings from 3 to 18 storeys high and holds the licenses for the design and construction of buildings up to 100 meters high.

We market our concrete panel products both to state residential housing construction projects and to private clients outside our group. In 2006, other companies within our group accounted for 19% of our orders, whilst the state and private clients accounted for 35% and 46%, respectively.

In order to construct concrete panels, we require a number of primary products such as cement, crushed rock or granite, sand and steel, all of which (with the exception of cement and steel) come from within the group itself. We also source other services and products from within the group such as crane hire, vehicular services and windows and doors. The fact that we are not reliant on any third party suppliers, apart from suppliers of cement, enables us to complete our construction projects more efficiently and with significant cost savings.

According to SPb Realty, we are currently number one in St. Petersburg with a 61% share of the market for large-panel housing in the mass market. Our strategy is to maintain a leading position in St. Petersburg and the Leningrad region, continue to increase efficiency and invest in the modernization of our facilities, in order to achieve better quality and design.

We plan to expand our manufacturing capacity from 370,000 square meters per annum to 750,000 square meters per annum. We also plan to modernize our concrete panel production facilities by replacing 70% to 80% of our existing machines with state of the art German and Swedish made equipment (including equipment from Weckenmann, Volert and Elematic). We intend to transfer output to new production lines gradually so that modernization does not temporarily reduce production volumes. We see in these changes the potential for significant gains in efficiency due to quality improvements, more flexibility in the production and sizing of panels, and savings in labor, materials and energy.

Building Materials, Aggregates, and Construction Services

We have business units involved in the production of building materials, aggregates and the provision of construction services. Our building materials business is sub-divided into areas dedicated to the production of reinforced concrete, ready-mix concrete, bricks and aerated concrete. Our aggregates business involves the production of crushed granite and sand and the construction services unit is concerned with the provision of tower cranes and transportation.

Aggregates

Our aggregates business accounted for approximately \$163 million, or 21%, of our revenues in 2006 after intercompany eliminations. We are the largest producer of crushed granite and construction grade sand in St. Petersburg and the Leningrad region and one of the leading producers of both in Russia. Our mining operations are conducted in quarries located in different parts of the Leningrad region, all within close proximity to St. Petersburg itself as well as sea sand, which is extracted from the Gulf of Finland.

A10.6.1.2

Crushed granite

We are the largest supplier of high-quality granite stone in St. Petersburg and the Leningrad region and the second largest in Russia according to Reshenie. Through our subsidiary, Granit-Kuznechnoe, we produced 3.6 million cubic meters of crushed granite in 2006 from our three granite stone quarries and three rock-crushing plants located in the Leningrad region. We supply the crushed granite we produce to St. Petersburg, the Leningrad and Moscow regions. In 2006, we supplied 87% of the requirements of our other group companies for this product, which represents 29% of our production capacity.

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The crushed granite that we produce is used in the manufacture of a number of building materials such as concrete and reinforced concrete and as road ballast. We have the technological capability to produce crushed granite of varying coarseness, allowing us to meet the differing demands of our customers. Two of our three production facilities are able to produce a grade of crushed granite known as 'Cubiform', a product that has recently increased in popularity since it improves the durability of concrete and asphalt products in which it is used.

We are also able to offer our customers a delivery service via road, rail or waterway owing in part to the location of our production sites. In St. Petersburg in 2006, we transported 66% by volume of our crushed granite by rail, 37% by road and 8% by waterway. None of our competitors have more than two ways of transporting their crushed granite to customers.

Since 2001, we have had mining rights to three granite sites in the Leningrad region where we operate three crushing and sorting facilities. In 2007, we leased (with an option to purchase) and put into operation a new mobile modern crushing and sorting facility to increase our production capacity by 600,000 cubic meters per year and increase our operating efficiency. We also entered into a leasing agreement (with an option to purchase) in respect of another crushing and sorting facility that we are planning to put into operation in the first half of 2008. In addition, we recently won a tender to prospect and mine at the Zabolotnoe site in the Leningrad region and have contracted to purchase another crushing and sorting facility that we are planning to put into operation by the second quarter of 2008. We believe the additional mining rights and new crushing and sorting facility will boost our production capacity by approximately 1,000,000 cubic meters per year. We have budgeted capital expenditure of \$52 million by 2010 in order to implement these projects. Our strategy is to create a chain of tranship sites around St. Petersburg and to increase market share in St. Petersburg and the Leningrad region through investing in production sites, warehouses and equipment. According to estimates by the Ministry of Natural Resources (and the amount specified in the passports relating to our mining licenses) the granite reserves contained in the three quarries that we currently have licenses for is in excess of 360 million cubic meters, plus an estimated 21 million cubic meters of granite in respect of our Zabolotnoe deposit which we believe to be sufficient for an additional 107 years at extraction rates in 2006 assuming that our licenses are renewed over this period.

Sand

We are a market-leading producer and supplier of construction-grade sand in St. Petersburg and the Leningrad region and the largest producer of sand in Russia according to Reshenie. In 2006, we sold approximately 11.7 million cubic meters of sand. Our subsidiary, Rudas, is responsible for all operations related to the extraction and transportation of sand and currently is the only producer and supplier of sea sand in St. Petersburg and the Leningrad region, accounting for 70% of sand supplied in the region for 2006. In 2006, we supplied 72% of the requirements of our other group companies for this product, which represents 8% of our production capacity.

We currently extract and process two types of sand: quarried sand and sea sand. Quarried sand is extracted from our nine active sand quarries located throughout the Leningrad region and is used for various construction related projects, such as land planning, roadways and embankments. An additional quarry is currently in development. We engage in our own marketing strategies for the sale of quarried sand and sell the sand directly to customers rather than through third party distribution channels.

We have a full production infrastructure consisting of two hydraulic dredgers, floating cranes, and approximately 20 barges for the extraction of sea sand using a mechanized hydraulic dredging process from seabeds located in three fields in the Gulf of Finland, for which we hold a federal license. We also own and operate our own fleet of motor vessels with a capacity of 3,300 tons for sea sand transportation. We are the only company in St. Petersburg and the Leningrad region licensed to extract underwater deposits of sea sand and, since transporting sea sand from sites outside of the region is prohibitively expensive, we are therefore the only supplier of this type of sand to the St. Petersburg market. We consider that the availability of reserves, licenses required for extraction and the substantial investment required in equipment, transportation and storage represent high barriers to entry, particularly in sea sand. Sea sand is of superior quality to quarried sand and is used as fine filler in the production of building materials. We currently operate three storage facilities in St. Petersburg (two of which are located at the bank of the Gulf of Finland and one at the bank of the River Neva). The location of our storage facilities in St. Petersburg provides us with close proximity to our customers and lower transportation costs.

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In addition to selling sea sand to customers from our storage facilities, we have been supplying sea sand for construction of a passenger seaport near Vasilievsky Island in St. Petersburg. We are the exclusive supplier of sea sand for this project. In 2006 we supplied approximately 1.5 million cubic meters of sea sand for this project and have a supply contract for a further 1.8 million cubic meters in 2007.

According to data from the Ministry of Natural Resources specified in our licenses, there are sufficient sand reserves to last approximately ten years, at current rates of production with reserves in St. Petersburg and the Leningrad region at approximately 109.5 million cubic metres. We are continually evaluating new sources of sand through geological surveys and the registration of new quarries. We are planning to invest over \$58 million by 2010 in order to implement new technology for mining and control, to upgrade and revamp the equipment and the fleet as well as to construct inner roads. By opening new quarries, we hope to increase our total capacity to 15.2 million cubic metres annually. The new quarries and technology will help us secure sufficient deposits for over 15 years ahead so that we can consolidate our market share, and increase margins. We also intend to install a new mechanized hydraulic system for the extraction of quarried sand from a depth of up to 60 meters (as compared to our current capability of 25 meters), which we also believe will increase our reserves by approximately 3.5 million cubic meters. We also have replaced our dockside pumping equipment and are expanding the holds of the boats in order to reduce unloading time and transportation costs.

Building Materials

Our building materials business accounted for approximately \$342 million or 44%, of our revenue in 2006 after intercompany eliminations. We offer a diverse range of building materials and hold a leading market position in both St. Petersburg and the Leningrad region in all of the building materials sectors in which we operate. In addition, we have recently expanded certain of our building materials operations into Moscow, Estonia and Latvia.

A10.6.1.2

We are able to source the majority of the aggregates and raw materials necessary for the production of our building materials from other members of the group, and, because of our diverse range of products, we are able to serve as a “one-stop shop” for our customers by providing them with the majority of their building needs. We also have a broad and diverse customer base outside the group itself. In addition, we believe that we have established both a recognizable brand and a reputation for quality, price and reliability in our key markets. As a market leader there is a favorable pricing environment for certain of our products within the market in St. Petersburg and the Leningrad region.

Reinforced Concrete

Our subsidiary, Barrikada, is the largest producer of reinforced concrete in the Northwest region of Russia, operating five production facilities in St. Petersburg and the Leningrad region. We also operate a production facility in Moscow and in total supply over 4,000 different types of products for residential, industrial and commercial construction and civil engineering projects. We estimate that our products were used in approximately 70% of all buildings under construction in St. Petersburg. In 2006, we supplied 77% of the requirements of our other group companies for this product, which represents only 1% of our production capacity. We also supply reinforced concrete products to other regions in Russia, including Karelia, Murmansk, Arkhangelsk, Pskov, Novgorod, Rostov-on-Don, Novosibirsk as well as other regions in the far north of Russia.

The majority of the materials we require to manufacture reinforced concrete products come from within the group, including crushed granite, sand and ready-mix concrete. Metal is sourced from seven different third party suppliers in St. Petersburg and four suppliers in Moscow. With the exception of cement, which in St. Petersburg is sourced from a single supplier and, in 2006, accounted for only 13% of the production costs of reinforced concrete, or 10% of the sale price, we are not dependent on any one supplier for the raw materials involved in the production of reinforced concrete. We consider the large capital investment and skilled labour required, the limited access to raw materials and the large scale required for a suitable product range, acts as a barrier to entry to many competitors.

We believe that our large production capacity enables us to offer large volumes of a wide range of products that can be produced at short notice. In addition, our own in-house design team can create bespoke products that can be manufactured by our production line and tailored to an individual customer’s specifications.

We are in a strong competitive position due to our economies of scale and our large product range in the market. We have been the selected supplier for complex projects through contractor arrangements,

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supplying both of Ikea's shopping malls in the Leningrad region (300,000 square metres), the construction of 5 Ikea supermarkets in St. Petersburg (170,000 square metres), a 40,000 square metre Nokian plant and storage at the State Hermitage of 30,000 square metres.

We plan to invest over \$60 million by 2010 to boost production capacity to 549,000 cubic metres in St. Petersburg and to 160,000 cubic metres in Moscow. In St. Petersburg we hope to capitalize on opportunities provided by rapid market growth by increasing market share through the introduction of additional production capacities including construction of the largest plant in St Petersburg. In Moscow, our strategy is to continue to grow our market position organically and through selective acquisitions in order to establish a "supermarket" of a full range of reinforced concrete products, using the site at ZBI-6 for the expansion of DSK-Blok into mass market class housing.

Ready-mix Concrete

We have the largest network of mortar mixes and ready-mixed concrete production facilities in St. Petersburg and use our own fleet of vehicles to supply customers. We have also recently entered the Moscow ready-mix concrete market and now have four production facilities in the region. Our business model is to produce high quality concrete and deliver it to construction sites within 45 minutes from the time it is manufactured, made possible by the centralized locations of our facilities and our "real-time" logistics systems and operations, including a 24 hour multi-channel telephone number with an immediate operator response. Additionally, we own approximately 160 concrete delivery trucks that, along with our leased trucks, make an average of 1,000 deliveries daily, delivering most of the concrete that we produce to our customers. Due to our network of facilities in St. Petersburg, the average distance our trucks need to travel from our production facilities to the customer is on average 14 kilometers for concrete deliveries. During our high season in summer, we produce on average 5000 cubic meters of concrete per day in St. Petersburg and 1,500 to 2,000 cubic meters of ready-mix concrete per day in Moscow. In 2006, we supplied 93% of the requirements of our other group companies for this product, which represents 11% of our production capacity.

Through our subsidiary, Obedinenie-45, we currently operate seven production facilities in St. Petersburg (more than any other concrete producer in the region) and four in Moscow, with a total production capacity of approximately 1,697,000 cubic meters per year in 2006 (actual output of approximately 1,217,000 cubic meters in 2006) giving us the largest capacity in the market. We increased our production capacity to approximately 2,517,000 cubic meters per year in 2007. Four of these facilities are state of the art, having been completed in the last few years. We believe that our large production capacity enables us to respond flexibly to the demands of our customers and to provide them with reliable and dependable service. Our sophisticated IT systems allow us to control operations from a central location, ensuring that we are able to produce and deliver different grades of concrete to many different construction sites in a single day.

We produce a wide range of concrete mixes, including high-grade durable, frost-resistant and waterproof mixes and mortars. Two of the principal ingredients for these products are sand and crushed granite, 82% of which are provided by companies within the group. Although in St. Petersburg and the Leningrad region we are currently dependent on a single supplier, ZAO Eurocement Trade ("**Eurocement**"), for cement, this business relationship is monitored and developed by our subsidiary, ZAO Chifko Plus ("**Chifko**"), which purchases cement centrally for the group as a whole and has negotiated a framework contract with the supplier at a market price, which is agreed by a supplement to the framework agreement every month. See "*Material Transactions—Framework Agreement with Eurocement*". In order to reduce our cement costs, we stockpile supplies during the winter months when the price is lower so that we have sufficient cement for the spring and summer months when there tends to be a short supply and high demand, resulting in higher prices.

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Approximately half of our ready-mix concrete was used in the constructing of residential housing in 2006. The remainder was used in the construction of commercial properties, industrial facilities and transport infrastructure.

According to Reshenie, the ready-mix concrete market is set to grow by 42% in St. Petersburg and the Leningrad region and 43% in Moscow between 2006 and 2012 due to increased construction activity.

We also intend to expand our ready-mix concrete capacity by constructing two new production facilities in Moscow during 2008 and 2009. Our large production capacity and sizeable vehicle fleet, combined with a focus on logistics enables us not only to produce concrete according to customer demand but also to deliver it on time.

We are planning to invest \$80 million through to 2010 to generally improve production efficiency and to boost production to 2.7 million cubic metres in Moscow by opening two new plants. In St. Petersburg, we plan to increase output to 2.4 million cubic meters by replacing one facility with a new modern facility and expanding capacity at 2 other facilities. Our strategy is to increase market share in St. Petersburg over the short to medium term through the increased production capacity. In Moscow, we plan to substantially increase market share over the near to medium term through increased production capacity and by establishing a model similar to the one in St. Petersburg, which comprises production plants in various central locations together with an integrated online delivery system. The eventual goal is to continue to refine and improve the business model to enable us to easily roll it out and replicate it effectively in other suitable markets.

Bricks

We are the largest manufacturer of ceramic bricks in Russia, satisfying demand within the group and also supplying other construction companies in St. Petersburg, the Leningrad region and Moscow through our subsidiary, Pobeda LSR. In 2006, we produced approximately 280 million of the 350 million bricks produced in St. Petersburg that year. We also sell bricks in Moscow where we are the only supplier of high quality expensive facing bricks which demand premium to mid-market prices. In 2006, we supplied 85% of the requirements of other group companies for this product, which represents only 0.3% of our production capacity.

We source the clay required for the manufacture of bricks from our own clay deposits, located at Krasny Bor and Chekalovskoe, for which we hold mining licenses and which we believe contain sufficient clay for more than 100 years of brick production at 2006 production levels. All of the sand required in the manufacturing process is provided by our subsidiary, Rudas. We are therefore not dependent upon any third party suppliers for the main materials required for the manufacture of bricks. Our wide range of bricks is sold both directly to major construction companies and indirectly through our own network of retail outlets. We are not overly reliant on any key clients. For example, in 2006, our three largest customers accounted for less than 20% of our total sales volumes.

We believe that the access to raw materials, the substantial investment requirement and the limited availability of suitable sites represents a barrier to entry into this market.

We plan to invest \$280 million to upgrade our current production facilities to a modern, more energy efficient and less labor intensive production facility located closer to our reserves of raw materials. We believe that this new facility will be significantly more efficient than our five existing production facilities. Three of our existing production facilities constructed in 1940-1960 and with a total production capacity of 147 nf million will be closed once the new facility is operational. This new state-of-the-art plant has a total capacity of 195 nf million for both constructing and facing bricks as well as a capacity of 25 nf million for a "softmud" line for the production of high margin facing bricks. This will increase our total capacity currently of 287 nf million to 360 nf million by 2011.

The land on which the obsolete factories are located could potentially be used for our real estate development projects. We expect that the new production facility, which is due to become operational in 2010, will allow us to also increase our operating efficiencies and earnings through the sale of facing bricks which sell for higher prices than ordinary bricks that the new factory will be able to provide. We also intend, subject to continuing favorable market conditions, to expand into the Moscow brick production market either by constructing or acquiring a plant, since we believe that there is currently insufficient production capacity in the region.

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Aerated Concrete

We are the largest producer of aerated concrete in Russia and Northern Europe, having acquired Aeroc International, which owns and operates production facilities in St. Petersburg, Russia, Riga district, Latvia and Symeru, Estonia, in 2006. All of these production facilities have been completed since 2004 and boast state of the art, fully automated and highly efficient production lines.

Aerated concrete blocks are a lightweight artificial building material produced by solidifying a porous mix and used in residential and industrial construction for load bearing components and insulation. The primary ingredients in the production of aerated concrete are quartz sand, cement, lime, gypsum and aluminum powder, all of which are purchased from third parties. Because of high levels of competition within the markets for these primary ingredients, we are not overly dependent on any one supplier, with the exception of cement, which we source from a single supplier in the St. Petersburg and Leningrad region, where the majority of our production is based. However, relative to the other ingredients, very little cement is required in the production process. We are currently negotiating with other suppliers in the St. Petersburg and Leningrad region with a view to sourcing at least 50% of our cement in that region from alternative suppliers from the start of 2008.

In St. Petersburg, we sell our aerated concrete products directly to construction companies and individuals, as well as through our own retail outlets. The production of glue for aerated concrete also provides additional synergy benefits. In Estonia and Latvia, all of our sales are directed through distributors independent of the group. We believe that the Aeroc brand is important to our customers since it is a well-known trademark that has built up a reputation for quality and reliability in the markets in which we operate.

We are in the process of expanding our operations into Lithuania and Ukraine by investing approximately \$70 million in two new production facilities, which are designed to have a combined production capacity of 750,000 cubic meters of aerated concrete per year once fully operational by 2011. We also hope to double capacity in Latvia to 205,000 cubic metres. We expect that the first of these facilities, in Ukraine, will become operational in the middle of 2008, with the other facility coming on-line at the end of 2008. As well as expanding into Ukraine and Lithuania, our strategy also includes investigation of opportunities to expand into the Moscow region. We also plan to use the Lithuanian plant now under construction for additional deliveries to Latvia and Kaliningrad in order to win share from market suppliers.

Cement

Although we are a very large consumer of cement, we currently do not operate any production facilities capable of producing cement. Many of our business segments need cement as part of their production processes. We therefore plan to construct a cement production facility first to meet the cement needs of the group and then to enter into the cement market in St. Petersburg and the Leningrad region. We expect that this new cement project will make us a market leader in the region in cement. This new production facility is expected to have a capacity of 1.85 million tons per year, with a location close to its own reserves and scope for construction of a second production line to increase capacity to 4 million tonnes. Our subsidiary, OOO "Cement", has obtained one license in respect of lime and two licenses in respect of cement clay exploration and extraction, which according to the estimates of the Ministry of Natural Resources as specified in our license, will last for at least 80 years in respect of the Duboem deposit and 34 years in respect of the Bolshie Polyta deposit, based on anticipated production volume. Reserves have been confirmed on the current site at 66.5 million tons for limestone and 28.8 million tons for clay. Construction of the new cement factory commenced this year and operations are scheduled to begin in 2010.

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Cement prices have increased by several times in the last five years and we anticipate both that the cement market in Northwest Russia will continue to grow and that the current manufacturing capacity in the region will be insufficient to meet these increased levels of demand. Currently cement market in the North-West region is dominated by Eurocement with 63% of the market and by Heidelberg Cement with 30% of the market.

Shortages of cement are likely to be met by imports. We expect that moving the production of cement within the group will allow us to both offset, and take advantage of, the increasing prices and demand for cement.

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Although in St. Petersburg and the Leningrad region we are currently substantially dependent on a single supplier, Eurocement, for cement, this business relationship is monitored and developed by our subsidiary, Chifko, which purchases cement centrally for the group as a whole and has negotiated a framework contract with the supplier to acquire cement at the market price in effect at the time we place our order, which is effected by a supplement to the framework agreement every month. See “*Material Transactions—Framework Agreement with Eurocement*”. In order to reduce our cement costs, we stockpile supplies during the winter months when the price is lower so that we have sufficient cement for the spring and summer months when there tends to be a short supply and high demand, resulting in higher prices.

In Moscow we use a number of suppliers of cement and are not reliant upon any of them individually. Moscow, however, accounts for only 22% of our cement needs in the ready-mix segment. We are currently negotiating with other suppliers in the St. Petersburg and Leningrad region with a view to sourcing at least 50% of our cement in that region from alternative suppliers from the start of 2008.

Construction Services

Tower Cranes

Through our UM-260 subsidiary, we are the leading provider of mechanized construction services in St. Petersburg, offering customers full tower cranes and hoisting machinery services for use in real estate construction. We also operate in the Leningrad region, Moscow, the Moscow region and Sochi and have the largest and most modern fleet of cranes in the St. Petersburg market from leading global suppliers.

Our full service includes both the installation and operation of tower cranes and hoisting machinery as well as operational design and the construction of crane tracks. Our crane operators are highly qualified, having been trained by us in-house.

We currently offer an upgraded fleet of new generation cranes (approximately 50% of our fleet) that are capable of undertaking all types of construction projects. We source our cranes and hoisting equipment from leading global producers, such as Liebherr, Potain, Kroll, Alimak and Stross. We have established good relationships with many of these crane producers, enabling us to negotiate considerable discounts on purchases of new equipment. Many of our competitors are unable to offer the same level of service since they have outdated, obsolete fleets. For example, we are the only crane operator in St. Petersburg that can offer cranes with jibs of up to 70 meters long.

We are able to purchase cranes and other mechanized construction devices on long term (six to seven years) financing arrangements at low interest rates. If used correctly and properly maintained, a tower crane can have a useful life for over 20 years.

We are currently exploring possibilities of expanding into new markets and plan for nearly \$90 million in investments up to 2011 depending on market conditions to increase the number of cranes by two and a half times over the number of cranes as at December 31, 2006. Our advantage in this industry stems from the fact that we have substantial experience in the industry as we have been in operation for over 40 years. In addition we have financial resources to meet the various capital requirements.

Transportation Services

We offer a wide range of building materials haulage services in St. Petersburg, the Leningrad region and Northwest Russia using our own fleet of vehicles, supplying customers with products such as concrete, sand, crushed granite, bricks, aerated concrete and prefabricated concrete panels. Our fleet of over 260 vehicles is comprised of foreign-made trucks and loaders. In 2006, our fleet utilization rate was 83%, and was complementary to our construction materials product in the Group.

Our strategy is to grow our leading position in the St. Petersburg market and boost operating efficiency and productivity, by expanding our garage facilities and by constructing a technical service centre.

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Licenses

The following table sets forth a list of material licenses held by some of our key operating subsidiaries:

<u>Licensee</u>	<u>Licensed Activity</u>	<u>Expiry Date</u>
ZAO “Gatchinskiy DSK”	Construction ⁽¹⁾ of buildings and structures of the first and second levels of responsibility in accordance with government standards ⁽²⁾	December 29, 2011
ZAO “DSK Blok”	Project design of buildings and structures of the first and second levels of responsibility in accordance with government standards ⁽³⁾	February 24, 2009
	Construction of buildings and structures of the first and second levels of responsibility in accordance with government standards ⁽⁴⁾	November 9, 2009
ZAO “Mosstroirekonstruktsiya” . . .	Construction of buildings and structures of the first and second levels of responsibility in accordance with government standards ⁽⁵⁾	October 1, 2012
OAo Construction Corporation “Revival of St. Petersburg”	Construction of buildings and structures of the first and second levels of responsibility in accordance with state standards ⁽⁶⁾	July 30, 2012
	Project design of buildings and structures of the first and second levels of responsibility in accordance with government standards ⁽⁷⁾	July 30, 2012
OAo “Pobeda LSR”	Use of subsurface resources ⁽⁸⁾	December 31, 2024
	Use of subsurface resources ⁽⁹⁾	December 31, 2013
OAo “Granit-Kuznechnoye”	Use of subsurface resources ⁽¹⁰⁾	January 1, 2027
	Use of subsurface resources ⁽¹¹⁾	January 1, 2018
	Use of subsurface resources ⁽¹²⁾	January 1, 2018
	Use of subsurface resources ⁽¹³⁾	July 27, 2014
OAo “Lenrechport”	Use of subsurface resources ⁽¹⁴⁾	December 31, 2019
	Use of subsurface resources ⁽¹⁵⁾	December 31, 2010
	Use of subsurface resources ⁽¹⁶⁾	December 31, 2013
	Use of subsurface resources ⁽¹⁷⁾	December 31, 2012
ZAO “Vsevolozskoye SMP”	Use of subsurface resources ⁽¹⁸⁾	December 31, 2008
	Use of subsurface resources ⁽¹⁹⁾	December 31, 2018
	Use of subsurface resources ⁽²⁰⁾	December 31, 2014
	Use of subsurface resources ⁽²¹⁾	December 31, 2025
	Use of subsurface resources ⁽²²⁾	September 1, 2011
OOO “Cement”	Use of subsurface resources ⁽²³⁾	December 31, 2026
	Use of subsurface resources ⁽²⁴⁾	December 31, 2026
	Use of subsurface resources ⁽²⁵⁾	December 31, 2026
OOO “Gidrotehnik”	Use of subsurface resources ⁽²⁶⁾	December 31, 2014
	Use of subsurface resources ⁽²⁷⁾	December 31, 2014

- (1) According to the Federal Law on Licensing No. 128-FZ dated August 8, 2001 licenses for the engineering surveys, construction and design of buildings and structures will no longer be required from July 1, 2008.
- (2) This includes the following activities: general construction works, preparatory works, earth work operations, mason’s work, casting and installation of concrete and metal constructions, finishing, plumbing, special and installation work, as well as the maintenance of buildings and structures, testing, balancing and commissioning; functioning simultaneously as general contractor and customer-developer; construction of buildings and structures up to 100 meters high.
- (3) This includes: design of buildings and structures of the first and second level of responsibility, in particular, elaboration of design documentation, working out general plan and transport, architectural and process design.

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- (4) This includes the following activities: construction of buildings and structures of first and second levels of responsibility, functioning simultaneously as general contractor and customer-developer, elaboration of design documentation, determining general plans, executing authorizations for construction and reconstruction, securing the vacation of the construction territory, managing the administration of construction, technical control, construction of buildings and structures up to 60 meters high.
- (5) This includes general construction works, land measuring, preparatory works, earth work operations, mason's works, costing and installation of concrete and metal constructions, finishing, plumbing, functioning simultaneously as general contractor and customer-developer.
- (6) This includes general construction works and functioning simultaneously as general contractor and customer-developer.
- (7) This includes elaboration of design documentation for construction of buildings and groups of buildings and the performance of functions of a general designer.
- (8) We have obtained this license for the exploration and extraction of Cambrian clays at the Krasny Bor deposit for production of bricks and ceramics.
- (9) We have obtained this license for the exploration and extraction of Cambrian clays at the Mininsky allotment of the Chekalovsky deposit for production of bricks and building ceramics.
- (10) We have obtained this license for the exploration and extraction of granite for production of crushed stone at the Zabolotny allotment of the Gavrillovo deposit.
- (11) We have obtained this license for the extraction of granite and granite-gneiss at the Kuznechnoye-1 deposit for production of crushed stone.
- (12) We have obtained this license for the extraction of granite and granite-gneiss at the Rovnoye deposit for production of crushed stone.
- (13) We have obtained this license for the exploration and extraction of granite at the Kuznechnoye deposit for production of crushed stone.
- (14) We have obtained this license for the extraction of sand at the Seskar Island deposit.
- (15) We have obtained this license for the extraction of sand and sand-gravel material at the Stirsudden-Kyurenniyemi deposit.
- (16) We have obtained this license for the extraction of sand at the Stirsuddenskiye Banki deposit.
- (17) We have obtained this license for the extraction of sand and sand-gravel material at the O. Bolshoi Berezovy deposit.
- (18) We have obtained this license for the extraction of sand at the Pugarevo deposit.
- (19) We have obtained this license for the extraction of sand at the Khittolovskoye deposit.
- (20) We have obtained this license for the extraction of sand at the Kuzmolovskoye deposit.
- (21) We have obtained this license for the extraction of sand at the Kallelovo mortar sand deposit.
- (22) We have obtained this license for the geological survey and extraction of sand at the Manushkino occurrence.
- (23) We have obtained this license for the exploration and extraction of Cement clay at the Uzhny allotment of the Bolshie Poly deposit.
- (24) We have obtained this license for the exploration and extraction of limestone at the Duboem deposit.
- (25) We have obtained this license for the exploration and extraction of cement clay at the north allotment of the Bolshie Poly deposit.
- (26) We have obtained this license for the extraction of sand from the Apraksin Bor deposit.
- (27) We have obtained this license for the geological survey and extraction of sand from the Shapkinskoe deposit.

In addition to the licenses listed above, our operating subsidiaries hold a number of other licenses necessary for conducting their operations. In particular, our subsidiary OAO "Granit-Kuznechnoe", which engages in granite extraction and the processing of crushed granite, also holds licenses for underground survey work, water use, storage and the use of industrial-purpose explosives as well as a number of other licenses. OAO "Pobeda LSR", our brick producer, also holds a license for underground survey work. OAO "Lenrheport", our subsidiary engaged in the extraction of sea sand, holds licenses for the use of items containing radioactive substances as well as water use.

Moreover, our production and construction subsidiaries are involved in other activities complementary to their principal areas of activity that also require licensing under Russian law. For example, the operation of hazardous production facilities, including production facilities with increased explosive, chemical or fire hazards, and the operation of gas and electricity networks is subject to licensing. We also are required to obtain certain licenses to perform transportation activities in Russia, such as a license for freight within the Russian Federation, a license for stevedore operations on internal waterways and a license for railway loading and unloading operations.

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The majority of our other licenses expire between 2009 and 2011.

Locations

The following table sets out the geographic location, type of facility, capacity, production volumes and capacity utilization for our building materials and aggregate production facilities as of September 30, 2007, substantially all of which are owned by us. A10.8.1

	Subsidiary	Type of Facility	Capacity (unit)	Capacity (unit) 2006	Production Volume in 2006	Capacity Utilization in 2006 (%)
Russian Federation:						
St. Petersburg and Leningrad region	Barrikada	Five reinforced concrete production facilities	456,000 m ³ /year ▲	412,000 m ³ /year ▲	408,000 m ³ ▲	99
	Ob'edinenie-45	Seven ready-mix concrete production facilities	1,682,000 m ³ /year	1,461,000 m ³ /year	1,045,000 m ³	72
	Pobeda LSR	Brick production facility	289,000,000 bricks/year	284,000,000 bricks/year	256,000,000 bricks	90
	Aeroc Spb	Aerated concrete production facility	341,000 m ³ /year	274,000 m ³ /year	274,000 m ³	100
	DSK Blok	Panel housing construction facility	220,000 m ² /year	220,000 m ² /year	216,000 m ²	98
	Gatchinskiy DSK	Panel housing construction facility	180,000 m ² /year	150,000 m ² /year	130,000 m ²	86
	Granit-Kuznechnoe	Three rock crushing facilities	5,009,000 m ³ /year	4,480,000 m ³ /year	3,596,000 m ³	80
	Rudas	Three facilities for processing and storing mortar sand	12,603 m ³ /year	11,673 m ³ /year	11,673 m ³	100
Moscow	ZHBI-6	Reinforced concrete production facility	120,000 m ³ /year ▲	120,000 m ³ /year ▲	99,000 m ³ ▲	83
	Ob'edinenie-45 (Moscow branch)	Four ready-mix concrete production facilities	834,000 m ³ /year	236,000 m ³ /year	172,000 m ³	73
Latvia:						
Riga district	Aeroc SIA	Aerated concrete production facility	111,000 m ³ /year	82,000 m ³ /year	82,000 m ³	100
Estonia:						
Symeru	Aeroc AS	Aerated concrete production facility	208,000 m ³ /year	169,000 m ³ /year	169,000 m ³	100
Ukraine:						
Kiev (under construction)		Aerated concrete production facility to be operational in 2007/2008	Expected 400,000 m ³ /year	N/A	N/A	N/A

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The following table sets out certain information regarding our sand, granite and clay quarries:

Name of quarry	Location	License Holder	Type of quarry	Production	Estimated and Licensed Reserves ⁽¹⁾
				(2006)	
				(in thousands m ³)	
Kuz'molovskiy	Leningrad region	ZAO "Vsevolozhskoe SMP"	Sand	852.2	8,452.9
Pugarevo	Leningrad region	ZAO "Vsevolozhskoe SMP"	Sand	2,104.5	2,687.5
Pugarevo 3	Leningrad region	ZAO "Vsevolozhskoe SMP"	Sand	0 ⁽²⁾	2,066
Manushkino	Leningrad region	ZAO "Vsevolozhskoe SMP"	Sand	1,374.9	8,314.5
Apraksin Bor	Leningrad region	OOO "Gidrotekhnik"	Sand	86	4,662.4
Shapkiaskoe (Brusovo Deposit)	Leningrad region	OOO "Gidrotekhnik"	Sand	452.2	4,385.3
Novo-Toksovo ⁽³⁾	Leningrad region	Third party	Sand	265	3,879.0
Kirsino ⁽⁴⁾	Leningrad region	Third party	Sand	0 ⁽²⁾	250.0
Kallelovo	Leningrad region	ZAO "Vsevolozhskoe SMP"	Sand (being developed)	0	17,139.2
Khittolovo	Leningrad region	ZAO "Vsevolozhskoe SMP"	Sand	28.6	3,571.0
Stirsuddenskiye Banki	Leningrad region	AO "Lenrechport"	Sea sand	1,153.8	92.9
Stirsudden-Kyurenniyemi	Gulf of Finland	AO "Lenrechport"	Sea sand	0 ⁽²⁾	5,642.0
Seskar Island	Gulf of Finland	AO "Lenrechport"	Sea sand	2,863.2	46,864.8
Bolshoi Berezoviy	Leningrad region	AO "Lenrechport"	Sea sand	722.7	1,490.5
Rovnoe	Leningrad region	AO "Granit-Kuznechnoe"	Granite	874.9	143,526.6
Kuznechnoe	Leningrad region	AO "Granit-Kuznechnoe"	Granite	863.2	52,940.8
Kuznechnoe-1	Leningrad region	AO "Granit-Kuznechnoe"	Granite	1,013.5	165,465.5
Zabolotnoe	Leningrad region	AO "Granit-Kuznechnoe"	Granite (being developed)	0	21,024.0
Mininsky allotment of the Chekalovsky deposit of Cambrian clays	Leningrad region	AO "Pobeda LSR"	Clay	451.3	21,389.0
Krasny Bor deposit of Cambrian clays	Leningrad region	AO "Pobeda LSR"	Clay	95.9	10,416.2

- (1) Calculated as licensed reserves less volume extracted to date.
- (2) Production commenced in 2007 for the Kirsino, Pugarevo 3 and Stirsudden-Kyurenniyemi quarries. The production outputs of each of these quarries as of October 21, 2007 was 166, 0.5 and 355.6, respectively.
- (3) The lease and license to this quarry is held by OOO Kaskad, a third party. Rudas extracts sand from this quarry on the grounds of a contract between Kaskad and Rudas. Rudas then purchases this sand from Kaskad and sells it to end customers.
- (4) The lease and license to this quarry is held by OAO Nedra, a third party. Rudas extracts sand from this quarry on the grounds of a contract between Nedra and Rudas. Then Rudas purchases this sand from Nedra and sells it to end customers.

Name of quarry	Location	Subsidiary	Type of quarry	Actual production Capacity (2006)	Estimated and Licensed Reserves
Uzhny allotment of the Bolshie Polya deposit of cement clays	Leningrad region	OOO "Cement"	Cement clay	N/A*	3,700
Severnoy allotment of the Bolshie Polya deposit of cement clays	Leningrad region	OOO "Cement"	Cement clay	N/A*	6,656.1
Duboem deposit of cement clays	Leningrad region	OOO "Cement"	Limestone	N/A*	94,990

* We are not developing these quarries at the date of this document.

Competition

We are one of the largest real estate developers in St. Petersburg and the Leningrad region. However, we still face competition from a number of real estate developers in these areas. Significant competitors in the elite segment in St. Petersburg include LEK, Best, LenSpec SMU, RBI and Peterburgrekonstruktsiya. In the mid-market segment in St. Petersburg, we mostly compete with LEK Estate, LenSpec SMU, IVI-93 and Stroyitelnyy Trest. In the gated communities segment, our principal competitors are Olymp 2000, Russkiy Fond, Peterburgskaya Nedvizhimost, Petrostil, PBL Holding and Sodruzhestvo. We may also face strong competition in the real estate development segment in the future in St. Petersburg and the Leningrad region from large international and Moscow-based companies as they seek to expand their geographical presence. We face greater competition in Moscow as there are already a number of well-established developers with whom we compete in the business class segment, such as MIRAX,

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DonStroy, Inteko, M.O.R.E. and PIK, and we expect that additional international competitors will try to enter both the St. Petersburg and Moscow markets in the future. As a market leader in most of the building materials markets in which we operate, we face less competition in St. Petersburg and the Leningrad region. In the crane market, we compete primarily with UM-3 in St. Petersburg. We are also the market leader in aggregates in St. Petersburg and the Leningrad region, however we compete with Lenstroimaterialy in the crushed granite segment.

Health, Safety and Environment

Real estate development, industrial production and mining and extraction of aggregates can be dangerous activities. As with any construction or mining work, there is the general risk of accidents involving heavy equipment, machines, structures and explosives used in the mining industry.

We consider the health and safety of our employees to be our most significant responsibility in connection with our operations. We strive to create a healthy and safe working environment at each of our facilities and sites by assessing the potential risks faced by our employees and implementing appropriate safety measures. We also educate our staff as to these risks through annual occupational safety workshops and ensure that they have a sufficient knowledge of workplace safety procedures before they are permitted to work on a site or in a facility. We follow Russian industry safety standards applicable to each of our operations. For instance, all our equipment is certified by the Russian authorities for compliance with work safety requirements under Russian law. We also conduct our own inspections upon installation of any equipment in order to ensure proper installation and safety. We believe that we comply in all material respects with all safety laws and regulations applicable to our business. Although we believe our operations to have sufficient safety measures in place, the nature of our business is such that accidents may occur.

Moreover, while we strive to reduce our injury rates by implementing high safety standards at our facilities, there can be no assurance that accidents in the future will not occur.

We are committed to operating our facilities in a manner that is consistent with applicable environmental laws and regulations. For example, in February 2006, our subsidiary Ob'edinenie-45, which produces ready-mix concrete, installed waste processing facilities, which allows us to recycle nearly all of the waste in its production processes.

A10.8.2

We currently are not subject to any material environmental claims, lawsuits, penalties or other actions. See “Risk Factors—We may incur environmental liabilities in respect of certain of our current or future practices”.

Employees

The following table sets forth the number of our employees in each of our business divisions as of December 31, 2006 and June 30, 2007.

A10.17.1

Business Unit	Number of employees	
	As of December 31, 2006	As of June 30, 2007
Managing Company	195	196
Business Segments		
Real Estate Development (Development & Commercial Real Estate) . .	570	672
Construction	3,756	3,780
Building materials	6,065	6,405
Aggregates	2,274	2,573
Construction Services	1,206	1,283
Total	<u>14,066</u>	<u>14,909</u>

We and our subsidiaries make mandatory contributions to the governmental pension program in Russia. Historically, we have not provided any additional benefits to employees upon their retirement, or afterwards.

Employees of certain of our production entities are members of trade unions. As of June 30, 2007, these included approximately 3,965 employees. We have not experienced any work stoppages in the past and consider relations with our employees to be good.

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Intellectual Property

Brand names

We operate our building materials business under certain brand names, particularly the Aeroc brand of aerated concrete, 45' brand of ready-mix concrete, Granit-Kuznechnoe brand of crushed granite, Barrikada brand of reinforced concrete, K, Pobeda LSR and RAUF brands of bricks, which we use for marketing of our bricks and other products.

These brand names are supported by trademarks registered with the Russian Federal Service for Intellectual Property, Patents and Trademarks (the "**Patent Agency**").

In addition, we own an LSR Group trademark (in Russian and in English) that is protected in the USA, the UK, Ukraine, Germany, Latvia, Lithuania and Estonia and for which we have made application for international protection with the WIPO. We extend a non-exclusive right to use this trademark to our subsidiaries under the respective licensing agreements. For example, we entered into licensing agreements with our subsidiaries OOO "Gatchinskiy DSK", OAO "PO "Barrikada", OOO "GDSK", ZAO "Gatchinskiy DSK", OAO "Rudas", ZAO "Mosstroyrekonstruktsiya", OOO "Osobnyak", OAO "Ob'edinenie 45", ZAO "DSK Blok", OAO "SKV SPb", OAO "UM 260" and a number of others. The licensing agreements were registered with the Patent Agency and remain in force throughout the period of registration.

Patents

Our subsidiary ZAO "Gatchinskiy DSK" owns a number of patents in relation to certain utility models, an enclosure panel and a wall cladding panel.

Insurance

We maintain insurance policies with some of the leading Russian insurance companies including Ingosstrakh, Class, SOGAZ Insurance Group, Megaruss-D, Insurance Group Rosgosstrakh, UralSib Insurance Company and a number of other insurers.

Property insurance covering our vehicles, machinery and mining facilities are provided by insurance company Class and SOGAZ Insurance Group. Our car fleet insurance against theft and damage are obtained from UralSib Insurance Company, Ingosstrakh and Megaruss-D, with the latter providing us with the third party liability car insurance as well. Insurance relating to the use of dangerous industrial facilities are obtained from several insurance companies including Class, SOGAZ Insurance Group, Megaruss-D and Insurance Group Rosgosstrakh.

Our development companies do not normally obtain insurance coverage with respect to the developments construction. As a rule, our general contractors obtain insurance against construction risks payable to us, including against damage to construction vehicles and equipment and civil liability.

We also maintain property insurance covering the vehicles and machinery at our production and mining facilities. We are required to maintain insurance for certain items of equipment pursuant to the financing or leasing arrangements. We carry fleet insurance against theft and damage for all of our vehicles (both owned and leased), as well as third party liability vehicle insurance as required by Russian law. We also carry insurance relating to the use of hazardous industrial facilities as required under Russian law. Other than where required to do so by law we do not hold third-party liability insurance.

While we carry insurance against what we consider the principal risks associated with our business, we are not covered against all potential risks and losses that could affect our operations. For example, we currently have no coverage for business interruption or the loss of key management personnel, nor do we have insurance against claims for construction defects. No assurance can be given that our insurance will be adequate to cover all of our losses or liabilities, nor can assurance be given that insurance will continue to be available to us on commercially reasonable terms. See "*Risk Factors—Risks Relating to Our Business—We do not carry all of the types of insurance coverage customary in other countries for a business of our size and nature, which could have a material adverse effect on our business, financial condition and results of operation*".

Legal matters

We have been, and continue to be, the subject of legal proceedings and tax disputes from time to time. There are no governmental, legal or arbitration proceedings against our group (including any such proceedings which are pending or threatened of which we are aware), during the 12 months preceding the date of this prospectus that may have, or have had in the recent past, significant effects on our financial position or profitability.

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REGULATION OF REAL ESTATE IN RUSSIA

Below we briefly describe certain key provisions of the Russian legislation relating to real estate construction and development. This description, however, is not comprehensive and is qualified in its entirety by reference to applicable Russian law.

Overview

Definition of Real Property

Russian legislation defines real estate as land plots, buildings and structures, undeveloped constructions, and everything that is closely connected with land (i.e., objects that cannot be moved without damage to their use). Russian federal real estate law is primarily based on:

- the Civil Code of the Russian Federation (the “**Civil Code**”),
- the Land Code of the Russian Federation (the “**Land Code**”),
- the Federal Law “On State Registration of Rights to and Transactions with Real Property,”
- the Federal Law “On Mortgages,” and
- the Federal Law “On Turnover of Agricultural Land.”

Regional legislation should not contradict Russian federal law; in practice, however, certain aspects of Russian regional legislation may contradict federal law.

State Registration of Rights to Real Property

Since 1998, under Russian law, ownership rights to and certain transactions with real property require state registration in the Unified State Register of Rights to and Transactions with Real Property (the “**Land Register**”). The rights and the transactions that are subject to state registration in the Land Register include, but are not limited to, the following: the right of ownership to newly-built buildings and facilities, the right of ownership to land plots, transfer of title to real property through some sale and purchase transactions, mortgage agreements and land plot and building lease agreements for terms of over one year. Rights to real property and transactions therewith are registered by the department of the registration authority (i.e., the Federal Registration Service) in the relevant territory where the property is located. Rights to real property that are subject to registration legally exist upon the relevant state registration. Absent state registration transactions with real property have no legal effect and rights to real properties are not deemed to be created.

Information about the Land Register is publicly available and can be utilized to confirm registered ownership rights. The Land Register contains important information about the registered property, including, among other things, a description of the real property, the owner’s name and any registered encumbrances on the property. State registration is evidenced by a Certificate of State Registration as well as an extract from the Land Register. Registration in the Land Register represents an entitlement to the issuance of a Certificate of Registration of Rights. Registered rights to the real property may be challenged in court if the grounds for provision of the ownership or other rights are invalidated.

Ownership or other rights that were acquired before 1998, prior to the requirement for state registration, are deemed valid without such registration. Therefore, the Land Register is not comprehensive, as ownership or other rights acquired before 1998 will most likely not be included in the Land Register. At the same time, ownership or other rights acquired before 1998 may be voluntarily registered at the discretion of the owner. In addition, such rights will be subject to obligatory state registration in some cases; for example, in the event that a transaction with respect to such rights is entered into.

With respect to buildings, state registration is usually only carried out on a completed building. Although it is possible to register a building under construction as an unfinished construction, in practice this is cumbersome and very rarely happens, not least because subsequent state registration of the completed building is still required. In addition, registering an unfinished building is relatively new under Russian law and is therefore not widely done. Only when state registration is completed a building may be disposed of, mortgaged or leased. Any transfer of ownership must also be registered to be effective.

The state registration must normally be completed by the authorities within one month of any properly documented application. If, however, registration authorities doubt whether grounds for such registration are present, the authorities may demand supplemental documentation or an amended application and

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suspend registration for one month. Such registration may be rejected in certain cases provided by law; in particular, if our application does not comply with the applicable requirements.

Under Russian law, state-owned land in the Russian Federation may be owned by federal, or regional authorities, whereas local lands may be owned by municipal authorities. Historically, such state-owned lands have not been registered in the name of any particular state authority. However, in 2001, the Russian Federation began a delineation process whereby such state-owned lands are to be registered in the name of a particular authority, either federal, regional or municipal. This delineation procedure has yet to be completed.

Ownership of Real Estate

Russian law recognizes the right to own, to use and to dispose of real estate, such as buildings and underlying land. Russian law makes an important legal distinction between land and buildings, which are treated as separate legal interests.

Both the Civil Code and the Land Code permit private land ownership and the transfer of land from one person to another. The Land Code generally provides that foreigners may own land on the same terms as Russian nationals, save for certain exceptions. The most notable exception is a prohibition on foreigners owning land near Russia's borders and in certain other territories specified by federal law. In addition, Russian law prohibits foreign owners, as well as Russian companies with more than 50.0% foreign charter capital, from acquiring ownership title to agricultural lands in Russia.

Only land plots with a state cadastre number, which is given upon registration of a land plot in the unified federal cadastre that records the details of land plots such as their measurements and boundaries, may be traded in accordance with sale and purchase agreements. Most land in Russia has not yet been incorporated into the cadastre.

The Land Code establishes the procedure for privatizing both state and municipally owned land. The Federal Law "On Entry into Force of the Land Code" establishes the maximum price owners of buildings on a plot of land may be required to pay for such underlying land. The price depends on the size of the population in the area where the land plot is located. In the city of St. Petersburg and Moscow, for instance, the maximum price for the purchase of land plots underlying buildings is thirty times the amount of the applicable land tax per unit of area of the land plots.

Under the Land Code, legal entities may generally have one of the following rights with regard to land plots: (i) ownership right; (ii) leasehold right; or (iii) right of perpetual use. Legal entities may also have a right of free use for a fixed term or a private servitude. Public servitudes may be imposed and upheld by federal or local authorities. Although ownership rights to land plots are increasing, they remain relatively rare in most parts of Russia. The St. Petersburg and Moscow city governments, for instance, own the majority of the underlying land in St. Petersburg and Moscow, and owners of buildings typically enter into lease agreements with the city government.

Most of the land earmarked for private development is currently held by investors who have acquired a lease from the relevant state or municipal authorities. Although some legal entities may also have obtained a right to perpetual use of land prior to the enactment of the Land Code, such an interest in land is relatively rare in connection with property development markets in St. Petersburg and Moscow. In addition, the Land Code generally provides that legal entities (excluding state and local institutions, certain state-owned enterprises and state, regional and municipal authorities) using land pursuant to a right of perpetual use must either purchase the land from, or enter into a lease agreement relating to the land with, the state or municipal owner of the land by January 1, 2008 (to be extended to January 1, 2010 when a revision of the Land Code takes effect on October 30, 2007).

In general, everyone may own a building without any discriminatory restrictions, including foreign companies. An owner of a building is generally allowed to sell or lease it without any requirement to obtain state consent unless such sale falls within the remit of the Federal Anti-Monopoly Service, in which case consent is required.

Under Russian law, the ownership of a facility, such as a building, can be separate from the ownership of the underlying land on which the facility stands. However, the sale of a building automatically gives the purchaser a right to use the underlying land on the same conditions and to the same extent as the previous owner of a building. In such a case, the owner of a building has to formally establish the right to use the land plot by virtue of an ownership right or lease right, as applicable, by entering into contractual

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arrangements with the land owner. In addition, the owner of a building located on another party's private land has a pre-emptive right to buy or lease such underlying land.

The Moscow law "On Land Use and Construction in the City of Moscow" dated May 14, 2003, as amended, provides that the preferred method of granting rights to land by the Moscow city government is by a grant of leasehold interests to such land (as opposed to a freehold interest). Pursuant to this law, leasehold rights to the land are considered as a predominant form of rights to the land in Moscow. In practice, developers generally become owners of the buildings/facilities on the land in Moscow, but do not become owners of the land on which such buildings/facilities are located. At the same time, there is also private ownership to the land in Moscow, which, however, remains relatively rare. Russian and non-Russian persons and legal entities may acquire land held by federal, regional or municipal authorities for the development and construction of new buildings. The Land Code prohibits refusal by state or local authorities to grant rights to land plots for construction purposes except where the sale of a land plot is prohibited (for example, certain land plots have been specifically withdrawn from circulation and thus are prohibited from being leased) or restricted (certain land plots may not be transferred into ownership but may be leased) by federal law, or the land plots are reserved for state or local needs. Any such refusal can be appealed in the Russian courts.

Russian law provides that private land or buildings may be expropriated for "state or municipal needs". The owner of expropriated real estate is entitled to one year's advance notice together with payment of the full Market Value and compensation for any other losses suffered.

Leases

It is generally possible for anyone to lease land throughout Russia on terms which are regulated by the Civil Code and the Land Code. Lease terms vary, although lease agreements will often provide for a right of renewal on expiry. Most of the land leases concluded in St. Petersburg and Moscow provide that, upon expiration of the lease, the tenant has a pre-emptive right to conclude a new land lease agreement with the St. Petersburg or Moscow city government on the terms and conditions agreed between both parties to the agreement. A lease of real estate, including land, for a term of one year or more (a long term lease) must be registered in the Land Register. A real estate lease concluded for less than one year (a short term lease) does not require such registration. Rental rates for private land are not restricted by legislation. Where, however, the land is owned by the state or municipality, the rates are unilaterally determined generally, on an annual basis, by the owner. The transfer of ownership of land will not change the terms of a lease granted over it.

Mortgages

Under Russian law, a mortgage is a form of security taken over real estate to ensure due performance of a monetary obligation. A mortgage agreement must be registered with the Land Register and takes effect as of such registration. If the debtor defaults, the mortgagee can generally pursue a claim in Russian courts or can levy execution in an extrajudicial procedure upon a notarized consent of the parties for the sale of the mortgaged property and for settlement of its claim out of the proceeds of such sale. In the event of bankruptcy, a mortgagee will have preferential rights over unsecured commercial creditors but will rank behind some other classes of creditors. See "*Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital—Distributions to Shareholders on Liquidation*".

A mortgage of a lease normally requires the landlord's consent. However, a mortgage of a lease of a state- or municipally-owned land plot for a period of more than five years typically requires only a notification to the tenant (and not its consent). Unless the mortgage terms provide otherwise, a mortgage of land applies to the mortgagor's buildings and undeveloped constructions (registered as real property) located on the land as well. In addition, if a land plot or buildings are acquired or constructed using debt finance provided for the specific purpose of financing the acquisition or construction, then the land and buildings are deemed to be mortgaged in favor of the lender unless otherwise provided by law or by agreement of the parties.

Recent amendments to the Mortgage Law introduced two new provisions improving the position of lenders providing funds for transactions with real estate. First, the acquisition of ownership or lease rights to a land plot financed by borrowed funds provided for such acquisition creates a mortgage of such rights in favor of the lender by operation of law, unless otherwise provided in agreement. The right of mortgage is created when the borrower's ownership or lease rights to the land plot are registered in the Land Register. Secondly, if the acquisition or construction of a building is financed by borrowed funds provided

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for such construction, the ownership or lease rights to the land plot on which such building is located are mortgaged to the lender by operation of law, unless otherwise provided in agreement. It remains to be seen how these new provisions will be applied in practice.

Liabilities of Persons Holding Rights to Land and Building

Owners of land plots and buildings are required to comply with federal, regional and local legislation, which includes, among others, environmental, public health, fire, residential and town-planning rules and regulations. The owner of a building generally bears all liabilities that may arise in connection with the building. Owners and leaseholders are required to use the land plot in accordance with its permitted use (i.e., as provided by zoning requirements), not cause harm to the environment, assume the liability and financial costs relating to compliance with various land use standards and not allow the pollution of, littering on or degradation of the land plot. Regional or local legislation, or an investment or lease contract entered into with the regional or local authorities, may also subject the owner or the developer as the future owner of the buildings to be constructed under the investment or lease contract to various financial obligations, such as the financing of local engineering services, transportation and social infrastructure, as well as reimbursing certain expenses to the previous tenants of the land plot.

Construction and Development

General Provisions

Construction and development in Russia is a complex multi-stage process, which involves compliance with many regulatory requirements, and obtaining authorizations from a large number of authorities at the federal, regional and local levels. Development in Russia is primarily governed by the Town-Planning Code of the Russian Federation, Civil Code, Land Code, and other federal laws and regulatory acts. In addition, construction activity is subject to regional and local regulation. Under Russian federal law, the basic approvals required for construction projects are (i) approval of town-planning documentation, (ii) approval of pre-design documentation, (iii) approval of the design documentation, and (iv) issuance of a construction permit. Such approvals must be obtained in the listed sequence. For example, design documentation is developed on the basis of the approved pre-design documentation, while a construction permit can only be issued once the design documentation has been approved. In addition to the above basic approvals, a developer must have rights to the land in order to begin construction.

Licensing

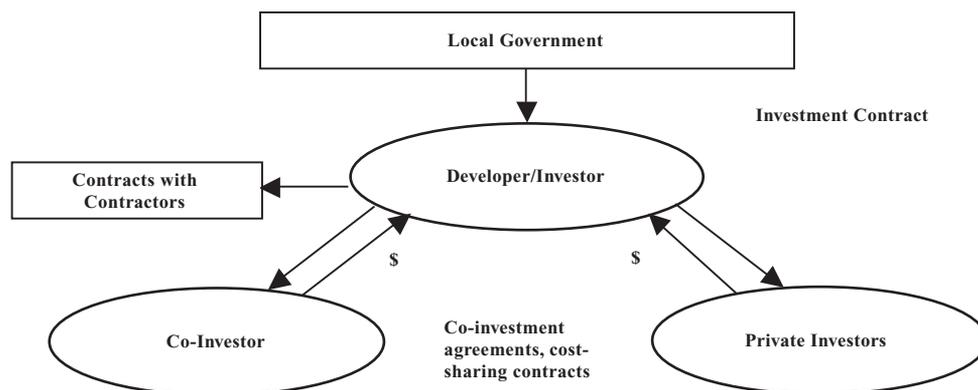
Activities relating to the construction and development of buildings in Russia currently require certain licenses. Licenses are obtained with respect to the developer, not to a particular development project. Pursuant to the Federal Law “On Licensing of Certain Types of Activities,” any structural engineering, construction and engineering survey of buildings is subject to licensing. Any construction activity may be performed under the construction permit issued by the competent governmental bodies pursuant to agreed and approved project documentation. Pursuant to Federal law No. 252-FZ, the licensing of construction activities should have been abolished effective July 1, 2007. However, in accordance with Federal law on “On amendments to Articles 17 and 18 of the Federal Law—On licensing of certain types of activities”, the licensing of construction activities has been postponed until June 1, 2008.

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Participants in the Construction Process

The construction process in Russia involves local government, the developer (investor), the purchaser and the contractor (general contractor and sub-contractors). The chart below sets forth the structure of legal relations between such participants.



Stages of Construction

The main stages of the building construction process typically include the following:

- entering into an investment contract with the local authorities;
- obtaining the land rights;
- preparation of project documentation and obtaining infrastructure/utilities documentation;
- obtaining a construction permit;
- performing construction works;
- obtaining a permission on initiation of use of the property; and
- registration of title to the new building.

Some of these key stages are described in more detail below.

Title to a building is first conferred on the developer once the building is constructed. Furthermore, a building-owner has the right under the Land Code to require the owner of the land on which the building is situated to sell or lease that land to the building owner for a fixed price represented by the land tax payable for that land multiplied by a coefficient set out in the relevant regulations.

Accordingly, if we have obtained development rights that allow us to carry out a project and complete a finished building, we will not typically need to acquire freehold or leasehold title to the underlying land at the commencement of the project because under the Land Code we can require the landowner to sell or lease the land to us at a fixed price after our project is completed.

Investment Contracts

As a general rule, an investment contract is a written agreement between a local administration and a developer (investor) that, among other things, defines the principal terms of proposed construction of a property by the developer. Generally, the investment contract provides for a certain “share of the city” in the property to be constructed (i.e., the number of square meters that will belong to the respective city government). Currently in St. Petersburg and Moscow, under an investment contract, the St. Petersburg and Moscow city governments generally retain an interest of up to 50% in the completed building or structure, although the St. Petersburg and Moscow city government usually agree to sell its share to the developer. Such city share may be lower if the developer agrees to incur additional expense in relation to the development (i.e. infrastructure improvements). In some cases, the government consents to the developer buying out the city’s share of building or facility prior to, or upon, completion of construction.

The award of investment contracts in St. Petersburg is normally carried out by public tender. Unlike in Moscow, it is a relatively rare for the government of St. Petersburg to retain any interest in the constructed property and the developer is usually able to acquire ownership title free from restrictions once construction is complete.



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The investment contract formalizes a development opportunity and the general approval by the governmental bodies of a specific development project. The actual realization of this project, however, depends on procurement of various procedures, obtaining numerous approvals and consents, and fulfillment of other requirements. In some cases, the investment contract is entered into at a later stage of construction and some projects are carried out without investment contracts.

Russian legislation does not provide a definition of the investment contract. As a result, Russian courts, based on the contents of a specific investment contract may qualify it as a general partnership agreement, joint-venture agreement, construction contract or a combination of such contracts or other contracts stipulated by the Civil Code. The investment contract would generally provide for the types of properties that could be constructed at the site and approximate area of each such property. However, the actual types and areas of properties which would be allowed for construction under the respective construction permit may substantially differ from those fixed in the investment contract. See also *“Risk Factors—Risks Relating to Our Business—The real estate appraisals with respect to the properties and projects included in this prospectus may vary over time and may not reflect the actual market values of the properties appraised. In addition, the appraisal may not be comparable to those given to similar portfolios held by other real estate development companies in the Russian market because assumptions and methodologies may differ and determining such values is an inherently subjective process”*.

Obtaining Land Rights

A developer must have land rights in order to begin construction. Land in the Russian Federation is divided into the following specific categories depending on the designated purpose of such land: (i) agricultural land; (ii) settlement land; (iii) industrial land; (iv) protected land; (v) forestry land; (vi) water front land; and (vii) reserve land. The Land Code requires that each category of land must be used in accordance with its designated purpose. Normally, to carry out a commercial or residential development, property developers need to have the land plots (on which their buildings/structures are located) designated as settlement or industrial land. The main procedures for changing the designated purpose of land are set forth in the Land Code and the Federal Law “On Reclassification of Land and Land Plots” which was adopted at the end of 2004.

As a general rule, land rights for development purposes may be obtained through an investment contract. On the basis of investment contract, the land lease is granted for the purpose of carrying out the construction as well as exploitation of the constructed property on the relevant land plot. As a general rule, land lease for residential construction may be granted only by auction. Under the Town-Planning Construction Code, the location of a new property must comply with the relevant town planning documentation that defines the functional zoning and town-planning rules of organization and use of the territory.

Construction Permit

Construction on an allocated land plot may only be carried out after obtaining a construction permit either by the owner or by the tenant of the land plot. The construction permit is a final construction approval which entitles the developer to commence construction on the land plot and, therefore, such permit needs to be obtained before construction commences. Failure to obtain such a construction permit prior to the commencement of construction may be regarded as a violation of Russian law and may lead to administrative fines against the developer and demolition of the buildings as unauthorized construction. Obtaining a construction permit is a multistage process, which includes, among other things, obtaining approvals from and registering the project documentation with a number of governmental bodies including architectural and urban development agencies, environmental management and protection agencies and governmental bodies that oversee public health issues. The construction permit is issued for no more than three years and may be extended. To the extent the scope and nature of the project change, the construction permit may be amended. The construction permit may be withdrawn before its expiration date; in particular, in the event of a material breach of project documentation, building and architectural rules and regulations and/or on other grounds.

Permission on Initiation of Use of Property

Upon completion of construction, the building must be approved by the representatives of various authorities, developer, executive authorities, contractors, construction designers, operating organization, public health authorities, state fire supervision services, architectural and urban development agencies,

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environmental management and protection agencies and other state authorities. When such approval is granted and a permission on initiation of use of the property (the “**Permission**”) is issued, then the final measurement of the premises for the purposes of state registration is completed and the rights to the completed property, including the rights of the private investors who financed the construction, may be registered with the Land Register.

Construction in the City of Moscow

Whereas the city of St. Petersburg has adopted rules and regulations that are in full compliance with the Federal requirements described above, the city of Moscow has adopted rules and regulations covering the real estate construction and development process that are specific to Moscow and that often differ from what is required under federal legislation. Construction in the city of Moscow is governed principally by the Moscow law “On Land Use and Construction in the City of Moscow” and the Moscow law “On Obtaining Permits for Construction and Reconstruction of Urban-Planning Objects in the City of Moscow”. In accordance with the Moscow legislation, as a general rule investment contracts for the construction of new buildings or reconstruction of buildings in Moscow (in the case of private financing) may only be entered into through tender procedures.

Moscow legislation distinguishes between construction by developers who have already obtained land lease rights for construction purposes and those which have not yet obtained such rights to the land. A potential developer which leases a land plot for the purpose of construction and intends to construct a building thereon must apply to the prefect of the relevant administrative circuit of the city of Moscow or directly to the Moscow government. In cases where the proposed construction complies with the town-planning zoning requirements, the competent city authorities shall issue an Act of Permitted Use. Pursuant to Moscow legislation, an Act of Permitted Use is a fundamental approval which defines the possible use of the land plot and provides for the technical parameters of the proposed construction based on the existing town-planning documentation. The Act of Permitted Use is valid for one year from its registration. On the basis of the Act of Permitted Use, the relevant local prefecture or the Moscow government then issues a Resolution on Construction (PPM) that approves the Act of Permitted Use of Land Plot, which constitutes legal grounds for preparation and approval of the design documentation and issuance of a construction permit.

Developers which do not have land lease rights that allow for construction have to obtain such rights in order to proceed with construction. Generally, in practice, a developer receives land lease rights for three to five years (i.e., for the period of construction) from the city of Moscow on the basis of an auction or tender, typically in exchange for either an upfront payment or ongoing consideration in the form of periodic lease payments. Subject to the successful implementation of the land plot development and the fulfillment by the investor of the various obligations under the investment contract with the city of Moscow, the investor receives land lease rights for a term of 25 to 49 years, at the discretion of the Moscow city government.

Residential Construction

Key Features

Until the early 1990s, most apartments in the Russian Federation were state or municipally owned. However, since that time many apartments have been privatized or constructed by investors, and are now in private ownership. Generally, a land plot for residential construction may be granted only by auction. Once the lease agreement is executed or if there is an existing lease agreement, the developer must prepare the permitting documentation for construction, which consists of applications for various approvals and permits from various federal and local authorities, including environmental, architectural, land, sanitary, geological and other authorities. Project documentation for residential construction is subject to state expert approval.

In order to obtain the Permission, the developer should, upon completion of construction, file an application with the state authority that issued the construction permit and present the documents confirming that the development has complied with the initial permit and project documentation. Final measurements of the premises in the completed building for the purpose of state registration must be carried out by the Bureau of Technical Inventory. The parties to any relevant investment contract are also required to execute the final protocol certificate confirming that all of their respective obligations under the investment contract have been performed.

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The Permission, along with the resolution of the local authorities, the investment contract (and, if applicable, the final protocol certificate relating to it), and the measurement documentation prepared by the Bureau of Technical Inventory serve as the basis for the state registration of the ownership of the residential premises. In most cases, rights of individuals to apartments in the constructed building arise at the moment of the state registration on the Land Register. Upon such registration, the owner of the apartment additionally receives the right to a share in the ownership of the common areas of the building, halls, stairs and elevators, as well as electric and engineering equipment located outside or inside the apartment that is used by more than one apartment.

Financing and Sale

Residential construction may be financed both by funds provided by the developer and third parties. Funds may be raised, among other ways, through borrowing or direct investment in the construction by outside investors. Raising funds from future owners of apartments at various stages of construction has been one of the principal ways of financing residential construction in Russia. In the majority of development projects in the past nearly all apartments were sold in advance immediately after the beginning of the construction process by means of execution of co-investment contracts, contracts on share participation in the construction or joint activity contracts with private investors. This process led to contradictory results in court and offered little protection to private investors from unscrupulous developers.

This type of financing is regulated by the Cost Sharing Law. The Cost Sharing Law prohibited developers from raising funds prior to (i) obtaining a construction permit, (ii) publishing a project declaration (summary information on the developer and its project), and (iii) having registered its rights to the land plot intended for construction.

The Cost Sharing Law aims to protect the rights and interests of corporate and, especially, private investors in cost sharing projects, among other things, by providing for the following:

- cost sharing financing may be raised only by a developer who has received a construction permit, published a project declaration and registered its rights (either ownership or leasehold) to the land plot intended for the construction;
- cost sharing investment contracts are subject to state registration;
- investors' funds are secured against the developer's default under the investment contract by (i) mortgage of the land plot and the project under construction, or (ii) bank's surety;
- individual investors are entitled to an increased statutory interest payable by the developer who failed to perform under the investment contract;
- public disclosure of information about the developer and the project at least 14 days before entering into the cost sharing contract with the first customer is established; and
- administrative liability is contemplated for developers who raised cost sharing financing in violation of the Cost Sharing Law, including, among other things, the failure to obtain a construction permit, publish a project declaration or make full disclosure in such a declaration and comply with reporting requirements.

Effective August 2006, the Cost Sharing Law shall govern only the borrowing of funds from individuals and is not applicable to raising funds from corporate entities.

Real Property Taxation

Corporate Property Tax

The property tax for organizations is established by the Tax Code. Entities subject to the tax are Russian legal entities and foreign organizations carrying out business activities through permanent establishments in Russia and (or) owning certain types of property including real estate located in the territory of the Russian Federation. The tax rate is established by regional authorities, but may not be higher than 2.2%. As of the date of this prospectus, the tax rate in most major regions, including St. Petersburg and Moscow, is 2.2%. The taxable base is the average annual net book value (generally calculated as the historical cost per statutory accounts less statutory depreciation) of the property. In general, the taxable base includes assets qualified as fixed assets under Russian financial accounting rules. However, land and certain non-productive types of property are specifically excluded. The tax is payable on a quarterly basis.

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Land Tax

The land tax is also established by the Tax Code. Those subject to the tax include individuals and legal entities possessing land plots by rights of ownership, permanent use and lifetime inheritable possession. The tax rate is established by the local Russian authorities (e.g., in St. Petersburg, by the city governments), but may not be higher than (i) 0.3% for land plots categorized as land for agricultural use and land under housing facilities and (ii) 1.5% for other land plots. The land tax is calculated based on the cadastral value of the land plot. For legal entities, the tax is payable on a quarterly basis.

Land Rent

The rules for determining the amount and the order of rent payments for land owned by the Russian Federation, Russian regions or municipalities are imposed by the relevant public authority. In addition, local authorities are empowered to require payment of a separate fee by the lessee for the right to conclude a lease agreement.

Tax on Residential Properties

Currently, individuals pay an annual property tax on real estate property of which they are the legal owner, at rates between 0.1% and 2.0% of the inventory value of the property. Generally, the taxable base is less than the market value of the property.

Russian governmental authorities currently are debating the imposition of a tax on residential real property owned by individuals to be calculated on the basis of the market price of such property. Although no bills or guidelines dealing with the calculation of such tax rate have been introduced, the adoption of such a tax rate could have a material adverse effect on the Russian market for residential properties.

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DIRECTORS, MANAGEMENT AND CORPORATE GOVERNANCE

Overview

Our current charter was approved by the General Shareholders' Meeting on August 23, 2007 and was duly registered in the Unified State Register of Legal Entities on August 30, 2007. Our management bodies are the General Shareholders' Meeting, the Board of Directors and the General Director.

Our ultimate decision making body is the General Shareholders' Meeting. It is followed by the Board of Directors, which is responsible for the general management of the Company, including coordinating strategy and general supervision. The General Director is responsible for the day-to-day operations of the Company. A brief description of each of the General Shareholders' Meeting, the Board of Directors and the General Director is set out below.

General Shareholders' Meeting

The General Shareholders' Meeting is our supreme governing body. General Shareholders' Meetings are convened by the Board of Directors at least once a year. For more details, see "*Description of Share Capital and Certain Requirements of Legislation—General Shareholders' Meetings*".

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Board of Directors

The Board of Directors currently consists of the five members listed below. All members were elected by the General Shareholders' Meeting on June 29, 2007 and their terms will expire on the date of the next annual General Shareholders' Meeting.

Name	Year of Birth	Position	Year Appointed
Dmitry Goncharov	1970	Chairman of the Board of Directors	2007
Igor Levit	1971	Member of the Board of Directors, General Director	2006
Lauri Ratia	1946	Member of the Board of Directors, Independent Director	2007
Sergei Skaterschikov	1972	Member of the Board of Directors, Independent Director	2007
Mikhail Romanov	1957	Member of the Board of Directors, Managing Director for New Projects	2006

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Our controlling shareholder, Mr. Molchanov, has indicated that he intends to take up the position of chairman of the Board of Directors of the Company in the near future. He has also indicated that he expects the number of our directors to increase by two when he becomes Chairman.

Mr. Dmitry Goncharov has been Chairman of the Board of Directors since April 2007. Since 2003, Mr. Goncharov has been the Managing Director of LSR Europe GmbH, Munich. Between 1997 and 2003, Mr. Goncharov was a business manager and then a commercial director of the sales department for Siemens AG, CIS and Eastern Europe region. Between 1996 and 1997, Mr. Goncharov worked for BBMS Treuhand GmbH in its audit department. Mr. Goncharov graduated from Ludwig-Maximilians-Universität München with a degree in Economics in 1996. He is a German citizen. His business address is 36 Kazanskaya Street, St. Petersburg, Russia.

Mr. Igor Levit has been a member of the Board of Directors since 2006. In 2006, he was appointed our General Director/CEO. Previously, Mr. Levit was our Senior Vice President from 2004 to 2006 and Vice President from 2002 to 2004. Mr. Levit has worked for the group since 1994 and has held a number of senior management positions in the brick operations of the group. Mr. Levit graduated from the St. Petersburg State Technical University in 1994 and was awarded a doctorate in technical sciences in 2003. Mr. Levit has been awarded the classification of Honored Builder of Russia. His business address is 36 Kazanskaya Street, St. Petersburg, Russia.

Mr. Lauri Ratia has been a member of the Board of Directors since June 2007. Mr. Ratia is also currently a senior advisor to CRH plc, Europe Materials and chairman of the boards of directors of Tecnomen Oyj, Helsinki; Edita Oyj, Helsinki; Medifiq Oy, Vantaa and Sponda Oyj, Helsinki, as well as vice chairman of the board of directors of Kemira Grow How Oyj, Helsinki and a member of the board of directors of Olvi Oyj, Iisalmi. Between 1998 and 2006, Mr. Ratia was the Managing Director of Lohja Rudus Group,

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Helsinki. From 1993 and 1997, he held various top management positions in construction companies such as Scancem International ANS, Helsinki, Euroc Abp, Malmo and Kone Oyj, Helsinki. Between 1990 and 1993 he was a partner with Euroventures Nordica Ab, Sweden, Equity Finance and between 1978 and 1990 held various senior positions in Nokia, including a president of Nokia Inc. (Atlanta), a vice president responsible for corporate planning at Nokia headquarters and a president of Nokia Robotics. Mr. Ratia was also chairman of the Confederation of Construction Materials Producers of Finland between 1998 and 2001 and chairman of the Confederation of Construction Industry Participants of Finland between 2003 and 2004. Mr. Ratia graduated from the Helsinki University of Technology with a masters degree in engineering in 1971 and Harvard Business School's Advanced Management Program in 1986. Mr. Ratia is a Finnish citizen. His business address is 36 Kazanskaya Street, St. Petersburg, Russia.

Mr. Sergei Skaterschikov has been a member of the Board of Directors since June 2007. Currently, Mr. Skaterschikov is also a chairman of the board of directors of Indexatlas Group and a member of the boards of directors of OAO OMZ and Independence Holding. Mr. Skaterschikov is also a member of the investment committee of the board of directors of OAO UESR and a member of the expert council of the audit committee of the board of directors of OAO UESR. In addition, Mr. Skaterschikov is the Vice President of Business Development and Mergers and Acquisitions at MTS. Mr. Skaterschikov is also a member of the board of directors of OAO Kirovsky Zavod. From 2005 until February 2007, he was an investment banking director at Dresdner Kleinwort. Mr. Skaterschikov graduated from Moscow State University with a degree in Geography and American Studies in 1994 and Duke University, the Fuqua School of Business with a Global Executive MBA in 2003. His business address is Nizhny Kislovsky Pereulok 5, str.1, office 316, Moscow 125993, Russia.

Mr. Mikhail Romanov has been a member of the Board of Directors since 2006. In 2002 he became our Managing Director for business development (formerly called Vice President). In 1993, he was appointed a General Director of Stroydetal (reinforced concrete). Mr. Romanov, who has worked for the group since October 1993, graduated from the Leningrad Arctic School in 1978 and the Admiral Makarov Leningrad Higher Maritime Engineering School in 1983. His business address is 36 Kazanskaya Street, St. Petersburg, Russia. Mr. Romanov is the uncle of Mr. Andrey Molchanov, our controlling shareholder.

The Board of Directors is responsible for the general management of the Company. The Board of Directors organizes and manages operations of the Company. Our charter provides that the Board of Directors should consist of at least five members.

The Board of Directors is normally elected at the annual General Shareholders' Meeting through cumulative voting, unless the appointment of the previous panel was terminated and a new panel was appointed at an extraordinary General Shareholders' Meeting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by that shareholder, multiplied by the number of members of the Board of Directors, and the shareholder may cast all their votes in favor of one or more candidates. Before the expiration of their term, the members of the Board of Directors may be removed at any time by a majority vote at the General Shareholders' Meetings.

The Board of Directors has the authority to decide, among other things, the following:

- determination of our business priorities;
- convening annual and extraordinary General Shareholders' Meetings, except in certain circumstances set out in the Joint Stock Companies Law and our charter;
- placement of our bonds and other securities, as provided for by the Joint Stock Companies Law; and
- other issues, as provided for by the Joint Stock Companies Law and our charter.

For more details, see "*Description of Share Capital and Certain Requirements of Russian Legislation—Board of Directors*".

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Senior Managers

The following table sets forth the name, date of birth and position of each of our senior managers (“**Senior Managers**”):

<u>Name</u>	<u>Year of Birth</u>	<u>Position</u>	<u>Year Appointed</u>
Elena Tumanova	1958	Chief Financial Officer	2006
Georgy Vedernikov	1971	Managing Director for Building Materials, Aggregates and Construction Services	2006
Yevgeny Yatsyshin	1970	Managing Director for Development and Construction	2006
Georgy Bogachev	1970	Managing Director for Commercial Property	2007

Mrs. Elena Tumanova has been our Chief Financial Officer (formerly called Finance Director) since 2002. Mrs. Tumanova has worked at the group since 1993 and has held a number of senior finance positions in the group operations. Mrs. Tumanova is an auditor certified by the Russian Ministry of Finance and is also a member of the St. Petersburg Chamber of Auditors. Mrs. Tumanova graduated from the Leningrad Shipbuilding Institute in 1981 and the St. Petersburg State University of Economics and Finance with a degree in Auditing and Accounting in 1995. She also holds an MBA from the International Banking Institute in St. Petersburg. Her business address is 36 Kazanskaya Street, St. Petersburg, Russia.

Mr. Georgy Vedernikov has been our Managing Director for Building Materials, Aggregates and Construction Services (formerly called Vice President) since 2002. Mr. Vedernikov has been employed by the group since 1993 and has held senior management positions in development, building materials and construction operations. Mr. Vedernikov graduated from St. Petersburg State University with a degree in Economics in 1993. In 2005, he was awarded a doctorate in technical sciences. Mr. Vedernikov is an Honored Builder of Russia. His business address is 36 Kazanskaya Street, St. Petersburg, Russia.

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Mr. Yevgeny Yatsyshin was our Managing Director for Development and Construction (formerly called Vice President) from 2002 until 2003 and before being re-appointed in 2005. Currently, Mr. Yatsyshin is also an advisor to the Governor of St. Petersburg. From 2003 to 2005, Mr. Yatsyshin held the post of Chairman of the St. Petersburg Government’s Committee on Construction. He has been employed by the group since 1993 and has held senior management positions in development and construction operations of the group. Mr. Yatsyshin graduated from the St. Petersburg State University with degree in Economics in 1993 and Management Program of the St. Petersburg International Institute of Management in 2001. Mr. Yatsyshin is an Honored Builder of Russia. His business address is 36 Kazanskaya Street, St. Petersburg, Russia.

Mr. Georgy Bogachev has been our Managing Director for Commercial Property since 2007. He has been employed by the group since 1993. In 2002, Mr. Bogachev was appointed managing director (formerly called Vice President) of LSR Group. Prior to that time, Mr. Bogachev has held various other management positions in development and aggregates operations of the group. Mr. Bogachev graduated from St. Petersburg State University in 1993 with a degree in Economics. Mr. Bogachev is an Honored Builder of Russia. His business address is 36 Kazanskaya Street, St. Petersburg, Russia.

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Other Directorships

<u>Name</u>	<u>Current directorships/Partnerships</u>	<u>Previous directorships/Partnerships</u>
Sergey S. Skaterschikov	MTS IndexAtlas Group OAO Unified Energy System Independence Holding Ltd OAO OMZ OAO Kirovzky Zavod	Oligaznet plc Dresdner Kleinwort
Yevgeny Yatsyshin	None	None
Georgy Vedernikov	Hiuki Holding Limited	ZAO "Chekalovskoe" OOO "BlockInvest-14"
Igor Levit	OOO "Nordvest Bawshstoff Betailin Gungs GNBH"	ZAO "Kazanskaya, 36" OOO "Corporation PTPS" ZAO "Chekalovskoe"
Lauri Ratia	Olvi plc. Tecnomen plc. Paloheimo Limited Edita plc. Medific Limited Sponda plc.	Kemira Grow How plc. VR Track Limited Stala Group Limited

Interests of Members of our Board of Directors and Senior Managers

Certain members of our Board of Directors and our Senior Managers have beneficial ownership interests in our Shares. See "*Principal and Selling Shareholders*". None of the members of our Board of Directors or our Senior Managers holds options with respect to our Shares.

None of the members of our Board of Directors or our Senior Managers are related to one another for the purposes of the Prospectus Rules although Mr. Mikhail Romanov is the uncle of Mr. Andrey Molchanov, our former chairman who intends to re-assume that role in the near future. There are no potential conflicts of interest between any duties owed by members of our Board of Directors or our Senior Managers to us and their private interests and/or other duties.

General Director

Pursuant to the Joint Stock Companies Law and our charter, the day-to-day activities of the Company, except for the matters reserved for the General Shareholders' Meeting and the Board of Directors, are managed by the General Director (the Chief Executive Officer), who acts on behalf of the Company without a power of attorney, representing its interests, entering into transactions, disposing of assets, opening bank accounts, approving staffing structure and issuing internal orders and directives. Our current General Director is Mr. Levit.

Shareholdings of the Members of the Board of Directors and Executive Officers

A10.17.2

As at the date of this prospectus, the following members of the Board of Directors and the Company's Senior Managers and executive officers own shares in the Company in the following percentages:

- Mr. Romanov owns 2.0% of the Company's shares;
- Mr. Levit and Mr. Vedernikov and Mr. Yatsyshin each own 1.0% of the Company's shares; and
- Other executive officers own between themselves 3.4% of the Company's shares.

Pursuant to a stock lending agreement dated September 21, 2007, Mr Romanov transferred 3,405,959 Shares, or 4.0% of our Shares, to Hiuki Holding Limited, Mr Levit, Mr Vedernikov and Mr Yatsyshin each transferred to Hiuki Holding Limited a further 1,702,979 Shares, or 2.0%. Under the agreement, Hiuki Holding Limited has agreed to transfer back to each of Mr Romanov, Mr Levit, Mr Vedernikov and Mr Yatsyshin the equivalent number of Ordinary Shares on or about March 15, 2008.

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Prior to these transfers, Mr Romanov held 5,077,193 or 6.0% of our Shares, and each of Mr Levit, Mr Vedernikov and Mr Yatsyshin held 2,538,596 or 3% of our Shares.

See “*Principal and Selling Shareholders*” for more details.

Revision Commission

Our revision commission supervises our financial and operational activities and verifies the accuracy of our financial reporting and accounting under Russian law. Our revision commission currently consists of three members who are nominated and elected by the General Shareholders’ Meeting for a one-year term. The current members of the revision commission are Mr. Dmitry Kutuzov, Mr. Yuri Terentiev and Mr. Dmitry Trenin.

Corporate Governance

A10.14.2

We comply with the corporate governance requirements applicable to Russian public companies listed on Russian stock exchanges. Our Ordinary Shares have been admitted to list “I” on MICEX since September 4, 2007, and to list “I” on RTS since September 8, 2007. As a result, we are required to comply with a number of corporate governance requirements as of the listing date, including: (1) obligation to have at least one independent director, (2) formation of an audit committee, (3) adoption of insider trading rules and (4) implementation of internal regulations. We are in full compliance with these requirements. In addition, we observe the code of corporate conduct, as recommended by the FSFM. Although we are not required to comply with the Combined Code on Corporate Governance published by the UK Financial Reporting Council (the “**Combined Code**”), we intend to adopt practices to comply with certain provisions of the Combined Code.

A10.16.4

A10.18.3

The General Shareholders’ Meeting held on August 23, 2007 approved new internal regulations governing the activities of our management bodies that we consider to be in line with best practice of corporate governance. We monitor new, proposed and final Russian corporate and UK listing requirements, and are committed to making adjustments to our corporate governance rules and procedures in order to remain in compliance with these requirements. According to our internal regulations, the Chairman of the Board of Directors should not also serve as General Director and at least one member of the Board of Directors should be independent, meeting the following requirements:

- he/she should not be an officer or employee of the Company nor should he/she have been an officer or employee during the last one year;
- he/she should not be an officer of another company if any officer of such company is a member of the nomination and remuneration committee of the Board of Directors;
- he/she should not be a spouse, parent, child, brother or sister of any officer (a manager) of the Company (any officer of a managing company of the Company);
- he/she should not be an affiliate of the Company except for being a member of the Board of Directors;
- he/she should not be a party to any transactions with the Company under which transactions he/she may be entitled to acquire a property with a value of 10% or more of his/her total annual income, excluding compensation for carrying out the functions associated with being a member of the Board of Directors;
- he/she should not be a representative of the state; and
- he/she should not have been a member of the Board of Directors for the last seven years.

In addition, the internal regulations provide for the creation of certain committees of the Board of Directors. These committees are not separate management bodies, but advisory bodies, which consider the principal issues on the agenda of Board Meetings in advance. Our internal regulations provide for the following committees:

A10.16.3

Audit Committee

The audit committee supervises our financial and accounting activities and reviews and evaluates our annual reports prepared by our external auditor, as well as evaluating internal control procedures. The audit committee consists of three members of the Board of Directors and is chaired by an independent

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director. The General Director should not be a member of the audit committee. The audit committee was established in June 2007 and currently consists of Sergei Skaterschikov, Dmitry Goncharov and Lauri Ratia. Two of the three audit committee members are independent directors.

Human Resources and Compensations Committee

A10.16.3

This committee advises the Board of Directors on the remuneration of the General Director and executive officers, terms and conditions of employment agreements with the General Director and criteria for candidates to the Board of Directors. It also conducts the appraisal of the General Director. The committee consists of three members of the Board of Directors and is chaired by an independent director. The General Director should not be a member of the human resources and compensations committee. The nomination and remuneration committee, established in June 2007, currently consists of Sergei Skaterschikov, Dmitry Goncharov and Lauri Ratia. Two of the three human resources and compensations committee members are independent directors.

A10.15.1

We have also adopted regulations on insider information, which are aimed at limiting insider trading and protecting commercially sensitive information.

Compensation

A10.15.1

The aggregate amount of remuneration paid by us to members of our Board of Directors and our Senior Managers as a group for services in all capacities provided to us during the year ended December 31, 2006 was RUB 166.8 million and €0.1 million in salary and bonuses.

Employment Contracts with Senior Managers

On October 22, 2007, our Board of Directors approved the terms and conditions of a new employment contract for our General Director, Mr. Igor Levit, which will take effect on January 1, 2008. The contract has a three year fixed term and provides that Mr. Levit may participate in the Long Term Key Managers Motivation Program detailed below. All other members of our Board of Directors and our Senior Managers are employed under contracts that do not have expiry dates. The terms of these employment contracts include an obligation to work a 40-hour working week with fixed daily working hours; 28 calendar days of paid annual leave per year; a right to reimbursement of all reasonable expenses incurred in the course of company duties; a right to participate in a health insurance policy; and, except for the independent directors, the opportunity to participate in the Long-Term Key Managers Motivation Program (the “**Program**”). Each member of our Board of Directors and each of our Senior Managers is covered by a directors’ and senior managers’ liability insurance policy with a limit of \$50,000,000 per incident. Each member of our Board of Directors and each Senior Manager is entitled to the statutory termination benefits required by Russian law, which in effect amounts to three months’ salary upon termination. If the person concerned has been dismissed on any of the grounds set out below, no termination benefits are payable. We do not provide pension, retirement or similar benefits to the members of our Board of Directors or to our Senior Managers.

A10.16.2

Each member of our Board of Directors and each of our Senior Managers may resign by giving us two weeks’ written notice, except for our General Director who must give one month’s notice. We may terminate the employment of any of these persons, including the General Director, with immediate effect and without notice if the person concerned:

- (a) commits a serious or persistent breach of his or her duties;
- (b) is guilty of any gross misconduct connected with the handling of money or valuables;
- (c) takes a decision without obtaining proper authorization according to our internal procedures, that causes damage to our property;
- (d) is subject to any criminal sanction or restriction, as a result of which he or she can no longer perform their duties;
- (e) becomes disqualified or prohibited by a regulatory authority on administrative grounds from performing their duties;
- (f) becomes unable to perform their duties as evidenced by a valid medical certificate;
- (g) performs their duties on the basis of a special authorization from a governmental authority which is terminated, suspended or revoked; or

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- (h) becomes incapable of performing their duties in any other circumstances as provided for under Russian law.

In addition to the grounds for dismissal set out above, we may also terminate the employment of the General Director in circumstances where he:

- (a) fails to meet the approved key performance indicators (described under “—*Long-Term Key Managers Motivation Program*”);
- (b) fails to comply with any decisions of a General Shareholders’ Meeting;
- (c) executes any transaction with our property in violation of Russian law requirements; and
- (d) fails to perform the duties contained in his contract of employment, or performs those duties inadequately.

Long-Term Key Managers Motivation Program

Eight of our high-level managers, including each Senior Manager, and up to thirty of our executives, may be eligible to receive performance bonuses under our Program. The Program guidelines were approved by our Board of Directors on September 20, 2007. The Nomination and Remuneration Committee of the Board of Directors (the “NRC”) decides which executives will be eligible to receive bonuses under the Program and recommended this decision for the approval of the Board of Directors on October 22, 2007. The Board approved this decision on October 22, 2007, with the annual target performance levels, or Key Performance Indicators (together “KPIs”) for 2008 to be recommended by the NRC and approved by the Board of Directors by no later than December 15, 2007. Members of our Board of Directors are not eligible to participate in the Program with the exception of Mr. Levit and Mr. Romanov.

The Program commences on January 1, 2008 and terminates on December 31, 2010. The Program includes neither stock options nor stock grants and is made up of three types of bonuses for each participant, linked to various groups of both corporate and individual KPIs:

- (a) an annual bonus of 100% of the participant’s annual base salary upon satisfying a “**first level set**” of KPIs,
- (b) an annual bonus of 50% of the participant’s annual base salary upon satisfying the “**second level set**” of KPIs, and
- (c) long term bonus of 300% of the participant’s annual base salary upon satisfying the “**long term set**” of KPI.

These percentages are fixed for all participants and may not be reduced or altered based on relative performance. However, the bonuses are only paid subject to the Program’s participants achieving target KPI levels set and monitored by the NRC. As corporate KPIs and some of the individual KPIs are linked to audited IFRS financials of the Company, the bonuses under the Program will be paid only after the Company’s audited IFRS accounts are signed by the auditors.

Payments of the annual bonuses will be made annually within 30 days of signing the audited annual IFRS accounts for the preceding year. Any long term bonus payments are to be made in spring 2011 at the same time as the annual bonus relating to the year ending December 31, 2010.

In order to receive a bonus under the Program, each participant must satisfy his or her individual set of KPIs. Annual KPIs may include such objectives as achieving target levels of segment EBITDA, minimum internal rates of return for certain investment projects and having no material weaknesses in our internal control systems reported by our auditors. Long term KPIs include target share price performance for the three years following the Offering and our maintaining certain international credit rating target levels. Each participant’s set of KPIs is included in the Program, the annual target values of KPIs are set by the NRC and are revised by our Board of Directors after our annual budget is approved and before the start of the calendar year for which the target values for each person’s KPIs are set. Each year, the NRC may alter any participant’s KPIs for the coming financial year if there is a material discrepancy between the person’s new budget targets and their KPIs. Any such change must be made within 60 days of approval of our annual budget by the Board of Directors.

The NRC may also amend any participant’s set of KPIs at any time within the first 24 months of the Program’s operation. However, if that person disagrees with the modified KPIs and refuses to participate any further in the Program, we must pay the person up to 200% of his or her 2009 base salary, irrespective

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of having met any KPIs. This termination fee does not apply if the KPI adjustments have been recommended by the NRC and approved by the Board of Directors within 60 days of approval of our annual budget. A full list of each participant's individual KPIs was approved by the Board of Directors on October 22, 2007 and the annual 2008 KPI target levels must be recommended by the NRC and approved by the Board of Directors by no later than December 15, 2007 under the terms of the Program.

If at any time during the Program a change of control takes place, the long term bonus must be paid to all Program participants and is not conditional upon the achievement of each participant's long term set of KPIs. We estimate that approximately \$50 million in long term bonus payments would be payable to Program participants if there is a change of control of the Company during the operation of the Program, or if all participants meet their long term sets of KPIs.

To be eligible for bonuses under the Program, each participant must, for the term of the Program:

- (a) maintain full-time employment with us;
- (b) not breach his or her employment contract, with breach defined as serious breach such as insider trading, disclosure of restricted information, conflict of interest notification or any other major internal control violation;
- (c) not sell any Shares or GDRs until the earlier of May 30, 2011 or 90 days after the termination of the Program except, in the case of the Selling Shareholders, for any sales of Shares or GDRs as part of the Offering.

In addition, each participant has signed a contract with us containing an undertaking not to sell any Shares or GDRs in the 180 day period ending on May 12, 2008.

A participant's eligibility under the Program is also subject to further conditions contained in his or her employment contract, specifically keeping the same position in the Company through the entire term of the Program and working in compliance with the Company's Ethics Code.

By participating in the Program, each participant agrees that we are not liable to pay any compensation if the participant is removed from the Program due to a failure to fulfill any of the Program's conditions or failure to meet any of two target KPIs for any fiscal year during the term of the Program. In addition, if during the Program term, the participant leaves the Company on his own initiative, is dismissed, or is removed from his office to perform other lower level duties, this person will either not be eligible for the long term bonus at all or will only be eligible on a pro rata basis.

Litigation Statement about Directors and Officers

At the date of this prospectus, none of the members of our Board of Directors or our Senior Managers for at least the previous five years:

- has had any convictions in relation to fraudulent offenses; nor
- has held an executive function in the form of a senior manager or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; nor
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

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RELATED PARTY TRANSACTIONS

The following is a summary of our most significant transactions with related parties for the years ended December 31, 2004, 2005 and 2006, the six months ended June 30, 2007 and the period from July 1, 2007 to the date of this document. For details of these transactions, please refer to notes 27, 30 and 26, respectively to our audited consolidated financial statements and note 30 of the unaudited consolidated financial statements as of and for the six months ended June 30, 2007 appearing elsewhere in this prospectus.

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General matters

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, as defined in IAS 24 “*Related Party Disclosures*”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Russian law requires a company that enters into so-called “interested-party transactions” to obtain specific approvals. See “*Description of Share Capital and Certain Requirements of Russian Legislation—Interested-party transactions*”.

We are, and have been, a party to various agreements and other arrangements with certain related parties and interested parties, the most significant of which are described below.

Other than the transactions that are described herein, we did not engage in any other material related party and interested parties transactions with related parties during the periods under review.

Transactions with Related Parties

Transactions entered into with Mr. Mikhail Romanov and Mr. Molchanov.

Purchase of Tsvetnoy Gorod and the Ruch'i Development land plots

On September 6, 2007, we acquired 100% ownership of ZAO Oblstroy (“**Oblstroy**”) for cash consideration of €47.5 million, which was paid in full. We purchased Oblstroy from Mely Management S.A., which, shortly before, had purchased Oblstroy for €42 million from ZAO NPO Rekonstruktsia, a company beneficially owned by Mr. Mikhail Romanov, one of our shareholders and members of our management board. Oblstroy owns 47% of the land plots relating to Tsvetnoy Gorod and the Ruch'i Development. See “*Material transactions—Sale and purchase agreements in relation to Tsvetnoy Gorod (Piskarevskiy Prospekt) and Ruch'i Development*”.

Purchases of shares in ZAO NPO Keramika

On August 31, 2006, ZAO NPO Rekonstruktsia, a company at the time beneficially owned by both Mr. Romanov and Mr. Molchanov, sold to Mr. Romanov and Mrs E. Molchanova, the wife of Mr. Andrey Molchanov, our controlling shareholder, an aggregate 48% shareholding in ZAO NPO Keramika for aggregate consideration of RUB 30 million. ZAO NPO Rekonstruktsia subsequently acquired the share capital of ZAO Stroyfarfor, a company that owned a land plot in close proximity to the land plot owned by ZAO NPO Keramika. We subsequently entered into negotiations with ZAO NPO Rekonstruktsia, Mr. Romanov and Mrs. Molchanova to purchase 88% of the share capital of ZAO NPO Keramika and the entire share capital of ZAO Stroyfarfor in order to develop real estate properties on land plots owned by these two entities.

On August 22, 2007, we entered into an agreement to acquire 27% of the share capital of ZAO NPO Keramika for \$9.7 million from ZAO NPO Rekonstruktsia. The consideration was paid in cash in full.

On September 14, 2007, we entered into an agreement to acquire an option to purchase a further 13% of the share capital of ZAO NPO Keramika for \$7.7 million from ZAO NPO Rekonstruktsia. On October 1, 2007, we exercised the option. The agreement provides for a deferral of payment until September 13, 2008.

On August 22, 2007, we entered into another agreement to acquire 24% of the share capital of ZAO NPO Keramika for \$7.7 million from Mr. Romanov. The consideration was paid in cash.

Also on August 22, 2007, we entered into an agreement to acquire 24% of the share capital of ZAO NPO Keramika for \$7.7 million from Mrs Molchanova, of which \$2.5 million had been paid in cash by September 27, 2007. The amount outstanding will be paid to Mrs. Molchanova in monthly instalments of RUB 4.15 million.

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Purchases of shares in ZAO Zavod Stroyfarfor

On July 19, 2007, we entered into an agreement to acquire 43% of the share capital of ZAO Zavod Stroyfarfor for \$7.7 million from ZAO NPO Rekonstruktsia, a company beneficially owned by Mr. Romanov, a member of our board of directors. Prior to the conclusion of this agreement, we already held 19.8% of the share capital of ZAO Zavod Stroyfarfor. The consideration for the share purchase is to be paid either in cash or in kind before September 13, 2008. On September 20, 2007, we paid part of the consideration, amounting to \$1.1 million.

On August 28, 2007 we entered into an agreement to acquire an option to purchase a further 33% of the share capital of ZAO Zavod Stroyfarfor for \$9.7 million from ZAO NPO Rekonstruktsia. The consideration is to be paid either in cash or in kind, by August 28, 2008.

Purchase of shares in OAO Zavod Elektrik

On September 28, 2007 we entered into an agreement to acquire 67% of the share capital of OAO Zavod Elektrik for \$4.6 million from OOO Aktiv a company indirectly owned by Mr. Mikhail Romanov, a member of our board of directors, OOO Mir and OOO Kant. Prior to entering into this agreement, we already held 29.9% of the share capital of OAO Zavod Elektrik. The consideration is to be settled before December 31, 2007. As of September 30, 2007, we had already paid part of the consideration, amounting to \$3.7 million, by way of promissory notes.

Purchase of land plots from Mr. Andrey Molchanov

OOO Novy Kvartal, one of our wholly owned subsidiaries and the developer of the property located at Kosmonavtov Prospekt, or Project Antey, purchased a land plot with the total area of 70,800 square meters from Mr. Andrey Molchanov, for consideration of approximately RUB 426 million in accordance with a sale and purchase agreement dated August 31, 2005. The purchase price was paid on February 22, 2006. Mr. Andrey Molchanov, in turn, acquired title to this land plot pursuant to a sale and purchase agreement dated April 4, 2005 with OOO Mir and the total consideration under that agreement was approximately RUB 6.1 million (including VAT). On October 19, 2007, OOO Novy Kvartal merged with OOO GDSK, a company owned by us.

Loans payable to executives

We make loans to our executive directors from time to time. These loans generally are repayable within four years and did not accrue interest until September 2007, in the case of one loan, and October 2007, in the case of the other loan. After these dates, both loans have accrued interest at 8.5% per annum. As of June 30, 2007, the amount of loans outstanding to our executive directors totaled RUB 4.1 million, or \$158,510.

Loans to companies controlled or significantly influenced by our shareholders or management

We have given loans in the past to companies either controlled by, or significantly influenced by, our shareholders or management. Typically, these loans have been short term loans with maturities of up to one year and with interest rates of between 0% to 11%. However after March 19, 2007, the date we entered into the RUB 5,000 million Deutsche Bank Term Facility Agreement, we have been restricted from providing certain related party loans, unless the loans are on an arm's length basis and with market terms, pursuant to the covenants in that facility agreement. Additionally, our Board of Directors has recently decided not to approve significant related party loans in the future. As at June 30, 2007, RUB 644.1 million in related party loans to either companies controlled by our ultimate beneficial owners or to companies significantly influenced by our management were outstanding.

Loan to Andrey Bibikov

On November 17, 2005, our subsidiary, OAO Obiedenenie-45, provided a loan of RUB 10.5 million to its then general director, Andrey Bibikov. The loan did not accrue interest and was repaid on October 19, 2007. The transaction was unanimously approved at a meeting of the board of directors of OAO Obiedenenie-45 on November 15, 2005 and by the partners of OOO LSR Group on November 14, 2005.

Guarantees of employee loans

Under a cooperation agreement with Sberbank, Pobeda LSR, one of our subsidiaries, guarantees loans provided by Sberbank to 17 of its junior employees. As of 10 October 2007, RUB 3.15 million of loans to employees were outstanding and were guaranteed by Pobeda LSR under the cooperation agreement.

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MATERIAL TRANSACTIONS

We have entered into the following selected contracts within the two years immediately preceding the date of this Prospectus. These contracts are, or may be, material or have been entered into at any time by any member of our Group and contain provisions under which any member of our Group has an obligation or entitlement which is, or may be, material to our Group as at the date of this Prospectus. The following selected contracts are not intended to represent all of our material contracts.

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Agreements for the Offering

Underwriting Agreement

On November 9, 2007, we, the Selling Shareholders, the Underwriters, Deutsche Bank Ltd. and Uralsib entered into an underwriting agreement providing for, inter alia, the underwriting of the Offering. See “*Subscription and Sale*”.

Deposit Agreement

On October 11, 2007, we entered into a deposit agreement with Deutsche Bank Trust Company Americas in respect of the GDRs. See “*Description of the Global Depositary Receipts*”.

Other Agreements

Investment agreement relating to the Paradniy Quarter development, St. Petersburg

On September 23, 2005, our subsidiary Paradniy Kvartal entered into an investment agreement with Pyotr Velikiy, a third party unrelated to our group under which the parties agreed that Pyotr Velikiy would be the project manager and Paradniy Kvartal the principal investor for the Paradniy Quarter development. Under the terms of the agreement, Pyotr Velikiy will receive approximately 12,000 square meters of completed real estate located in Paradniy Quarter in consideration for its role as project manager and Paradniy Kvartal will receive, in consideration for its investment of approximately \$282 million, of the remainder of the properties located in Paradniy Quarter to which Pyotr Velikiy was entitled under a previous investment agreement.

Assignment

We cannot assign any of our rights or obligations under the investment agreement to any third party.

Termination

The parties may terminate the investment agreement only through court proceedings.

Investment agreement relating to the Noviy Balchug development, Moscow

An investment contract was concluded between the City of Moscow government and OOO Velikan XXI Vek (“**Velikan**”) on July 13, 2003. In 2006, we acquired Velikan. Prior to this, it was not a member of our group.

The investment agreement (as amended by two supplementary agreements dated April 6, 2005 and December 7, 2005) envisages a real estate development project comprising three reconstructed and renovated buildings located at 9 Sadovnicheskaya Street, Moscow. Velikan undertook to finance the development in its entirety, including all costs related to the resettlement of residents, in exchange for 70% of the total non-residential area of the building and 80% of the total number of parking spaces. The remainder of the premises will be transferred to the City of Moscow upon completion.

The agreement provides us with the option to set-off the total area of apartments transferred to the private individuals residing in the buildings against the share of the City of Moscow (the coefficient for this set-off will be determined once the project is completed).

Further, the agreement sets out a detailed description of each of the development stages. The agreement does not stipulate the exact dates by which we should complete each of these stages. The term for completion of the whole project is currently stated as December 25, 2007 (subject to possible extension should we receive a decree from the City of Moscow government).

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Assignment

We can assign our rights and obligations under the investment agreement to another person in part, subject to receiving the consent of the City of Moscow government and entering into a tripartite agreement between the City of Moscow, the assignee and ourselves.

Termination

The Government of the City of Moscow can terminate the agreement should we breach any of our obligations (however minor the breaches might be) under the investment agreement, subject to a one-month notice period. Should this occur, the City of Moscow would be entitled to pass the right to develop the project land plot to another developer that would be required to compensate us for all documented costs we had incurred in connection with the development.

We have the right to claim early termination of the agreement in the Russian arbitrazh court should the City of Moscow breach any of its obligations.

Lease agreement relating to the Smolny Quarter development, St. Petersburg

One of our subsidiaries, OOO Smolny Kvartal, has assumed all rights and obligations under a land lease with investment conditions granted by the St. Petersburg Administration of Municipal Property. The lease was originally granted to LenSpetsSMU, one of our competitors, in June 2004. LenSpetsSMU subsequently transferred all its rights and obligations under this agreement to OOO Smolny Kvartal in July 2006.

Under the original land lease, a land plot of approximately 61,836 square meters was leased to LenSpetsSMU, and a further 24,662 square meter land plot would be leased to LenSpetsSMU if LenSpetsSMU fulfilled the following conditions:

- construction of two new buildings for the Social Services Department of the St. Petersburg State Hospital and the relocation of the Department into the new buildings;
- construction of a new St. Petersburg Municipal Young People's Arts Center and the relocation of the Center into the new building; and
- construction of a new pre-school and the relocation of the school into the new building.

The lease for both land plots expires four and a half years after the date of satisfaction of these conditions.

Once we have fulfilled the above conditions, we will be able to acquire the additional 24,662 square meter plot of land.

Assignment

We can assign our rights and obligations under the lease agreement with investment conditions, subject to receiving the consent of the St. Petersburg Administration of Municipal Property.

Termination

The St. Petersburg Administration of Municipal Property can terminate the agreement should we breach any of our main obligations under the lease agreement. Should this occur, the St. Petersburg Administration of Municipal Property would be entitled to sell the uncompleted construction and compensate our documented costs we had incurred in connection with the development. ▲

Investment agreement relating to the Suvorovskiy development, St. Petersburg

On June 15, 2005, our subsidiary ZAO Ingeocom SPb entered into an investment agreement with the Ministry of Defense, in relation to a plot of land located at Suvorovskiy Prospect, 63, St. Petersburg. The investment agreement is due to expire on December 30, 2008.

The development must be completed by the December 30, 2008 or otherwise we will be in breach of the investment agreement. Pursuant to the investment agreement, on completion:

- 32% of the sellable residential area of the development or 10,019 square meters, whichever is the largest, which in either case must be valued at not less than \$8,609,144, will be transferred to the Ministry of Defense; and

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- all of the office and retail areas and the remaining part of the residential area of the development will be acquired by us.

Instead of providing the Ministry of Defense with properties located within this development, we may, with the consent of the Agency for the Federal Property Management and the Ministry of Defense, provide the Ministry with mass-market class residential properties of equivalent value that are located in other buildings in St. Petersburg. In 2006 and 2007, we entered into two agreements with the Agency for the Federal Property Management and the Ministry of Defense under which we transferred 10,450 square meters of residential apartments in a settlement near St. Petersburg to the Ministry of Defense. In the contracts governing the transfers, the Agency and the Ministry agreed to take the transfers into account the Ministry's share in the development upon completion. We have been in negotiations with the Agency and the Ministry and as a result of these negotiations we expect that we will receive a 100% share in the development upon completion as a result of making the transfers.

Following entering into the investment agreement with the Ministry of Defense ZAO Ingeocom S-Pb leased the project land plot of 12,500 square meters. The purpose of the land lease was to facilitate our compliance with the requirements applicable to attracting funds from individuals through cost sharing agreements.

Assignment

We can assign our rights and obligations under the investment agreement to another person, subject to receiving the consent of the Ministry of Defense and the Agency for the Federal Property Management and save to the construction time is not extended.

Termination

The investment agreement can be terminated on the grounds provided in applicable legislation and/or upon agreement of the parties.

Sale and purchase agreements in relation to the Tsvetnoy Gorod (Piskarevskiy Prospekt) and the Ruch'i Developments

In August 2007, we purchased 94% share interests in two companies that indirectly own freehold interests in 12 land plots and conditional entitlement to a further seven land plots pursuant to preliminary sale and purchase agreements. These plots are located in the Krasnogvardeisky district of St. Petersburg. We purchased one of the companies, ZAO Oblstroy ("Oblstroy"), for €47.5 million from Mely Management S.A., shortly after it purchased Oblstroy for €42 million from ZAO Rekonstrukcia, which is owned by a member of our board of directors and Managing Director for business development, Mr. Mikhail Romanov. We are required to pay \$127 million for the other company before November 20, 2007. The owner of that company, as well as the owner of the remaining 6% interest in each of these two companies, are unrelated to the group and our management. Prior to that, in February 2007, one of our wholly-owned subsidiaries, OOO GDSK, acquired an additional plot in the district from the Ruch'i Seller for consideration of RUB 29.5 million.

The 13 freehold land plots comprise an aggregate area of 372.2 hectares. The seven land plots, our ownership of which remains subject to the satisfaction of certain conditions precedent contained in the preliminary sale and purchase agreements referred to above and the payment of additional consideration of \$15.5 million, comprise an aggregate area of 239.2 hectares. See "*Related Party Transactions—Transactions with Related Parties*".

Agreement for the supply of production equipment for a cement plant

On October 24, 2007, our subsidiary OOO "Cement" entered into an agreement with FLSmidth A/S, a Danish company, under which FLSmidth A/S agreed to supply cement production equipment for a consideration of approximately EUR 126.4 million. The consideration will be paid in stages, with the final payment due upon completion, which is scheduled for 2010.

Termination

In a situation where one party is failing materially to perform its obligations under the agreement, the innocent party may elect to terminate the agreement.

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Framework Agreement with Eurocement

On December 11, 2006, our subsidiary Chifko entered into a framework sale and delivery agreement (the “**Agreement**”) with a third party, Eurocement, under which Eurocement has undertaken to supply cement to subsidiaries in our group.

On a monthly basis, Chifko submits cement orders on behalf of the group. The aggregate quantity and grade of cement that can be ordered over a specific period is specified in the Agreement. If we cannot agree on the grade and quantity of cement to be supplied over this period, Eurocement may withhold delivery. Further, Eurocement may unilaterally reduce the amount of cement it has agreed to supply to us if it has insufficient stock to meet its contractual obligations with other parties. Should Chifko purchase less cement than stipulated in the Agreement, Eurocement has the right to charge a penalty calculated as 20% of the difference between the quantity stipulated in the Agreement (decreased by 10%) and the quantity of cement actually purchased over the relevant period.

The price for the cement is determined by the parties for each period using protocols set out in the Agreement. Should Eurocement increase its prices, we may repudiate delivery contracts. Eurocement may suspend delivery if we fail to pay their invoices in a timely manner, neglect to submit monthly requests or otherwise breach the Agreement.

The Agreement will terminate on December 31, 2007 but may be extended by mutual agreement.

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PRINCIPAL AND SELLING SHAREHOLDERS

A10.17.2

Our charter provides for a share capital of 21,287,234 rubles consisting of 85,148,936 ordinary shares with a nominal value of 0.25 rubles each, all of which have been issued on a fully paid-up basis.

The following section sets forth our shareholders who own at least 3% of our ordinary shares as of the date of this prospectus, as they appear on our register of shareholders:

Name of Shareholder	Number of Shares Before Offering	Per cent of Shares Before Offering	Number sold in the Offering	Number of Shares After Offering ⁽¹⁾	Per cent of Shares After Offering ⁽¹⁾
Mr. Molchanov	69,562,356	81.6	1,277,234	67,433,633	72.0
Hiuki Holding Limited ⁽²⁾	8,514,896	10.0	—	8,514,896	9.1
Mikhail Romanov ⁽³⁾	1,671,234	2.0	212,872	1,458,362	1.6
Igor Levit ⁽³⁾	835,617	1.0	212,872	622,745	0.7
Georgy Vedernikov ⁽³⁾	835,617	1.0	212,872	622,745	0.7
Yevgeny Yatsyshin ⁽³⁾	835,617	1.0	212,872	622,745	0.7
Other directors and officers	1,190,620	1.4	—	1,190,620	1.3
Other	1,702,979	2.0	—	1,702,979	1.8
Total	85,148,936	100.0	2,128,722	82,168,725	87.7

A10.18.1
 A10.30.2.1
 A10.18.3
 A10.31.2.1

(1) Assuming full exercise by the Underwriters of the Over-allotment Option and assuming that the Closed Subscription is completed. A10.18.2

(2) Hiuki Holding Limited is a limited liability company incorporated in the Republic of Cyprus, with is registered office located at Arch. Makariou III, 199 Neocleous House, P.C.3030, Limassol, Cyprus. Hiuki Holding Limited is owned by Mr. Georgy Vedernikov. A10.27.15.1

(3) Pursuant to a stock lending agreement dated September 21, 2007, Mr Romanov transferred 3,405,959 Shares, or 4.0% of our Shares, to Hiuki Holding Limited. Mr Levit, Mr Vedernikov and Mr Yatsyshin each transferred to Hiuki Holding Limited a further 1,702,979 Shares, or 2.0%. Under the agreement, Hiuki Holding Limited has agreed to transfer back to each of Mr Romanov, Mr Levit, Mr Vedernikov and Mr Yatsyshin the equivalent number of the shares on or about March 15, 2008.

The business address of each of Mr. Molchanov, Mr. Romanov, Mr. Levit, Mr. Vedernikov and Mr. Yatsyshin is 36 Kazanskaya Street, St. Petersburg, Russia.

None of our shareholders has voting rights different from any other holders of our shares. We are not aware of any arrangements that may result in a change of control. Until October 5, 2007, Mr. Molchanov had been serving as a deputy minister in the Russian federal government and as a result was prohibited from, amongst other activities, conducting business activities. Now that he has left his government position, he is no longer subject to this restriction and is in a position, as majority shareholder, to control the outcome of most matters submitted to general shareholders' meetings for a vote, including the election of directors, declaration of dividends, the appointment of management and other policy decisions. Additionally, he is able to control or significantly influence the outcome of any vote on any proposed amendment to our charter, merger proposal, proposed substantial sale of assets or other major corporate transactions. Mr. Molchanov has also indicated that he intends to take up the position of chairman of the company in the near future. Mr. Molchanov is the son of the former wife of Mr. Yuri Molchanov, who currently holds the position of Vice Governor of St. Petersburg, and according to published reports, is responsible for municipal investment policy and strategy as well as oversight of federal property located in St. Petersburg and management and disposal of municipal property. The interests of our controlling shareholder could conflict with those of other holders of our shares or GDRs. A10.31.2.1
 A10.18.3

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DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LEGISLATION

We describe below our registered ordinary shares, the material provisions of our charter in effect on the date of this prospectus and certain requirements of Russian legislation. This description, however, is not complete and is qualified in its entirety by reference to our charter and any applicable Russian legislation. References in this section to “we,” “us” and “our” refer to the Company only.

GDR holders will be able to exercise their rights with respect to the Shares underlying the GDRs only in accordance with the provisions of the Deposit Agreements, the terms and conditions of the GDRs and the relevant requirements of Russian law. See “*Description of The Global Depositary Receipts*”.

The Company’s Purpose

Article 3 of our charter provides that our purpose is to earn profit. We are entitled to conduct various activities permissible under Russian law, including investment in securities, sale and purchase of real estate, consulting services and other activities provided for in our charter and applicable Russian legislation. Our charter provides that we may engage in certain types of activity, a list of which is prescribed by law, only on the condition that we hold the relevant permit.

A10.21.2.1

Description of Share Capital

General

We were founded as a closed joint stock company “R&M Company” on May 21, 1992. In March 1998 we changed our name to ZAO “RiM”. ZAO “RiM” underwent a reorganization in the form of a merger of ZAO “Joint Stock Company LIBRA” and ZAO “Pioner” into R&M Company March 2002 and subsequently were reorganized into a limited liability company called OOO “LSR Group” on March 4, 2004. Later, we underwent a series of reorganizations merging OOO “Dom” and OOO “Kupchinsky Kirpich” in July 2004 into the Company; OOO “Vozrozhdenie Peterburga” in November 2004; OOO “Ardi”, OOO “RIK” and OOO “Agat” in April 2005 and OOO “Dom Plyus” in June 2005. In August 2006 we were reorganized into an open joint stock company. In April 2007, we were reorganized in form of a merger of ZAO “Galernaya” into the group. Our share capital is divided into shares each with an equal nominal value and the amount of the aggregate nominal value of all such shares constitutes our share capital and that our shares may be sold by their holders to any third parties without triggering any rights of first refusal or requiring any approvals on the part of other shareholders or the Company.

A10.26.2

Pursuant to the Joint Stock Companies Law, we have the right to issue registered ordinary shares, preferred shares and other securities provided for by the legislation of the Russian Federation with respect to securities. Our charter capital consists of 85,148,936 ordinary shares, each with a nominal value of 0.25 rubles, which are fully paid, issued and outstanding. In addition, we are authorized by our charter to issue an additional 50,000,000 ordinary shares, each with nominal value of 0.25 rubles.

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A10.27.2

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A10.27.4

The Joint Stock Companies Law requires us to dispose of any of our shares that we acquire within one year of their acquisition or, failing that, reduce our charter capital. We refer to such shares as treasury shares for the purposes hereof. Russian legislation does not allow for the voting of such treasury shares.

A10.21.2.3

No preferred shares are authorized or outstanding. Preferred shares may be issued only if amendments have been made to our charter pursuant to a resolution of the General Shareholders’ Meeting. The Joint Stock Companies Law provides for a right to issue preferred shares subject to the nominal value of all outstanding preferred shares not exceeding 25% of the share capital.

Our Ordinary Shares are listed on MICEX and RTS, in each case under the symbol LSRG.

On August 23, 2007, the extraordinary general shareholders’ meeting approved the issuance of 8,514,896 New Shares to be subscribed by HHL in the Closed Subscription. The decision on the issuance of New Shares was registered with FSFM on September 20, 2007 under the state registration number 1-01-55234-E-001D.

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Rights of Shareholders

A10.27.5

Holders of our ordinary shares have the right to vote at all General Shareholders' Meetings. As required by the Joint Stock Companies Law and our charter, all our ordinary shares have the same nominal value and grant identical rights to their holders. Each fully paid ordinary share, except for treasury shares, gives its holder the right to:

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A10.21.1.3

- (a) participate in the management of the Company as provided for by the Joint Stock Companies Law and our charter;
- (b) freely transfer the shares without the consent of other shareholders;
- (c) receive dividends in accordance with the Joint Stock Companies Law and our charter if we announce the payment of such dividends;
- (d) acquire our own shares by exercising pre-emptive rights on a pro rata basis in relation to our existing holdings of the Company's shares, as provided for by the Joint Stock Companies Law and our charter;
- (e) participate in General Shareholders' Meetings and vote on all matters within the shareholders' competence;
- (f) transfer voting rights to a representative on the basis of a power of attorney;
- (g) if holding, alone or with other shareholders, 2% or more of the voting shares, within 60 days after the end of our fiscal year, make proposals for inclusion of the items to the agenda of an annual General Shareholders' Meeting and nominate candidates to the Board of Directors and the revision commission;
- (h) if holding, alone or with other shareholders, 10% or more of the voting shares, demand that the Board of Directors convene an extraordinary General Shareholders' Meeting or an unscheduled audit by the revision commission;
- (i) demand repurchase by us of all or some of the shares owned by it, as long as such shareholder voted against or did not participate in the voting on the decision approving the following:
 - (i) any reorganization;
 - (ii) conclusion of a major transaction, as defined by the Russian law, subject to provisions of the Joint Stock Companies Law; and
 - (iii) amendment of our charter or approval of a new addition of our charter that limits the shareholder's rights;
- (j) upon our liquidation, receive a proportionate amount of our property after its obligations are fulfilled;
- (k) have access to certain of our documents, receive copies for a reasonable fee and, if holding alone or with other shareholders 25% or more of the voting shares, have free access to accounting documents;
- (l) if holding, alone or with other shareholders, 1% or more of the voting shares:
 - (i) access the list of persons entitled to participate in the General Shareholders' Meeting;
 - (ii) sue in court members of the Board of Directors or the General Director for damages incurred by us as a result of their faulty actions or omissions to act;
 - (iii) obtain information on our shareholders' register from the Registrar; and
- (m) exercise other rights of a shareholder provided by our charter, Russian legislation and decisions of General Shareholders' Meetings approved in accordance with its competence.

Pre-emptive Rights

The Joint Stock Companies Law and our charter provide existing shareholders with a pre-emptive right to purchase shares or securities convertible into shares during an open subscription in an amount proportionate to their existing shareholdings. In addition, the Joint Stock Companies Law provides shareholders with a pre-emptive right to purchase shares or securities convertible into shares during a closed subscription if the shareholders voted against or did not participate in the voting on the decision

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approving such closed subscription. The pre-emptive right does not apply to a closed subscription for shares by existing shareholders, provided that such shareholders may each acquire a whole number of shares or securities convertible into shares being placed, in proportion to their existing shareholdings. We must provide shareholders with written notice at least 45 days prior to the offering, during which time shareholders may exercise their pre-emptive rights. If the price of the offered shares or securities convertible into shares is determined after expiration of the pre-emptive right, we must provide shareholders with written notice at least 20 days prior to the offering, during which time shareholders may exercise their pre-emptive rights.

Dividends

The Joint Stock Companies Law and our charter set forth the procedure for determining the dividends that the Company distributes to its shareholders. According to our charter, we may declare dividends based on our three month, six month, nine month and/or annual results. Dividends are recommended to the General Shareholders' Meeting by a majority vote of the Board of Directors, and approved by the majority vote of the General Shareholders' Meeting. A decision on three month, six month and nine month dividends must be made at the General Shareholders' Meeting within three months of the end of the respective quarter, and a decision on annual dividends must be taken at the annual General Shareholders' Meeting. The dividends approved at the General Shareholders' Meeting may not be more than the amount recommended by the Board of Directors. Fixed dividends payable on preferred shares must be determined upon the issuance of the respective preferred shares. Dividends payable on shares are distributed to our shareholders as at the record date for the General Shareholders' Meeting approving the dividends. According to our charter, the form of payment of the dividends should be determined by the General Shareholders' Meeting. See "*—General Shareholders' Meetings—Notice and Participation*". Dividends are not paid on treasury shares.

A10.27.6

The paid dividends are subject to tax. See "*Taxation—Russian Tax Considerations—Taxation of Dividends*".

The Joint Stock Companies Law allows dividends to be declared as long as the following conditions have been met:

- the share capital of the company has been paid in full;
- the value of the company's net assets is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company's share capital, the company's reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred shares of the company;
- the company has repurchased all shares from shareholders that have the right to demand repurchase;
- the company is not, and would not become, insolvent, as a result of the proposed dividend payment; and
- other requirements of Russian legislation.

According to our charter, dividends on ordinary shares may be paid out of our net profits calculated under RAS. Dividends payable on preferred shares may be also paid out of our special funds.

In addition, a Russian company is prohibited from paying dividends (even if they have been declared) if:

- the company is insolvent on the date of payment or would become insolvent as a result of the proposed dividend payment;
- the value of the company's net assets, calculated under RAS, on the date of payment, is less (or would become less as a result of the proposed dividend payment) than the sum of the company's share capital, the company's reserve fund and the difference between the liquidation value and the nominal value of the issued and outstanding preferred shares of the company; and
- otherwise prohibited by the Russian legislation.

We pay dividends within the time period indicated in the shareholders' resolution approving the dividends, which may not be more than 60 days from the date of such resolution. Under our charter, we are allowed to pay declared dividends only in cash.

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Distributions to Shareholders on Liquidation

Under Russian legislation, liquidation of a company results in the company ceasing to exist without rights and obligations being transferred to other persons as legal successors. The Joint Stock Companies Law and our charter allow us to be liquidated:

- by a three-quarters majority vote at a General Shareholders' Meeting; or
- by a court order.

Following a decision on our liquidation, the right to manage our affairs would pass to a liquidation commission which, in the case of voluntary liquidation, is appointed by the General Shareholders' Meeting and, in an involuntary liquidation, is appointed by the court. Our creditors may file claims within a period to be determined by the liquidation commission, but such period must not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code gives creditors the following order of priority during liquidation of a company:

- first—individuals owed compensation for personal injury or deaths, or moral damages;
- second—employees' and copyright claims;
- third—federal and local governmental authorities claiming taxes and similar payments to the budgets and non-budgetary funds; and
- fourth—other creditors, in accordance with Russian legislation.

Claims of creditors in respect of obligations secured by a pledge over a company's property are satisfied from the sale proceeds of the pledged property prior to claims of any other creditors, save for the creditors of the first and second orders of priority, provided that claims of such creditors arose before the respective pledges have been entered into. Any residual claims of secured creditors that remain unsatisfied after the sale of the pledged property rank *pari passu* with claims of the fourth-priority creditors.

The Federal Law on Insolvency (Bankruptcy), however, provides for a different order of priority for creditors' claims in the event of bankruptcy.

The remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase;
- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares, if any; and
- payments to holders of ordinary and preferred shares on a *pro rata* basis.

Liability of Shareholders

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

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between such persons or entities; and
- the effective parent gives binding instructions to the effective subsidiary.

Therefore, shareholders will not be personally liable for our debts or those of its effective subsidiaries unless the shareholders control its business. See *"Risk Factors—Russian Legal Risks and Uncertainties—Shareholder liability under Russian legislation could cause us to become liable for the obligations of our subsidiaries"*.

In addition, the effective parent is secondarily liable for the effective subsidiary's debts if the effective subsidiary becomes insolvent or bankrupt resulting from the action or omission of the effective parent who knew in advance that such action or omission would result in insolvency or bankruptcy. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises, such as

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through ownership of voting securities or by contract. In these instances, shareholders (other than the effective parent) of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that caused the effective subsidiary to take any action or fail to take any action knowing in advance that such action or failure to take action would result in losses.

Alteration of Share Capital

Share Capital Increase

We may increase our share capital by:

- issuing new shares; or
- increasing the nominal value of previously issued shares.

A decision to increase the share capital by issuing new shares or increasing the nominal value of previously issued shares requires the majority vote of a general shareholders' meeting. A decision on the issuance of shares by way of distribution between all shareholders or by way of conversion, or an issuance by open subscription of ordinary shares or securities convertible into ordinary shares constituting 25% or less of the number of issued ordinary shares, requires a unanimous vote by the Board of Directors. In addition, the issuance of shares above the number of authorized and non-issued shares provided in its charter requires a charter amendment, approved by a three-quarters majority vote at a general shareholders' meeting.

A decision on issuance of shares or securities convertible into shares by closed subscription, or an issuance by open subscription of ordinary shares or securities convertible into ordinary shares constituting more than 25% of the number of issued ordinary shares, requires a three-quarters majority vote by a general shareholders' meeting.

The Joint Stock Companies Law requires that newly issued shares be sold at the price determined by the Board of Directors based on their Market Value. The Board of Directors may provide for a discount for existing shareholders exercising their pre-emptive right to purchase shares for a price that shall not be less than 90% of the price set for third parties. Fees of an intermediary participating in the offering of shares cannot exceed 10% of the share price. The price may not be set at less than the nominal value of the shares. The Board of Directors shall evaluate any in-kind contributions for new shares based on the appraisal report of an independent appraiser.

Federal Law "On the Securities Market" No. 39-FZ dated April 22, 1996, as amended (the "**Law on the Securities Market**"), and the FSFM regulations set out detailed procedures for the registration and issuance of shares of the Russian joint stock company, including:

- adoption of a decision on an increase of share capital by an offering of additional shares;
- adoption of a decision on a share issuance;
- registration of a share issuance with the FSFM;
- offering of the shares;
- registration of the offering report or filing the offering notification with the FSFM; and
- public disclosures at the required stages of the issuance.

Share Capital Decrease; Share Buy-Backs

The Joint Stock Companies Law does not allow a company to reduce its share capital below the minimum share capital required by law, which currently is 100,000 rubles for a Russian open joint stock company. Our charter requires that any decision to reduce our share capital through the repurchase and cancellation of shares should be made by a majority vote of a general shareholders' meeting. The Joint Stock Companies Law provides that a decision to reduce a share capital through a reduction in the nominal value of the respective shares should be made by a 75% majority at a general shareholder's meeting. Any decision to reduce the share capital by way of reducing the nominal value of the shares may provide for payments to all the shareholders or transfer of securities of other companies owned by us.

A10.21.2.4

The Joint Stock Companies Law allows us to reduce its share capital only if, at the time of such reduction:

- our share capital is paid up in full;

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- we are not and would not become, as a result of the payment or the alienation of securities to the shareholders as described above, insolvent;
- the value of our net assets is not less (and would not become less, as a result of the payment or the alienation of securities to the shareholders) than the sum of our share capital, the reserve fund and the difference between the liquidation value and the par value of our issued and outstanding preferred shares;
- we have repurchased all shares from shareholders that have the right to demand repurchase of their shares under legislation protecting the rights of minority shareholders, as described below;
- we have fully paid all declared dividends; and
- we comply with other requirements of Russian legislation.

Additionally, within 30 days of a decision to reduce our share capital, we must issue a written notice to our creditors and publish this decision. Our creditors would then have the right to demand, within 30 days of such notice or publication, repayment of all amounts due to them, as well as compensation for damages.

The Joint Stock Companies Law and our charter allow our shareholders or the Board of Directors to authorize the repurchase of up to 10% of our shares in exchange for cash. The shares repurchased pursuant to a decision of the Board of Directors must be resold at the market price within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease our share capital.

The Joint Stock Companies Law allows us to repurchase our shares only if, at the time of repurchase:

- our share capital is paid up in full;
- we are not and would not become, as a result of the repurchase, insolvent;
- the value of our net assets is not less (and would not become less, as a result of the proposed repurchase) than the sum of our share capital, the reserve fund and the difference between the liquidation value and the par value of our issued and outstanding preferred shares; and
- we have repurchased all shares from shareholders having the right to demand repurchase of their shares under legislation protecting the rights of minority shareholders, as described immediately below.

Russian legislation and our charter provide that our shareholders may demand repurchase of all or some of their shares so long as the shareholder demanding repurchase voted against or did not participate in the voting on the decision approving any of the following actions:

- any reorganization;
- conclusion of a major transaction, which requires approval by a general shareholders' meeting, subject to the provisions of the Joint Stock Companies Law; or
- amendment of our charter in a manner which results in restrictions of that shareholder's rights.

We shall repurchase the shares at the price stated by the Board of Directors, which shall not be less than the Market Value determined by an independent appraiser. We may spend up to 10% of our net assets calculated under RAS for a share redemption demanded by the shareholders. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10% of our net assets, we will repurchase shares from each such shareholder on a pro-rata basis.

Registration and Transfer of Shares

All our shares are ordinary shares in registered form. Russian legislation requires that a joint stock company must procure the maintenance of a register of its shareholders. A register of shareholders may be maintained by the company itself or by a specialized registrar. The Joint Stock Companies Law requires that a register of shareholders of a joint stock company with more than 50 shareholders be maintained by a registrar. Ownership of our registered ordinary shares is evidenced solely by entries made on such register. Any of our shareholders may obtain an extract from its register certifying the number of shares that such shareholder holds. Since August 2007, the Registrar has maintained our shareholder register. The purchase, sale or other transfer of shares is accomplished through registration of the transfer on the register of shareholders, or in a depository account if shares are held by a depository. In the latter case,

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the depositary must appear as a nominal holder of shares in our register of shareholders. The registrar or depositary may not require any documents in addition to those required by Russian legislation in order to transfer shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the shareholder, in the name of a nominee holder, is not allowed and may be challenged in court.

Reserve Fund

Russian legislation requires that each joint stock company establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and repurchase the company's shares in cases when other funds are not available. The reserve fund must be utilized only for the abovementioned purposes. Our charter provides for the reserve fund of 5% of its share capital, funded through mandatory annual transfers of at least 5% of its net profits until the reserve fund has reached the 5% requirement.

Disclosure of Information

Russian securities regulations require us to make the following public disclosures and filings on a periodical basis:

- file quarterly reports with the FSFM containing information about us, our shareholders, management bodies, members of our board of directors, branches and representative offices, our shares, working capital, bank accounts and auditors, important developments during the reporting quarter and other information about our financial and business activity;
- file with the FSFM and publish in the FSFM's periodical print publication, as well as in other public media, any information concerning material facts and changes in our financial and business activity, including among other things:
 - our reorganization;
 - certain changes in the value of our assets;
 - decisions on share issuances;
 - inclusion in our shareholders' register of any shareholder that has acquired 5% or more of our issued Ordinary Shares and any circumstance which resulted in a change in the quantity of our issued Ordinary Shares held by such shareholder above or below the 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% threshold; A10.21.2.7
- disclose information on any of the following documents we have received:
 - a voluntary offer (including any competing offer);
 - a mandatory offer (including any competing offer);
 - a notice of the right of shareholders to sell their shares to the person that has acquired more than 95% of the Ordinary Shares;
 - a request that minority shareholders sell their shares to the person that has acquired more than 95% of the Ordinary Shares;
- disclose information on various stages of share issuance, registration and placement through publication of certain data, as required by the securities regulations;
- publish our annual report and annual financial statements prepared in accordance with Russian accounting standards;
- file with the FSFM on a quarterly basis a list of our affiliated persons and disclose the same on our website, simultaneously; and
- disclose other information, as required by applicable Russian securities legislation.

General Shareholders' Meeting

Procedure

The powers of the General Shareholders' Meeting are set forth in the Joint Stock Companies Law and in our charter. The scope of authority of the General Shareholders' Meeting is limited to the powers A10.21.2.5

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contemplated by the Joint Stock Companies Law and our charter. Among issues that the shareholders have the power to decide on are:

- amendments and additions to our charter;
- our reorganization;
- our liquidation, appointment of the liquidation commission and approval of preliminary and final liquidation balances;
- determining of the number of members of the Board of Directors, election and removal of members of the Board of Directors;
- election and removal of the General Director;
- transfer of the functions of the General Director to a management company or a manager and their removal;
- appointment and removal of the members of our revision commission;
- approval of our external auditor;
- determining the number, nominal value and class/type of authorized shares and the rights granted by such shares;
- increase of our share capital by means of:
 - (a) increasing the nominal value of our shares;
 - (b) issuing shares via closed subscription; and
 - (c) issuing shares constituting more than 25% of the number of issued and outstanding ordinary shares via open subscription;
- issuing bonds or other securities convertible into ordinary shares if either placed by closed subscription or placed by open subscription and the number of ordinary shares in which such securities may be converted exceeds 25% of the number of issued and outstanding ordinary shares;
- reduction of our share capital either by reduction of the nominal value of the shares, or by buy-back of our outstanding shares for the purposes of such reduction, or by cancellation of our treasury shares;
- splitting and consolidating our shares;
- approval of our annual reports and financial statements;
- approval of certain interested party transactions and major transactions;
- distribution of profits, including payment of dividends;
- setting out a procedure for holding the general meeting of shareholders;
- approval of our participation in financial and industrial groups, associations and other unions of commercial organizations;
- approval of certain internal regulations;
- payment of remuneration and (or) compensations to the members of the Board of Directors;
- payment of remuneration and (or) compensations to the members of our revision commission; and
- other issues, as provided for by the Joint Stock Companies Law and our charter.

Voting at a general shareholders' meeting is generally based on the principle of one vote per ordinary share, with the exception of the election of the Board of Directors, which is done through cumulative voting.

Ordinarily, a majority vote of the voting shares present at a general shareholders' meeting is required for a decision of the general shareholders' meeting to be valid. However, Russian law requires a three-quarters majority vote of the voting shares present at a general shareholders' meeting to approve the following:

- amendments and additions to our charter;

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- our reorganization or liquidation, appointment of the liquidation commission and approval of preliminary and final liquidation balances;
- major transactions involving assets in excess of 50% of the balance sheet value of our assets;
- determination of the number, nominal value and type of authorized shares and the rights granted by such shares;
- reduction of our share capital by buy-back of our outstanding shares for the purposes of such reduction;
- increase of our share capital by issuance of shares if either placed by closed subscription or placed by open subscription and the amount of such shares exceeds 25% of number of issued and outstanding ordinary shares; and
- issuing bonds or other securities convertible into ordinary shares if either placed by closed subscription or placed by open subscription and the amount of ordinary shares in which such securities may be converted exceeds 25% of number of issued and outstanding ordinary shares.

The quorum requirement for a general shareholders' meeting is met if shareholders (or their representatives) accounting for more than 50% of the issued voting shares are present. If the 50% quorum requirement is not met, another general shareholders' meeting with the same agenda may (and, in case of an annual general shareholders' meeting, must) be convened and the quorum requirement is satisfied if shareholders (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

An annual general shareholders' meeting must be convened by the Board of Directors between March 1, and June 30, of each year, and the agenda must include among other issues the following:

- determination of the number and election of the members of the Board of Directors;
- approval of the annual report and the annual financial statements, including the balance sheet and profit and loss statement;
- approval of distribution of profits, including approval of annual dividends, if any;
- approval of an external auditor; and
- appointment of the members of the internal audit commission.

A shareholder or shareholders owning in aggregate at least 2% of the issued voting shares may introduce proposals for the agenda of an annual general shareholders' meeting and may nominate candidates for the Board of Directors and the audit commission. Any agenda proposals or nominations must be provided to the Company no later than 30 calendar days after the end of the preceding financial year.

Extraordinary general shareholders' meetings may be convened by the Board of Directors on its own initiative, or at the request of the revision commission, the external auditor or a shareholder owning individually or collectively with other shareholders in aggregate at least 10% of the issued voting shares as of the date of the request.

A general shareholders' meeting may be held in a form of a meeting or by absentee ballot. The form of a meeting contemplates the adoption of resolutions by a general shareholders' meeting through the attendance of the shareholders or their authorized representatives for the purpose of discussing and voting on issues on the agenda, provided that if the ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the company without personally attending the meeting. A general shareholders' meeting by absentee ballot envisages collecting shareholders' opinions on issues on the agenda by means of a written poll.

The following issues cannot be decided by a general shareholders' meeting by absentee ballot:

- election of the members of the Board of Directors;
- election of the revision commission;
- approval of the external auditor; and
- approval of the annual report, the annual financial statements, including balance sheet, profit and loss statement, and any distribution of profits, including approval of annual dividends, if any.

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Notice and Participation

All shareholders entitled to participate in a general shareholders' meeting must be notified of the meeting, whether the meeting is to be held in direct form or by absentee ballot, no less than 30 days prior to the date of the meeting, and such notification shall specify the agenda for the meeting. However, if it is an extraordinary general shareholders' meeting to elect the Board of Directors, shareholders must be notified at least 70 days prior to the date of the meeting. Only those items that were set out in the agenda to shareholders may be voted upon at a general shareholders' meeting.

The list of persons entitled to participate in a general shareholders' meeting is to be compiled on the basis of data in our register of shareholders on the date established by the Board of Directors, which date may neither be earlier than the date of adoption of the resolution of the Board of Directors to hold a general shareholders' meeting nor more than 50 days before the date of the meeting (or, in the case of an extraordinary general shareholders' meeting to elect the Board of Directors, not more than 85 days before the date of such general shareholders' meeting).

Generally, the right to participate in a general shareholders' meeting may be exercised by a shareholder as follows:

- by personal attendance;
- by attendance of a duly authorized representative (by proxy);
- by absentee ballot; or
- by delegating the right of absentee ballot to a duly authorized representative.

Board of Directors

Pursuant to the Joint Stock Companies Law and our charter, the Board of Directors performs general management, except for adoption of decisions that fall within the exclusive competence of a general shareholders' meeting.

The Joint Stock Companies Law requires at least a five-member board of directors for all joint stock companies (unless the number of shareholders is 50 or less in which case the board of directors is not required), at least a seven-member board of directors for joint stock companies with more than 1,000 holders of voting shares, and at least a nine-member board of directors for joint stock companies with more than 10,000 holders of voting shares. Only individuals (as opposed to legal entities) are entitled to sit on the board of directors. Members of the Board of Directors are not required to be our shareholders. A charter or a decision of a general shareholders' meeting determines the actual number of directors. The our charter provides that its Board of Directors shall consist of not less than five members and shall be determined by the General Shareholders' Meeting.

Our charter provides for the election of its entire Board of Directors at each annual general shareholders' meeting. Our Board of Directors is elected by way of cumulative voting. Cumulative voting means that each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by the number of persons on the Board of Directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the entire Board of Directors may be dismissed at any time without cause by a majority vote of a general shareholders' meeting.

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The Joint Stock Companies Law generally prohibits the Board of Directors from acting on issues that fall within the exclusive competence of a general shareholders' meeting. The Board of Directors has the power to perform the general management, and to decide, among others, the following issues:

- determination of our business priorities, approval of strategic plans, annual and quarterly budgets;
- convening of annual and extraordinary general shareholders' meetings, except for certain cases specified in the Joint Stock Companies Law;
- approval of the agenda of a general shareholders' meeting;
- determination of the record date for shareholders entitled to participate in a general shareholders' meeting and other issues in connection with preparation for, and holding of, general shareholders' meetings;

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- adoption of a decision to increase our share capital in cases specified in the Joint Stock Companies Law and our charter;
- issuance of bonds and other securities which are not convertible into ordinary shares;
- issuance of bonds or other securities convertible into ordinary shares if placed by open subscription and the amount of ordinary shares in which such securities may be converted does not exceed 25% of number of issued and outstanding ordinary shares;
- determination of the price of our property and of our securities to be placed or repurchased, as provided for by the Joint Stock Companies Law;
- approval of decisions on issuance of securities, prospectuses related to securities and amendments to such documents;
- repurchase of our shares, bonds and other securities in certain cases provided for by the Joint Stock Companies Law;
- recommendations on the amount of remuneration and compensation to be paid to members of the revision commission and on the fees payable for the services of an external auditor;
- recommendations on the amount of the dividend on shares and the payment procedure thereof;
- use of our reserve fund and other funds;
- approval of our internal documents, except for those documents whose approval falls within the competence of the general shareholders' meeting;
- establishment of branches and representative offices and their liquidation;
- approval of major and interested party transactions in cases specified by the Joint Stock Companies Law;
- appointment of our corporate secretary;
- approval of our registrar and agreement with it;
- approval of transactions involving the acquisition, disposal or other transfers of rights to shares or participatory interests in the charter capital of legal entities and certain other transactions as provided for by our charter; and
- other issues, as provided for by the Joint Stock Companies Law and the Company's charter.

Meetings of our board of directors are called by the chairman on his or her own initiative, or at the request of:

- a member of our Board of Directors;
- a member of our revision commission;
- our General Director;
- our shareholders owning 10% or more of our ordinary shares;
- external auditor; or
- any committee of the Board of Directors.

A meeting of the Board of Directors has a quorum if not less than a half of its members elected at a general shareholders' meeting are present at the meeting. Generally, a majority vote of the directors present at the meeting is required to adopt a decision. Certain decisions (such as increases of the share capital and approvals of major transactions) require the unanimous vote of all members of the Board of Directors or a majority vote of the disinterested and independent directors. In the case of a tied vote the Chairman of the Board of Directors has the casting vote.

General Director

The General Director is our chief executive officer. The General Shareholders Meeting elects the General Director and determine his/her term in the office, but can remove the General Director at any time.

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The General Director exercises day-to-day control over our activities and is accountable to the Board of Directors and the General Shareholders' Meeting. The General Director is authorized, without a power of attorney, to act on our behalf.

Corporate Governance

Our shares were listed on the "I" list of MICEX on September 4, 2007 and on RTS on September 8, 2007. As a result, we are required to comply with a number of corporate governance requirements, including, among other things, the following:

- at least one independent director on our board of directors at all times;
- establishment of the audit committee of the Board of Directors;
- adoption of an internal regulations on the use of insider information and on internal control over financial and business activities; and
- a provision in our internal regulations requiring our president (general director) as well as the members of our board of directors and the management board to disclose information on their ownership, sale and purchase of our issued securities.

We are in compliance with the above requirements and we have implemented additional corporate governance practices, including establishment of an audit committee and a remuneration committee of our board of directors, each chaired by an independent director.

Interested Party Transactions

The Joint Stock Companies Law contains requirements in respect of interested party transactions. An interested party transaction is a transaction with an "interested party", which is a member of the Board of Directors of the company, a person performing functions of the sole executive body (including a managing company or a manager, which performs functions of the sole executive body of the company under a contract), a member of the collective executive body of the company or a shareholder, who owns, together with any of its affiliates, at least 20% of the company's voting shares, or any person able to issue mandatory instructions to the company, if any of the abovementioned persons, or any of these persons' spouse, close relatives, adoptive parents or children or affiliates:

- is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- owns, individually or collectively, at least 20% of the shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- holds office in any management body of the company (or in any management body of the managing company of such company) that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary.

The Joint Stock Companies Law requires that a transaction with an interested party be approved by a majority vote of the company's disinterested members of the Board of Directors or by a decision of the majority of disinterested shareholders holding voting shares, as applicable.

In a company with more than 1,000 shareholders holding voting shares a disinterested director is entitled to vote on the approval of an interested party transaction only if he/she is an "independent director", i.e. a member of the Board of Directors who is not, and within one year preceding the decision was not, (i) performing the functions of the sole executive body (including being a manager) or the collective executive body of the company, or holding offices in management bodies of the managing company, (ii) a person whose spouse, close relatives, adoptive parents or children hold positions in any of the abovementioned management bodies, managing company of the company, or a manager of the company, or (iii) otherwise an affiliate of the company (except for the members of the Board of Directors of the company).

An interested party transaction must be approved by a decision of the majority of disinterested shareholders holding voting shares if:

- the value of such a transaction, or series of transactions, is 2% or more of the balance sheet value of the company's assets as at the last reporting date;

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- the transaction, or series of transactions, involves the issuance by subscription of ordinary shares or securities convertible into such shares in the amount exceeding 2% of the company's existing ordinary shares or securities convertible into such shares;
- the transaction, or series of transactions, involves the issuance by subscription of securities convertible into shares, which may be converted into ordinary shares, in the amount exceeding 2% of the company's existing ordinary shares or ordinary shares into which the abovementioned convertible securities may be converted;
- all members of the Board of Directors of the company with more than 1,000 shareholders holding voting shares are interested parties, or if none of them is an independent director; or
- the number of the disinterested directors of the company with 1,000 or less shareholders holding voting shares is not sufficient to constitute a quorum.

The approval of interested party transactions is not required in the following instances:

- the company has only one shareholder that simultaneously performs the functions of the executive body of the company;
- all shareholders of the company are interested in such transactions;
- the transactions arise from the shareholders executing their pre-emptive rights to purchase newly issued shares of the company;
- the transactions arise from the repurchase, whether mandatory or not, by the company of its issued shares;
- the company merges with another company; or
- entering into a transaction is obligatory for the company according to Russian legislation and settlement with respect to which is effected in accordance with the fixed prices and tariffs established by authorized regulatory authorities.

An interested party transaction entered into in breach of the abovementioned rules may be invalidated by a court pursuant to an action of the company or any of its shareholders. The interested party is liable to the company for any loss incurred by such company.

Major Transactions

The Joint Stock Companies Law defines a "major transaction" as a transaction, or a series of transactions, involving the acquisition or disposal, or the possibility of disposal of property with the value of 25% or more of the balance sheet value of the assets of the company as determined under RAS, with the exception of transactions conducted in the ordinary course of business or transactions involving the issuance of ordinary shares, or securities convertible into ordinary shares. Major transactions involving assets ranging from 25% to 50% of the book value of the company's assets, as determined according to its financial statement for the latest reporting date, require unanimous approval by all members of the Board of Directors or, failing to receive such approval, a simple majority vote of a general shareholders' meeting. Major transactions involving assets in excess of 50% of the balance sheet value of the assets of the company require a three-quarters' majority vote of a general shareholders' meeting.

Any major transaction entered into in breach of the above requirements may be invalidated by a court pursuant to an action of the company or any of its shareholders.

Change of Control

Anti-takeover Protection

Effective July 1, 2006, Russian legislation has been amended to introduce new anti-takeover provisions. Broadly, the following shall apply. A10.27.12

A person intending to acquire more than 30% of an open joint stock company's voting shares (including, for such purposes, the shares already owned by such person and its affiliates), will be entitled to make a public tender offer to other holders of such shares or securities convertible into such shares (voluntary offer).

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Within 35 days after acquisition by any means of more than 30%, 50% or 75% of such shares the acquirer will have an obligation to make a public offer to purchase the remaining shares from the shareholders (compulsory offer).

If as a result of either the voluntary or the compulsory offer the acquirer purchases more than 95% of the voting shares, it will have an obligation to (i) notify all the other shareholders (within 35 days after acquisition of shares above the threshold) of their right to sell their shares and other securities convertible into such shares, and (ii) purchase their shares upon request of each minority shareholder. Instead of giving such notice, the acquirer will have the right to deliver a buy-out demand, binding on the minority shareholders, that they sell their shares.

An offer of the kind described in either of the preceding three paragraphs must be accompanied by an irrevocable bank guarantee of payment, a share price valuation report prepared by an independent appraiser and certain other documents. If the company is publicly traded, prior notice of the offers must be filed with the FSFM; otherwise, such offers must be filed with the FSFM no later than the date of the offer. The FSFM may require revisions to be made to the terms of the offer (including the price) in order to bring them into compliance with the rules.

At any time after the company receives a voluntary or a compulsory offer and until 25 days prior to the expiration of the relevant acceptance period, any person will have the right to make a competing offer (that satisfies the requirements for a voluntary or compulsory offer respectively) to purchase shares in the quantity of and at the price that are greater than or equal to the quantity and the price offered in the respective voluntary or compulsory offer. Any shareholder may revoke its previous acceptance of the respective offer and accept the competing offer. A copy of the competing offer shall be sent to the person who made the respective voluntary or compulsory offer so that such person can amend its offer by increasing the purchase price and/or shortening the settlement period. As soon as the voluntary or compulsory offer has been made and until expiration of a 20-day period after the expiration of the period for acceptance of the voluntary or compulsory offer the company's shareholders meeting will have the sole power to make decisions on a share capital increase through an additional share issuance, on approval of interested party and certain other transactions and on certain other significant matters.

Generally, such new buy-out mechanisms became effective on July 1, 2006 and are available to the persons that acquire such shares pursuant to a voluntary or a compulsory offer after such date. In addition, during one year after the effective date of a federal law on appraiser's liability insurance such mechanisms will be available to the majority shareholders that will own as at July 1, 2006 more than (a) 95% of the voting shares or (b) 85% of such shares but will acquire more than 95% of the same through a voluntary offer made after such date. However, in each such case both a report of an independent appraiser and an expert opinion of a self-regulatory organization of appraisers will be required to determine the purchase price.

The above rules may be supplemented through the FSFM regulations, which may result in a wider, narrower or more specific interpretation of these rules.

See also *“Risk Factors—Risks Relating to Shares and GDRs—Because the Depositary may be considered the owner of the Shares underlying the GDRs, these Shares may be arrested or seized in legal proceedings in Russia against the Depositary”* and *“Risk Factors—Risks Relating to Shares and GDRs—Following the Offering you may not be able to deposit the Shares in the GDR program in order to receive GDRs, and changes in Russian regulatory policy with respect to the placement and circulation of the Shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the Shares and GDRs offered in the Offering”*.

Restrictions on remittance of dividends, interest or other payments to non-Russian residents

Federal Law “On Foreign Investments in the Russian Federation” No. 160-FZ dated July 9, 1999, as amended, specifically guarantees foreign investors the right to repatriate their earnings from Russian investments. Currently it is unclear from the Russian legislation whether dividends of Russian companies can be paid in Rubles and/or in foreign currency. In its Information Letter No. 31 dated March 31, 2005, the CBR declared that, for currency control purposes, Russian companies may pay dividends in foreign currency to their shareholders who are non-Russian residents. There can be no assurance that this letter will not be reversed in the future. If Russian companies were again required to pay all dividends on ordinary shares in Rubles, current Russian legislation permits such Ruble funds to be converted into US Dollars by the depositary without restriction.

The ability to convert Rubles into US Dollars is also subject to the availability of US Dollars in Russia's currency market. Although there is an existing, albeit limited, market within Russia for the conversion of

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Rubles into US Dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of Rubles into foreign currencies outside of Russia and no viable market in which to hedge Ruble and Ruble-denominated investments.

Offering Outside the Russian Federation

Russian law requires a permit from the FSFM to be received prior to effecting an offering of a Russian issuer's shares outside Russia, including offerings of equity securities through either sponsored or unsponsored depositary receipt programmes offering depositary receipts (e.g. GDRs) representing interests in the Russian issuer's shares. On October 18, 2007, the FSFM approved the placement and circulation of up to 13,623,832 our Ordinary Shares, representing 16% of our Ordinary Shares following the Offering, in the form of GDRs, assuming full placement of our newly issued Ordinary Shares. See *"Risk Factors—Risks Relating to the Shares and GDRs—Following the Offering you may not be able to deposit the Shares in the GDR program in order to receive GDRs, and changes in Russian regulatory policy with respect to the placement and circulation of the Shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the Shares and GDRs offered in the Offering"*.

Notification of Foreign Ownership

Foreign persons registered as individual entrepreneurs in Russia and foreign companies, regardless of whether they are registered with the Russian tax authorities, who acquire shares in a Russian joint stock company, may need to notify the Russian tax authorities within one month following such acquisition. The procedure for notifying the Russian tax authorities by foreign companies that are not registered with the Russian tax authorities at the time of their share acquisitions is unclear. Other than this notification requirement, there are no requirements or restrictions with respect to foreign ownership of the Company's shares.

Notification of acquisition of significant interest

Pursuant to Russian securities legislation, each holder of ordinary shares must notify the company and the FSFM of any acquisition of 5% or more of the ordinary shares and any subsequent change in the number of the ordinary shares above or below a 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% threshold. Each notification should contain the name of the shareholder, the name of the company, the state registration number of the ordinary shares issuance and the number of the ordinary shares acquired. Such notifications must be generally given within five days after the ordinary shares have been transferred to such shareholder's securities account.

Anti-Monopoly Regulation

The Federal Law "On Protection of Competition" No. 135-FZ dated July 26, 2006 (the "**Competition Law**") provides for a mandatory pre-approval by the antimonopoly authorities of the following actions:

- (a) an acquisition by a person (or its group) of more than 25% of the voting shares of a joint stock company ($\frac{1}{3}$ participation interest in a limited liability company) and the subsequent increase of these shares up to more than 50% and more than 75% of the voting shares ($\frac{1}{2}$ and $\frac{2}{3}$ participation interest in a limited liability company); or acquisition by a person (or its group) of the core production assets and/or intangible assets of an entity if the balance sheet value of such assets exceeds 20% of the total balance sheet value of the core production and intangible assets of such entity; or obtaining rights to determine the conditions of business activity of an entity or to exercise the powers of its executive body by a person (or its group), if the aggregate asset value of an acquirer (its group) together with a target (or its group) exceeds RUB 3,000 million and at the same time the total asset value of the target (its group) exceeds RUB150 million; or the total annual revenues of such acquirer (or its group) and the target (or its group) for the preceding calendar year exceed RUB 6,000 million and at the same time the total asset value of the target (its group) exceeds RUB 150 million or an acquirer, and/or a target, or any entity within the acquirer's group or a target's group are included in the Register of Entities Having a Market Share in Excess of 35% on a Particular Commodity Market (the "**Register**");
- (b) mergers and consolidations of entities, if their aggregate asset value (the aggregate asset value of the groups of persons to which they belong) exceeds RUB 3,000 million; or total annual revenues

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of such entities (groups of persons to which they belong) for the preceding calendar year exceed RUB 6,000 million; or if one of these entities is included into the Register; and

- (c) foundation of an entity, if its share capital is paid by the shares (participation interest) and/or the assets of another entity and the newly founded entity acquires the rights in respect of such shares (participation interest) and/or assets as specified in item (i) above provided that the aggregate asset value of the founders (group of persons to which they belong) and the entities (groups of persons to which they belong) which shares (participation interest) and/or assets are contributed to the share capital of the newly founded entity exceeds RUB 3,000 million; or total annual revenues of the founders (group of persons to which they belong) and the entities (groups of persons to which they belong) which shares (participation interest) and/or assets are contributed to the share capital of the newly founded entity for the preceding calendar year exceed RUB 6,000 million; or if an entity whose shares (participation interest) and/or assets are contributed to the share capital of the newly founded entity is included in the Register.

The Competition Law provides for a mandatory post-transactional notification (within 45 days of the closing) of the antimonopoly authorities in connection with actions specified in items (a) above if the aggregate asset value or total annual revenues of an acquirer (its group) and a target (its group) for the preceding calendar year exceed RUB 200 million and at the same time (i) the total asset value of the target (its group) exceeds RUB 30 million; or (ii) an acquirer, and/or a target, or any entity within the acquirer's group or a target's group are included in the Register; and (b) above if their aggregate asset value or total annual revenues for the preceding calendar year exceed RUB 200 million.

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DESCRIPTION OF CERTAIN INDEBTEDNESS

RUB 5,000 million Deutsche Bank Term Facility Agreement

General

On March 19, 2007, we entered into a RUB 5,000 million term facility agreement (the “**Facility Agreement**”) with Deutsche Bank, A.G., London Branch acting as arranger and agent. The funds advanced under the Facility Agreement were intended for general corporate purposes. As of June 30, 2007, the facility was fully drawn.

Interest Rate and Interest Period

The facility bears an interest rate of 9.85% per annum. Accrued interest must be paid every three months, beginning on April 4, 2007.

Repayment and Prepayment

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

Events of Default

The Facility Agreement contains certain events of default, including:

- non-payment;
- non-compliance with the financial covenants specified in the Facility Agreement;
- insolvency;
- the occurrence of any event which has, in the opinion of the lender, a material adverse effect on our financial condition or business, our ability to perform our obligations under the Facility Agreement and related finance documents (together, the “**Finance Documents**”) or which affects the validity or enforceability of any of the Finance Documents;
- any government body (other than in its capacity as a shareholder) authorizes the removal of our management board, the seizure, expropriation or nationalization of 10% or more of either our issued shares or those of any of our subsidiaries, or interferes with our business to the extent that we are impeded from or unable to perform our obligations under the Finance Documents; or
- any claim is asserted against us with respect to taxes for an amount exceeding \$5 million, except where (a) the claim will be successfully contested by us, or (b) we will be able to satisfy the claim without adversely impacting our ability to perform our obligations relating to the loan.

Security

Our obligations and liabilities under the Facility Agreement are guaranteed by OAO “Pobeda LSR”; OAO “Obiedinenie 45”; ZAO “DSK “Block”; OAO “Rudas”; OOO “GDSK”; OAO “Granit-Kuznechnoye”; ZAO “MOSSTROYREKONSTRUKTSIA”; ZAO “Gatchinsky DSK”, Construction Corporation “Revival of St. Petersburg” and OAO PO Barrikada.

Covenants and Other Matters

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

- a negative pledge significantly restricting our ability, subject to certain exceptions, to create any additional security over our assets without the prior permission of the lender;
- a “no disposals” pledge significantly restricting our ability to dispose of any of our assets, subject to certain exceptions, without the prior permission of the lender;

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- a prohibition restricting our ability to make very significant acquisitions without the prior permission of the lender;
- a limitation on our ability to incur additional debt beyond a prescribed debt ratio and a prescribed gross interest ratio, each of which varies over the term of the facility;
- a prohibition, subject to certain exceptions, on our ability to enter into new joint venture agreements without the approval of the lender;
- subject to certain exceptions, a prohibition restricting our ability to make significant loans, or give credit, guarantees or indemnities; and
- a prohibition on paying or declaring any dividend exceeding 20% of the maximum amount available to be declared for that year.

RUB 1,280 million non-revolving credit line agreement

On July 12, 2007, our subsidiary OOO GDSK entered into a non-revolving credit line agreement with Sberbank. The credit line agreement provides for a 8.5% RUB 1,280 million non-revolving credit line to be repaid by December 30, 2008 for the sole purpose of making a payment under a land lease agreement dated June 8, 2007 between OOO GDSK and the Committee for the City Property Management of St. Petersburg in relation to a plot of land located in the Krasnoselsky district of St. Petersburg. The facility is guaranteed by suretyships given by the Company and a number of our subsidiaries including OOO PSG LSR, ZAO DSK Blok, and OOO Aeroc SPb.

\$30 million OAO Bank VTB North-West Facility Agreement

General

On July 14, 2006, our subsidiary Construction Corporation “Revival of St. Petersburg” entered into a \$30 million facility agreement with OAO Bank VTB North-West. The funds provided under the facility agreement are intended to finance the purchase of a 32.84% interest in Zavod Elektrik in order to develop a residential and commercial real estate project at the site of the factory located on Medikov Prospekt, 10, St. Petersburg. As of June 30, 2007, this facility was fully drawn.

Interest Rate and Interest Period

The interest rate is LIBOR plus a margin of 3.9% per annum and is reviewed twice a year based on LIBOR fluctuation. Accrued interest must be paid monthly.

Repayment

The facility has a term of five years and is to be repaid in installments of \$1 million with the first instalment payable in February 2009 and the remaining installments payable every month thereafter. Construction Corporation “Revival of St. Petersburg” may elect to repay the loan on an earlier date.

Security

The facility is secured by a mortgage agreement between OAO Bank VTB North-West and ZAO “Severnaya Venezia” in relation to property and the underlying land located on Zoologichesky side street 2-4, St. Petersburg, owned by ZAO “Severnaya Venezia”. Additionally, the facility is secured by a pledge of shares of Zavod Elektrik with a nominal value of 11,030 roubles in favor of OAO Bank VTB North-West.

\$30 million North-West Bank Facility Agreement

General

On August 29, 2006 ZAO DSK Blok entered into a \$30 million facility agreement with OAO Bank VTB North-West. The funds provided under the facility are intended for corporate purposes. As of June 30, 2007, this facility was fully drawn.

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Interest Rate and Interest Period

The interest rate as set out in the agreement is LIBOR plus a margin of 4% per annum and is reviewed twice annually based on LIBOR fluctuation. Accrued interest must be paid monthly.

Repayment

The entire principal amount of the facility matures on August 28, 2009. However, ZAO DSK Blok may elect to repay the loan on an earlier date.

Security

The facility is secured by a pledge of (i) 90.16% of the share capital of OAO “Granit-Kuznechnoye” with a mortgage value of RUB 1,390 million in favor of OAO Bank VTB North-West and (ii) movable property owned by OAO “Granit-Kuznechnoye” with a mortgage value of RUB 22.9 million.

€55 million ABN AMRO Term Facility Agreement

General

On October 26, 2007, we entered into a Russian law governed €55 million term bridge loan agreement (the “**Bridge Loan Agreement**”) with an affiliate of ABN AMRO Rothschild, ABN AMRO ZAO (“**ABN AMRO**”) as lender. The full amount of this facility was drawn down in rubles on October 31, 2007.

Interest Rate and Interest Period

The rate of interest for the facility is the rate per annum determined by ABN AMRO to be the aggregate of:

- (a) 0.7% per annum; and
- (b) (i) LIBOR for the interest period concerned if the loan is drawdown in Euro or Dollars; or
(ii) MOSPRIME for the interest period concerned if the loan is drawdown in rubles.

Accrued interest will be paid at the end of each interest period. The length of each of interest period will be agreed between us and ABN AMRO but cannot be longer than two months.

Repayment and Prepayment

The facility will be repayable on the earlier of (i) November 30, 2007 or (ii) the date falling 15 days after the Closing Date. We may elect to voluntarily prepay the facility in whole or in part if we provide ABN AMRO with not less than five business days’ written notice, subject to a minimum prepayment amount of Euro 1 million (or its dollar or ruble equivalent).

Events of Default

The Bridge Loan Agreement contains certain events of default, including:

- non-payment;
- breach or inaccuracy of a representation or warranty;
- insolvency or inability to pay indebtedness; or
- the occurrence of any event which has, in the opinion of the lender, a material adverse effect.

Security

Our obligations and liabilities under the Bridge Loan Agreement are guaranteed by OAO “Pobeda LSR”; OAO “Objedinenie 45”; ZAO “DSK “Block”; OAO “Rudas”; OOO “GDSK”; OAO “Granit-Kuznechnoye”; Construction Corporation “Revival of St. Petersburg”; ZAO “MOSSTROYREKONSTRUKTSIA”; OAO PO Barrikada; ZAO “Gatchinsky DSK” and OAO “Lenrechport”.

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Covenants and Other Matters

The Bridge Loan Agreement requires us to comply with certain general and informational covenants, including a “no disposals” pledge significantly restricting our ability to dispose of any of our assets.

RUB 750 million Sberbank Facility Agreement

General

On September 20, 2006, OOO “Aerok SPb” entered into a RUB 750 million non-revolving credit facility agreement with Sberbank for the refinancing of the costs associated with the construction of an aerated concrete factory, including repaying existing indebtedness. As of June 30, 2007, this facility was fully drawn.

Interest Rate and Interest Period

Funds drawn under the facility bear interest at a rate of 10.25% per annum, which will be decreased provided there is no delay in payment of the principal and the interest on the loan.

Repayment

The facility terminates on September 19, 2011 and is repayable in installments, which started in July 2007.

Security

The facility is secured by a pledge of equipment with a mortgage value of RUB 458.7 million, a mortgage of ten real estate properties with a mortgage value of RUB 166.7 million and the underlying land plot with a mortgage value of RUB 147.9 million. Additionally, the facility is secured by a suretyship from OAO “Pobeda LSR”.

\$25 million OAO Bank VTB North-West Credit Facility Agreement

General

On December 1, 2006, we entered into a \$25 million credit facility agreement with OAO Bank VTB North-West. The funds provided under the credit facility agreement are intended to finance real estate development activities in Moscow.

As of June 30, 2007, we had drawn down \$12 million under this facility agreement.

Interest Rate and Interest Period

The interest rate as set out in the agreement is LIBOR plus a margin of 4.1% per annum and is reviewed twice per year, based on LIBOR fluctuation. Accrued interest must be paid monthly.

Repayment

The facility has a term of five years and must be repaid in eight installments of \$3.1 million each with the first instalment due and payable in March 2010 and the final repayment due in December 2011. We may elect to repay the loan at an earlier date.

Security

The facility is secured by a pledge of shares of OAO MTO “Archproject”, with a mortgage value RUB 490.8 million. Additionally, the facility is to be secured by a mortgage of a real estate property located at Tverskoy boulevard, 16, Moscow that is owned by OAO MTO “Archproject” and a pledge of a right to lease the remaining part of the real estate property at Tverskoy Boulevard, 16, Moscow that is owned by the city of Moscow by virtue of an investment contract between OAO MTO “Archproject” and the government of Moscow, dated May 14, 1999. As of the date of this prospectus, the mortgage agreements have not been executed. Under the credit facility agreement, our ability to draw down the remaining \$13 million is subject to the execution of these mortgage agreements.

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RUB 2,000 million OAO VTB Bank Facility Agreement

General

On August 30, 2007, our subsidiary OAO “Pobeda LSR” entered into a RUB 2,000 million facility agreement with VTB Bank. The proceeds from the facility agreement are to be used to finance the purchase of machinery (including taxes related to this purchase), installation costs and customs duties.

On September 3, 2007, this facility was drawn down in whole.

Interest Rate and Interest Period

The interest rate as set out in the agreement is 8.95% per annum. Accrued interest must be paid monthly.

Repayment

The facility matures on August 30, 2010. However the borrower may elect to repay the loan on an earlier date subject to receiving the prior written consent of the lender and the payment of a prepayment fee.

Security

The facility is secured by a pledge of 37,090 shares, each with a nominal value of two rubles, of our subsidiary ZAO “Gatchinsky DSK”. Additionally, the facility is secured by a suretyship provided by us and our subsidiaries OAO “Ob’edinenie 45”, OAO “Granit-Kuznechnoe”, OAO “PO Barrikada” and ZAO “Gatchinsky DSK”.

RUB 500 million Sberbank Facility Agreement

General

On February 19, 2007, Construction Corporation “Revival of St. Petersburg” entered into a revolving credit facility agreement with Sberbank with an aggregate principal amount of RUB 500 million, intended for general corporate purposes. As of June 30, 2007, this facility was fully drawn down.

Interest Rate and Interest Period

Funds drawn under the facility bear interest at a rate of 10% per annum.

Repayment

The facility terminates on February 18, 2008. Construction Corporation “Revival of St. Petersburg” may elect to voluntarily prepay the facility in whole or in part with three business days’ written notice.

Security

The facility is secured by a suretyship from OOO “GDSK”.

Issues of debt securities

As of the date of this prospectus, we have three outstanding ruble-denominated debt instruments. The total, aggregate indebtedness under the three issues of notes amounts to up to 6 billion rubles. The notes are governed by Russian law. A brief description of each notes issue is given below.

RUB 1,000 million three year notes

On March 24, 2005, we issued interest-bearing, non-convertible bearer notes in an aggregate amount of RUB 1,000 million rubles. The notes are governed by Russian law, placed in the Russian debt securities market and traded on MICEX. Uralsib Financial Corporation acted as underwriter and OAO Bank VTB North-West as paying agent and underwriter. Current outstanding indebtedness is RUB 758.0 million.

The proceeds acquired under the notes issue were intended for general corporate purposes and refinancing of our existing indebtedness.

The notes are repayable 1,092 days following the allocation date with a coupon determined at an auction on MICEX on March 24, 2005 amounting to 14.0% for the first and second coupon periods. A coupon of

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11% for the third and fourth coupon periods and 10% for the fifth and sixth coupon periods was established by us in March 2006 and March 2007.

Redemption

The notes must be redeemed on the date falling 1,092 days after the allocation date. The notes are not convertible.

The notes do not provide for an early redemption option and may only be redeemed at a face value in rubles on the redemption date.

Settlement of the notes is made on a delivery against payment basis.

Security

The notes are secured by suretyships provided by us and a number of our subsidiaries including OAO "Ob'edeneine-45", OAO "Granit-Kuznechnoe", OAO "PO Barrikada", ZAO "Gatchinsky DSK", OAO "Lenrechport" and OAO "Pobeda LSR".

The sureties are jointly responsible for repayment of the notes and the limits of each surety's responsibility are set out in the prospectus relating to the notes.

Events of Default

The prospectus relating to the notes contains certain events of default, including:

- non-payment of a coupon within seven days of the due payment date; and
- non-payment of principal within 30 days of the due payment date.

The noteholders have the right to demand that any of the sureties pay any sums subject to any limit applicable under this suretyship due and payable following an event of default.

RUB 2,000 million three year notes

On December 5, 2006, we issued RUB 2,000 million of interest-bearing, non-convertible bearer notes through our subsidiary, OOO "LSR Invest". The notes are governed by Russian law, placed in the Russian debt securities market and traded on MICEX. OOO "Uralsib Capital" and Bank OAO "VTB" acted as underwriter and the National Depository Center acted as custodian and paying agent.

The proceeds acquired under the issue of the notes were intended for general corporate purposes and refinancing of our existing indebtedness.

The notes are due 1,099 days following the allocation date with a coupon to be paid upon the expiry of each 182 day period following the allocation date, determined at 10.7% following an auction on MICEX for the first three coupon periods. Following the expiry of the third coupon period, interest rates in respect of the remaining coupons will be determined.

Redemption

The notes will be redeemed at face value in rubles on the maturity date, which falls 1,099 days following the allocation date.

The notes may only be redeemed on the maturity date unless we exercise our put option in respect of the notes.

The issuer has the right to declare the interest rates of the residual coupons following the expiry of the third coupon period, after which the noteholders can exercise their put option.

Settlement of the notes is made on a delivery against payment basis.

Security

The notes are secured by suretyships provided by us and a number of our subsidiaries, including OAO "Obiedinenie 45", OAO "Granit-Kuznechnoe", OAO "PO Barrikada", ZAO "Gatchinsky DSK", OAO "Lenrechport", OAO "Pobeda LSR", OAO "Lenstroykeramica", Construction Corporation "Revival of

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St. Petersburg”, OAO “Rudas” and ZAO “DSK “Block”. The guarantors secure the repayment of both principal and interest.

The sureties are jointly responsible for the repayment of the notes and the limits of each surety’s responsibility are set out in the prospectus relating to the notes.

Events of Default

The prospectus relating to the notes contains certain events of default, including:

- non-payment of a coupon within seven days of the due payment date; and
- non-payment of principal during 30 days from the due payment date.

The noteholders have the right to demand that any of the guarantors pay any sums subject to any limit applicable under the guarantee due and payable following an event of default.

RUB 3,000 million four year notes

On July 19, 2007, our subsidiary OOO “LSR-Invest” issued non-convertible bearer notes, for an aggregate amount of RUB 3,000 million at an initial interest rate of 8.35%, subject to readjustment after the fourth interest payment period, in approximately two years are governed by Russian law. OOO “Uralsib Capital” and ABN AMRO ZAO acted as underwriter and the National Depository Center acted as custodian and as paying agents. The notes were placed in Russia and are traded on List V of MICEX.

The intended use of proceeds of the notes is general corporate purposes and refinancing of our existing indebtedness.

The notes are due and payable 1,456 days following the allocation date with interest due upon the expiry of each 182 day period following the allocation date and determined at an auction on MICEX on July 19, 2007, amounting to 8.35% for the first four coupon periods.

Following the expiry of the fourth coupon period we shall determine the interest rates in respect of the remaining coupons.

Redemption

The notes must be redeemed at face value in rubles on the maturity date, which falls 1,456 calendar days after the allocation date.

The notes provide for the right of early redemption at the option of noteholders only. An early redemption purchase option can be granted only if the notes are delisted from MICEX. In such circumstances, the paying agent procures the repayment of principal and accrued interest, which is calculated on the date of repayment to the noteholders as ascribed in the prospectus relating to the notes.

The issuer has the right to declare the interest rates in respect of the remaining coupon periods and the noteholders can exercise their put option following the expiry of the fourth coupon period.

Settlement is made on a delivery against payment basis. No preemptive purchase rights are envisaged.

Security

The notes are guaranteed by us and a number of our subsidiaries, including OAO “Rudas”, OAO “Granit-Kuznechnoe”, OAO “PO Barrikada”, ZAO “Gatchinsky DSK”, OAO “Lenrechport”, OAO “Pobeda LSR”, Construction Corporation “Revival of St. Petersburg” and ZAO “DSK Blok”. The sureties relate to the repayment of both principal and interest in respect of the notes.

The sureties are jointly responsible for repayment of the notes and the limits of each surety’s responsibility are set out in the prospectus relating to the notes.

Events of Default

The prospectus relating to the notes contains certain events of default, including:

- non-payment of coupon within seven days from the due payment date;
- non-payment of principal within 30 days from the due payment date; and

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- non-performance by the issuer of its obligation to redeem the notes if the put option is exercised.

Following an event of default, the noteholders have the right to demand of any of the sureties payment of any sums due and payable subject to any limit applicable under the suretyships.

RUB 600 million Sberbank revolving credit line facility to Construction Corporation “Revival of St. Petersburg”

General

On September 17, 2007, our subsidiary Construction Corporation “Revival of St. Petersburg entered into an 8.5% RUB 600 million revolving credit line facility agreement with Sberbank. As of September 30, 2007, the facility was fully drawn.

Interest Rate and Interest Period

The facility provides for a fixed interest rate of 8.5% per annum.

Repayment

The facility terminates on September 15, 2008. Construction Corporation “Revival of St. Petersburg” may voluntarily prepay the facility in whole or in part before the repayment date, without being required to give any prior notice to the lender.

Security

The facility is secured by a guarantee provided by us and our subsidiary OOO “LSR Upravlyaushaya Kompaniya” and we are both jointly and severally liable for the obligations of Construction Corporation “Revival of St. Petersburg” under the facility.

Events of default

The facility agreement contains certain events of default the occurrence of which entitle Sberbank to demand early repayment of the loan in full within five days following receipt of a written demand, including:

- reorganization or liquidation of the borrower or any of the guarantors;
- insolvency of the borrower or any of the guarantors;
- the occurrence of any event which has, in the opinion of the lender, a material adverse effect on the borrower’s or any of the guarantors financial condition, business or ability to perform the borrower’s obligations under the facility; and
- cross-default.

RUB 500 million Sberbank non-revolving credit line facility to ZAO “Promishlenny Leasing”

General

On August 20, 2007, our subsidiary ZAO “Promishlenny Leasing” entered into a non-revolving 8.5% RUB 500 million credit line facility agreement with Sberbank. As of September 30, 2007, RUB 472.2 million had been drawn down and is outstanding.

Interest Rate and Interest Period

A fixed interest rate of 8.5% per annum is set by the facility agreement.

Repayment

The facility becomes due and payable on February 10, 2009. The facility provides for the step-by-step repayment of the amount borrowed in accordance with the debt repayment schedule set forth in the facility agreement. The first repayment period runs from September 21, 2007 until October 20, 2007.

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Security

The facility is secured by a guarantee provided by us and our subsidiary OOO “LSR Upravlyaushaya Kompaniya” OOO “PSG_LSR” and we are jointly and severally liable for the obligations of ZAO “Promishlenny Leasing” under the facility.

Events of default

Under the facility agreement, the following events constitute the events of default, including:

- reorganization or liquidation of the borrower or any of the sureties;
- insolvency of the borrower or any of the sureties;
- the occurrence of any event which has, in the opinion of the lender, a material adverse effect on the borrower’s or any of the sureties’ financial condition or business and ability to perform borrower’s obligations under the facility; and
- cross-default.

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DESCRIPTION OF THE GLOBAL DEPOSITARY RECEIPTS

Deutsche Bank Trust Company Americas has agreed to act as the depositary for the GDRs. The Depositary's principal offices are located at 60 Wall Street, New York, New York, 10005. In this summary we use the term "GDRs" to refer to the Rule 144A GDRs and to the Regulation S GDRs. GDRs are represented by certificates that are ordinarily known as "Global Depositary Receipt Certificates" or "GDR Certificates". The GDRs we are selling in the United States are referred to and will be issued as Rule 144A GDRs and the GDRs we are selling outside the United States are referred to and will be issued as the Regulation S GDRs. GDRs represent ownership interests in securities, cash or other property on deposit with the Depositary.

A10.28.5
A10.28.1

The Depositary has appointed Deutsche Bank Limited as the Custodian for the safekeeping of the deposited securities, cash or other property on deposit. The Custodian's principal office is at 4 Shepkina Street, 129090, Moscow, Russia.

The two separate deposit agreements, the Rule 144A Deposit Agreement and the Regulation S Deposit Agreement, are both governed by New York law. Copies of the Deposit Agreements are available for inspection by any holder of the GDRs at the principal offices of the Depositary during business hours. This is a summary description of the material terms of the GDRs and of your material rights as an owner of the GDRs. Please remember that summaries are provided for informational purposes only, by their nature lack the precision of the information summarized and that the rights and obligations of an owner of GDRs will be determined by reference to the terms of the applicable Deposit Agreement and not by this summary.

A10.28.2

Five GDRs represent the right to receive one Share on deposit with the Custodian. Each GDR will also represent the right to receive cash or any other property received by the Depositary or the Custodian on behalf of the owner of the GDR that has not been distributed to the owners of GDRs because of legal restrictions or practical considerations.

A.10.28.6

If you become an owner of GDRs, you will be deemed for all purposes to become a party to the applicable Deposit Agreement and therefore will be bound by its terms and by the terms of the GDR Certificate that represents your GDRs. The applicable Deposit Agreement and GDR Certificate specify our rights and obligations, your rights and obligations as owner of GDRs and rights and obligations of the Depositary. As a GDR owner you appoint the Depositary as your attorney-in-fact, with full power to delegate, to act on your behalf and to take any and all actions contemplated in the applicable Deposit Agreement, to adopt any and all procedures necessary to comply with applicable laws and to take such action as the Depositary in its sole discretion may deem necessary or appropriate to carry out the purposes of the applicable Deposit Agreement.

Presently, you may hold your GDRs only through a brokerage or safekeeping account. As such, you must rely on the procedures of your broker or bank to assert your rights as a GDR owner. Please consult with your broker or bank to determine what those procedures are. When we refer to "you," we assume the reader owns GDRs and will own GDRs at the relevant time. When we refer to a "holder" we assume the person owns GDRs and such person's agent (i.e., broker, custodian, bank or trust company) is the holder of the applicable GDR.

No temporary Master GDR Certificates or other temporary documents of title have been or will be issued in connection with this Offering.

Distinctions Between Rule 144A GDRs and Regulation S GDRs

The Rule 144A GDRs and the Regulation S GDRs are similar in many ways but are different primarily on account of the requirements of the US securities laws. The Rule 144A GDRs are "restricted securities" under the US securities laws and as such are subject to limitations on their issuance, transfer and cancellation. The Regulation S GDRs are not per se "restricted securities" under the US securities laws, but there are certain limitations imposed on the issuance of Regulation S GDRs in an effort to prevent the transfer of Regulation S GDRs in violation of the US securities laws.

The differences between the Regulation S GDRs and the Rule 144A GDRs and the restrictions imposed on the Rule 144A GDRs and the Regulation S GDRs include the following:

- the restrictions on the transfers, deposits and withdrawals of the Shares represented by the GDRs. See "*—Transfer Restrictions;*"

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- the eligibility for book-entry transfer. See “—*Settlement and Safekeeping*,” and
- special restrictions on deposits and withdrawals that apply to our affiliates. See “—*Ownership of GDRs by Our Affiliates*” below.

These distinctions and the requirements of the US securities laws may require us and the Depositary to treat the Regulation S GDRs and the Rule 144A GDRs differently at any time in the future. There can be no guarantee that holders of Rule 144A GDRs will receive the same entitlements as holders of Regulation S GDRs and vice versa.

Settlement and Safekeeping

Rule 144A GDRs

We and the Depositary will apply to DTC to act as securities depositary for the Rule 144A GDRs. All Rule 144A GDRs issued in the Offering will be registered initially in the name of Cede & Co. (DTC’s nominee). One Master Rule 144A GDR Certificate will represent all Rule 144A GDRs that will be issued to and registered in the name of Cede & Co. Transfers of ownership interests in Rule 144A GDRs are to be accomplished by entries made on the books of DTC and participants in DTC acting on behalf of Rule 144A GDR owners. Owners of Rule 144A GDRs will not receive certificates representing their ownership interests in the Rule 144A GDRs, except in the event that a successor securities depositary cannot be appointed.

A10.28.3

DTC may discontinue providing its services as securities depositary with respect to the Rule 144A GDRs at any time by giving reasonable notice to the Depositary. Under such circumstances and in the event a successor securities depositary cannot be appointed, individual Rule 144A GDR Certificates representing the applicable number of Rule 144A GDRs held by each owner of Rule 144A GDRs will be printed and delivered to the relevant Rule 144A GDR owners.

Regulation S GDRs

We will make arrangements with Euroclear and Clearstream to act as securities depositaries for the Regulation S GDRs. All Regulation S GDRs issued in the Offering will be registered in the name of BT Globenet Nominees Limited for Euroclear and Clearstream. One Master Regulation S GDR Certificate will represent all Regulation S GDRs issued to and registered in the name of that nominee. Euroclear and Clearstream will hold the Regulation S GDRs on behalf of their participants (any such participant of Euroclear or Clearstream, a “**Participant**”), and transfers will be permitted only within Euroclear and Clearstream in accordance with the rules and operating procedures of the relevant system. Transfers of ownership interests in Regulation S GDRs are to be accomplished by entries made on the books of Euroclear and Clearstream and of participants in Euroclear and Clearstream, acting in each case on behalf of Regulation S GDR owners.

If at any time Euroclear or Clearstream, as the case may be, ceases to make its respective book-entry settlement systems available for the Regulation S GDRs, we, along with the Depositary, will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement arrangements cannot be made, we will instruct the Depositary to make available separate Regulation S GDR Certificates in physical certificated form. Owners of Regulation S GDRs will not otherwise receive physical certificates representing their ownership interest in the Regulation S GDRs.

Transfer Restrictions

The GDRs may be reoffered, resold, pledged or otherwise transferred only in compliance with the US securities laws and are subject to the following restrictions:

A10.28.10

Rule 144A GDRs

The Rule 144A GDRs may be reoffered, resold, pledged or otherwise transferred only (1) outside the United States in accordance with Regulation S, (2) to a QIB in a transaction meeting the requirements of Rule 144A, (3) pursuant to Rule 144 under the Securities Act, if available or (4) pursuant to an effective registration statement under the Securities Act.

Regulation S GDRs

None.

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Restrictions upon Deposit of Shares

Rule 144A GDRs

Shares will be accepted for deposit under the Rule 144A Deposit Agreement only if delivered by, or on behalf of, a person that is (1) not the Company or an affiliate of the Company or a person acting on behalf of the Company or an affiliate of the Company and (2) a QIB or a person outside the United States.

Regulation S GDRs

Shares will be accepted for deposit under the Regulation S Deposit Agreement only if delivered by, or on behalf of, a person that is (1) not the Company or an affiliate of the Company or a person acting on behalf of the Company or an affiliate of the Company and (2) not in the business of buying or selling securities, or if such person is in the business of buying or selling securities, such person did not acquire the shares to be deposited from the Company or an affiliate of the Company in the initial distribution of Regulation S GDRs, Shares and Rule 144A GDRs and (3) a person outside the United States.

Shares withdrawn from deposit under the Rule 144A Deposit Agreement will not be accepted for deposit pursuant to the Regulation S Deposit Agreement unless such Shares are not and may not be deemed to be “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act. Please also see “*Ownership of GDRs by Our Affiliates*” below.

Restrictions upon Withdrawal of Shares

Rule 144A GDRs

Shares may be withdrawn from the Rule 144A Deposit Agreement only by (1) a person outside the United States who will be the beneficial owner of the shares upon withdrawal, or (2) a QIB who (a) has sold the Rule 144A GDRs to another QIB in a transaction meeting the requirements of Rule 144A, or to a person outside the United States in accordance with Regulation S, or (b) will be the beneficial owner of the shares and agrees to observe the transfer restrictions applicable to Rule 144A GDRs in respect of the shares so withdrawn.

Regulation S GDRs

Shares may be withdrawn from the Regulation S Deposit Agreement by the holders of Regulation S GDRs. Please also see “*Ownership of GDRs by Our Affiliates*” below.

General Restrictions

A10.28.10

Restrictions on Transfer

The Deposit Agreements permit us to restrict transfers of the Ordinary Shares where such transfer might result in ownership of shares exceeding the limits applicable to the Shares under applicable law or our charter. We may also restrict transfers of the GDRs where such transfer may result in the total number of Ordinary Shares represented by the GDRs owned by a single holder or beneficial owner to exceed any such limits. We may, in our sole discretion, but subject to applicable law, instruct the Depositary to take action with respect to the ownership interest of any holder or beneficial owner in excess of the limits set forth in the preceding sentence, including but not limited to, the imposition of restrictions on the transfer of GDRs, the removal or limitation of voting rights or the mandatory sale or disposition on behalf of a holder or beneficial owner of the Shares represented by the GDRs held by such holder or beneficial owner in excess of such limitations, if and to the extent such disposition is permitted by applicable law and our charter. The Depositary shall have no liability for actions taken in accordance with such instructions.

The registration of any transfer of GDR Certificates in particular instances may be refused, or the registration of transfers generally may be suspended, during any period when the transfer books of the Depositary, us, the registrar or the Russian share registrar are closed, or if any such action is deemed necessary or advisable by us or the Depositary, in good faith, at any time or from time to time because of any requirement of law, any government or governmental body or commission or any securities exchange on which the GDRs or Shares are listed, or under any provision of the Deposit Agreements or provisions of, or governing, the Shares, or any meeting of our shareholders or for any other reason.

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The Depositary may close the transfer books with respect to GDR Certificates, at any time or from time to time, when deemed necessary or advisable by it in good faith in connection with the performance of its duties hereunder, or at our reasonable request.

Restrictions on Deposits

The Depositary will refuse to accept Ordinary Shares for deposit whenever it is notified in writing by us that such deposit would result in any violation of applicable laws, including ownership restrictions under Russian laws. The Depositary will also refuse to accept certain Ordinary Shares for deposit under the Rule 144A Deposit Agreement if notified in writing that the Ordinary Shares are listed on a US securities exchange or quoted on a US automated inter dealer quotation system, unless accompanied by evidence satisfactory to the Depositary that any Ordinary Shares presented for deposit are eligible for resale pursuant to Rule 144A under the Securities Act. The Depositary may also, upon receipt of notice from us, limit at any time the number of Ordinary Shares accepted for deposit under the terms of the Deposit Agreements so as to eliminate or minimize any requirements that may be imposed on us, the Depositary or the GDR facilities existing under the terms of the Deposit Agreements under Russian law.

In addition, whenever the Depositary believes that the Ordinary Shares deposited with it against issuance of GDRs (together with any other securities deposited with it against the issuance of depositary receipts and any other securities held by us and our affiliates for our or their proprietary accounts or as to which we or they exercise voting and investment power) represent (or, upon accepting any additional Ordinary Shares for deposit, would represent) such percentage as exceeds any threshold or limit established by any applicable law, directive, regulation or permit, or satisfies any condition for making any filing, application, notification or registration or obtaining any approval, license or permit under any applicable law, directive or regulation, or taking any other action, the Depositary may (1) close its books to deposits of additional shares in order to prevent such thresholds or limits being exceeded or conditions being satisfied or (2) take such steps as are, in its opinion, necessary or desirable to remedy the consequences of such thresholds or limits being exceeded or conditions being satisfied and to comply with any such law, directive or regulation, including, without limitation, causing pro rata cancellation of GDRs and withdrawal of underlying Ordinary Shares from the depositary receipt program to the extent necessary or desirable to so comply.

The Depositary will have the right to close its books to the issuance of GDRs without prior consultation with us, if at any time the Depositary believes that (1) the Ordinary Shares deposited with it against issuance of GDRs together with any other securities of ours which shall have been deposited with the Depositary against issuance of depositary receipts, represent (or, upon accepting any additional shares for deposit, would represent) such percentage as shall at the relevant time require a shareholder of a Russian open joint stock company to make a mandatory tender offer; or (2) the Ordinary Shares deposited with it against issuance of GDRs together with any other securities of ours which shall have been deposited with the Depositary against issuance of depositary receipts, represent (or, upon accepting any additional shares for deposit, would represent) such percentage as shall at the relevant time require an approval from FAS, and no necessary approval from FAS (or an exemption, exemptive interpretation or waiver from FAS of a requirement to obtain such an approval) has been obtained. See “*Description of Share Capital and Certain Requirements of Russian Legislation—Anti-Monopoly Regulation*”.

The Depositary may also close its books to the deposit of Ordinary Shares if at any time the aggregate number of GDRs in issue would, if additional GDRs were to be issued against the deposit of additional Ordinary Shares, exceed the number of GDRs for which a listing and admission to trading has been obtained, and may keep its books closed to the deposit of shares unless and until we shall have produced a prospectus in accordance with the Prospectus Rules under the FSMA, as amended, and obtained a block listing on the Official List and admission to trading on the Regulated Market of the London Stock Exchange of such number of additional GDRs as the Depositary may, in its reasonable discretion, request after consultation with us.

In considering whether any threshold has been reached or exceeded, the Depositary may, in addition to Ordinary Shares deposited with it against the issuance of GDRs and our other securities deposited with it against issuance of other depositary receipts, take into consideration shares or our other securities held by it and its affiliates for its or their proprietary accounts or as to which it or they exercise voting or investment power.

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Dividends and Distributions

As a holder, you generally have the right to receive the distributions we make on the securities deposited with the Custodian. Your receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders will receive such distributions under the terms of the Deposit Agreements in proportion to the number of GDRs held as of a specified GDR record date, which the Depository will use reasonable efforts to establish as close as possible to the record date set by us for the Shares.

Distributions of Cash

Whenever we make a cash distribution in respect of securities on deposit with the Custodian, we will deposit the funds with the Custodian. Upon receipt of confirmation from the Custodian of the deposit of the requisite funds, the Depository will arrange for the funds to be converted into US dollars and for the distribution of the US dollars to the holders, if in the reasonable judgment of the Depository it is practicable and lawful. See “—*Foreign Currency Conversion*” below for actions the Depository is entitled to take if conversion, transfer and distribution cannot be so made by the Depository.

The amounts distributed to holders will be net of the fees, charges, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. The Depository will apply the same method for distributing the proceeds of the sale of any property (such as undistributed rights) held by the Custodian in respect of the securities on deposit.

Distributions of Shares

Whenever we make a free distribution of shares in respect of the Shares on deposit with the Custodian, we will deposit the applicable number of shares with the Custodian. Upon receipt of confirmation of such deposit from the Custodian, the Depository will either distribute to holders additional GDRs representing the Shares deposited or modify, to the extent permissible by law, the GDR-to-shares ratio, in which case each GDR you hold will represent rights and interests in the additional shares so deposited. Only whole new GDRs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new GDRs or the modification of the GDR-to-shares ratio upon a distribution of Ordinary Shares will be made net of the fees, charges, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. In order to pay such taxes or governmental charges, the Depository may sell all or a portion of the new shares so distributed.

No such distribution of new GDRs will be made if it would violate applicable laws (including the US securities laws) or if it is not operationally practicable. If the Depository does not distribute new GDRs as described above, it may sell the shares received and will distribute the proceeds of the sale as in the case of a distribution of cash. The Depository will hold and/or distribute any unsold balance of such property in accordance with the provisions of the applicable Deposit Agreement.

Distribution of Rights

Whenever we intend to distribute rights to purchase additional shares, we will give timely prior notice to the Depository and state whether or not we wish such rights to be made available to you. If we wish such rights to be made available to you, we will assist the Depository in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional GDRs to GDR holders.

The Depository will establish procedures to distribute rights to purchase additional GDRs to holders and to enable such holders to exercise such rights only if (1) the Depository has received our request to make such distribution in a timely manner, (2) we have provided all of the documentation contemplated in the Deposit Agreements (such as legal opinions addressing the lawfulness of the transaction) and (3) the Depository has determined that it is reasonably practicable to make the rights available to holders of GDRs. You will have to pay fees, charges, expenses, and any taxes and other governmental charges to subscribe for the new GDRs upon the exercise of your rights. The Depository is not obligated to establish procedures to facilitate the exercise by holders of rights to purchase new shares rather than in the form of GDRs.

If (1) we do not request in a timely manner that the rights be distributed to you or we request that the rights not be distributed to you, (2) we fail to deliver satisfactory documentation to the Depository, such as opinions of counsel as to compliance with applicable law, or (3) any rights made available are not exercised

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and appear to be about to lapse, the Depositary will determine whether it is lawful and reasonably practicable to sell the rights, in a riskless principal capacity, at such place and upon terms (including public and private sale) as it may deem practicable. The proceeds of such sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell the rights, it will allow the rights to lapse.

The Depositary shall not be responsible for (1) any failure to determine whether it may be lawful or practicable to make such rights available to holders in general or to you in particular, (2) any foreign exchange exposure or loss incurred in connection with any sale or exercise or (3) the content of any materials forwarded to the holders on behalf of the Company in connection with the rights distribution. There can be no assurance that holders in general or you in particular will be given the opportunity to exercise rights on the same terms and conditions as the holders of Ordinary Shares or to exercise such rights at all.

Elective Distributions

Whenever we intend to distribute a dividend payable at the election of shareholders either in cash or in additional shares, we will give timely prior notice thereof to the Depositary and will indicate whether we wish the elective distribution to be made available to you. In such case, we will assist the Depositary in determining whether such distribution is lawful and reasonably practicable.

The Depositary will make the election available to you only if it has received timely prior notice from us, if it is reasonably practicable and if we have provided all of the documentation contemplated in the applicable Deposit Agreement (such as legal opinions of counsel as to compliance with applicable law). In such case, the Depositary will establish procedures to enable you to elect to receive either cash or additional GDRs, in each case as described in the Deposit Agreements.

If the election is not made available to you, you will, to the extent permitted by law, receive either cash or additional GDRs, depending on what a shareholder in Russia would receive upon failing to make an election, as more fully described in the corresponding Deposit Agreement.

The Depositary is not obligated to make available to holders a method to receive the elective dividend in the form of shares rather than in the form of GDRs. There can be no assurance that holders of GDRs or beneficial interests therein generally, or you in particular, will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of the Ordinary Shares.

Other Distributions

Whenever we intend to distribute property other than cash, shares or rights to purchase additional shares, we will timely notify the Depositary in advance and will indicate whether we wish such distribution to be made to you. If so, we will assist the Depositary in determining whether such distribution to holders is lawful and reasonably practicable.

If the Depositary has received timely prior notice from us, it is reasonably practicable to distribute such property to you and if we have provided all of the documentation contemplated in the Deposit Agreements (such as legal opinions of counsel as to compliance with applicable law), the Depositary will distribute the property to the holders in a manner it deems practicable.

The distribution will be made net of fees, charges, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. In order to pay such taxes and governmental charges, the Depositary may sell all or a portion of the property received.

If (1) we do not request that the property be distributed to you in a timely manner, or that the property not be distributed to you, (2) we fail to deliver satisfactory documentation (such as legal opinions of counsel as to compliance with applicable law) to the Depositary, or (3) the Depositary determines that all or a portion of the distribution to you is not lawful or reasonably practicable, the Depositary will, sell such property in a public or private sale, at such place and upon terms as it may deem practicable, or if the Depositary is unable to sell such property, the Depositary may, dispose of such property in any way it deems reasonably practicable under the circumstances.

The proceeds of any such sale will be distributed to holders as in the case of a cash distribution.

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Redemption

Whenever we intend to exercise any right of redemption in respect of any of the securities on deposit with the Custodian, we will give timely prior notice to the Depository. If the Depository has received timely prior notice from us, determined that such redemption is practicable and received from us all of the documentation contemplated in the Deposit Agreements (such as legal opinions of counsel as to compliance with applicable law), the Depository will send a notice setting out the details of the intended exercise by us of the redemption rights to the holders.

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The Depository will instruct the Custodian to surrender the Shares being redeemed against payment of the applicable redemption price. The Depository will convert the redemption funds received into US dollars upon the terms of the Deposit Agreements and will establish procedures to enable holders to receive the net proceeds from the redemption upon surrender of their GDRs to the Depository. See “—*Foreign Currency Conversion*” below for actions the Depository is entitled to take if conversion, transfer and distribution of funds by the Depository is not practicable or lawful. You will have to pay fees and charges of, and the expenses incurred by, the Depository, and any taxes and other governmental charges upon the redemption of your GDRs. If less than all GDRs are being redeemed, the GDRs to be redeemed will be selected by lot or on a pro rata basis, as the Depository may determine.

Changes Affecting Shares

The Shares held on deposit for your GDRs are subject to change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of such shares or a recapitalization, reorganization, merger, consolidation or sale of assets affecting us.

If any such change were to occur, any securities which shall be received by the Depository or the Custodian in exchange for, or in conversion, replacement or otherwise in respect of, such shares shall, to the extent permitted by law, be treated as new shares under the Deposit Agreements, and the GDR Certificates shall, subject to the terms of the Deposit Agreements and applicable law, evidence the GDRs representing the right to receive such replacement securities. The Depository in such circumstances may with our approval, and shall if we so request and provide to the Depository at our expense a reasonably satisfactory opinion of counsel that such action is not in violation of applicable laws or regulations, execute and deliver additional GDR Certificates to you or make appropriate adjustments in its records, or call for the exchange of your existing GDRs for new GDRs. If the Depository may not lawfully distribute such securities to you, the Depository may with our approval sell such securities and distribute the net proceeds to you as in the case of a cash distribution, and shall do so if we so request and provide to the Depository at our expense a reasonably satisfactory opinion of counsel that such action is not in violation of applicable laws or regulations. You will have to pay fees and charges of, and the expenses incurred by, the Depository, and any taxes and other governmental charges upon the sale of such securities.

The Depository shall not be responsible for (1) any failure to determine that it is lawful or practicable to make such securities available to holders of GDRs in general or to you in particular, (2) any foreign exchange exposure or loss incurred in connection with such sale or (3) any liability to the purchaser of such securities.

Issuance of GDRs Upon Deposit of Shares

Subject to limitations set forth in the Deposit Agreements and the GDRs, the Depository may create GDRs on your behalf if you or your broker deposit shares with the Custodian. The Depository will deliver these GDRs to the person you indicate only after you pay any applicable issuance fees and any charges and taxes payable for the transfer of the Shares to the Custodian and you provide the applicable deposit certification. Your ability to deposit Ordinary Shares and receive GDRs may be limited by US and Russian legal considerations applicable at the time of deposit. You may also not be able to deposit Ordinary Shares and receive GDRs where to do so would require us to produce a further prospectus or a supplemental prospectus. See “*Risk Factors—Risks Relating to the Shares and GDRs—Following the Offering you may not be able to deposit the Shares in the GDR program in order to receive GDRs, and changes in Russian regulatory policy with respect to the placement and circulation of the Shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the Shares and GDRs offered in the Offering*”.

The issuance of GDRs may be delayed until the Depository or the Custodian receives confirmation that all required approvals have been given and that the Shares have been duly transferred to the Custodian. The Depository will only deliver GDRs in whole numbers.

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When you make a deposit of Shares, you will be responsible for transferring good and valid title to the deposited Shares to the Depository, as evidenced by documents satisfactory to the Depository or the Custodian. As such, you will be deemed to represent and warrant that:

- the Shares are duly authorized, validly issued, fully paid, non-assessable and legally obtained;
- all pre-emptive (and similar) rights, if any, with respect to such Shares have been validly waived or exercised;
- you are duly authorized to deposit the Shares and have fulfilled all requirements of applicable law or regulation with respect to the Shares or the deposit thereof against the issuance of GDRs;
- the Shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim;
- in the case of a deposit of Shares under the Regulation S Deposit Agreement, the Shares are not, and the Regulation S GDRs issuable upon such deposit will not be, “Restricted Securities” (as defined in the Regulation S Deposit Agreement), except in the case of deposits of a kind described in “—*Ownership of GDRs by Our Affiliates*” below;
- the Shares presented for deposit have not been stripped of any rights or entitlements;
- the Shares are not subject to any unfulfilled requirements of applicable law or regulation;
- except as provided in the Deposit Agreements and summarized under “—*Ownership of GDRs by Our Affiliates*” below, you are not, and you shall not become while holding GDRs, one of our affiliates; and
- the deposit of the Shares complies with the restrictions in transfer set forth in the legend on the GDRs.

If any of the representations or warranties are incorrect in any way, we and the Depository may, at your cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

When you deposit Shares to receive Rule 144A GDRs, you will be required to provide the Depository with a deposit certification stating, inter alia, that:

- you acknowledge that the Shares and the Rule 144A GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States;
- you are not an affiliate of LSR Group and you are not acting on behalf of LSR Group or one of its affiliates;
- you are (1) a QIB or (2) located outside the United States and acquired or have agreed to acquire and will acquire the Shares to be deposited outside the United States; and
- you agree, as the owner of the Rule 144A GDRs, to offer, sell, pledge and otherwise transfer the Rule 144A GDRs or the Shares represented by the Rule 144A GDRs in accordance with the applicable US state securities laws and only:
 - to a QIB in a transaction meeting the requirements of Rule 144A; or
 - outside the United States to a person located outside the United States in accordance with Regulation S; or
 - in accordance with Rule 144 under the Securities Act, if available; or
 - pursuant to an effective registration statement under the Securities Act.

A copy of the form of deposit certification for Rule 144A GDRs is attached to the Rule 144A Deposit Agreement and may be obtained from the Depository upon request.

When you deposit Shares to receive Regulation S GDRs, you will be required to provide the Depository with a deposit certification stating, inter alia, that:

- you acknowledge that the Shares and the Regulation S GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States;

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- you are not an affiliate of LSR Group and you are not acting on behalf of LSR Group or one of its affiliates;
- you are, or at the time the Shares are deposited and Regulation S GDRs are issued, you will be, the beneficial owner of the Shares and the Regulation S GDRs to be issued upon deposit of such Shares;
- you are a person located outside the United States and acquired or have agreed to acquire and will acquire the Shares to be deposited outside the United States; and
- you are not in the business of buying and selling securities or, if you are in such business, you did not acquire the Shares presented for deposit from us or any of our affiliates.

A copy of the form of deposit certification for Regulation S GDRs is attached to the Regulation S Deposit Agreement and may be obtained from the Depositary upon request.

For information concerning deposit certifications to be made by our affiliates, see “—Ownership of GDRs by Our Affiliates” below.

Withdrawal of Shares Upon Cancellation of GDRs

Subject always to the withdrawal of deposited property being permitted under applicable laws and the terms of the applicable Deposit Agreement, as a holder you will be entitled to present your GDRs to the Depositary for cancellation and then receive the corresponding number of underlying Shares at the Custodian’s offices. Your ability to withdraw the Shares may be limited by US and Russian law considerations applicable at the time of withdrawal.

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In order to withdraw the Shares represented by your GDRs, you will be required to pay to the Depositary the fees for cancellation of GDRs and any charges and taxes payable upon the transfer of the Shares being withdrawn and you will be required to provide to the Depositary the applicable withdrawal certification. You assume the risk for delivery of all funds and securities upon withdrawal. Once canceled, the GDRs will not have any rights under the corresponding Deposit Agreement.

If you hold a GDR registered in your name, the Depositary may require you to provide proof of identity and genuineness of any signature and such other documents as the Depositary may deem appropriate before it will cancel your GDRs. The withdrawal of the Shares represented by your GDRs may be delayed until the Depositary receives satisfactory evidence of compliance with all applicable laws and regulations.

If any GDRs surrendered and GDR Certificates canceled represent fractional entitlements in the deposited securities, the Depositary shall cause the appropriate whole number of deposited securities to be withdrawn and delivered in accordance with the relevant Deposit Agreement and shall, at its own discretion, either (1) issue and deliver to the person surrendering such GDR Certificate a new GDR Certificate evidencing GDRs representing any remaining fractional share or (2) sell or cause to be sold the fractional share represented by the GDR Certificate and remit proceeds of such sale (net of (a) fees and charges of, and expenses incurred by, the Depositary, and (b) taxes withheld) to the person surrendering the GDR Certificate.

When you request the withdrawal of the Shares represented by your Rule 144A GDRs, you will be required to represent and warrant that the withdrawal of the Shares complies with the restrictions on transfer set forth in the legend on the GDRs and provide the Depositary with a withdrawal certification stating, *inter alia*, that:

- (A) you acknowledge that the Shares represented by your Rule 144A GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and
- (B) you certify that:
 - (1) you are a QIB, acting for your own account or for the account of one or more other QIBs, who is the beneficial owner of the Rule 144A GDRs presented for cancellation; and either:
 - you have sold or agreed to sell the Shares to a person located outside the United States in accordance with Regulation S;
 - you have sold or agreed to sell the Shares to a QIB in a transaction meeting the requirements of Rule 144A; or

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- you will be the beneficial owner of the Shares upon withdrawal and
 - you (or the person on whose behalf you are acting) will sell the Shares only to another QIB in a transaction meeting the requirements of Rule 144A; to a person located outside the United States in accordance with Regulation S; in accordance with Rule 144, if available; or pursuant to an effective registration statement under the US Securities Act; and
 - you will not deposit the Shares in any depositary receipts facility that is not a “restricted” depositary receipts facility, so long as the Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act; or
- (2) you are a person located outside the United States and acquired or agreed to acquire the Shares outside the United States and will be the beneficial owner of the Shares upon withdrawal.

Holders of Regulation S GDRs are not required to provide the Depositary with a withdrawal certification under the Regulation S Deposit Agreement, except in the case of sale of Regulation S GDRs by one of our affiliates. See “—Ownership of GDRs by Our Affiliates” below.

Proofs, Certificates and Other Information

You may be required (1) to provide to the Depositary and the Custodian proof of citizenship or residence, taxpayer status, payment of all applicable taxes or other governmental charges, exchange control approvals, legal or beneficial ownership of GDRs, compliance with all applicable laws and the terms of the Deposit Agreements and (2) to execute certifications and to make representations and warranties and to provide such other information and documentation as the Depositary or the Custodian may deem necessary or proper or as we may reasonably require by written request to the Depositary consistent with its obligations under the Deposit Agreements. The Depositary and the Registrar (as defined in the Deposit Agreements) may withhold the execution or delivery or registration of transfer or cancellation of any GDR Certificate, or the distribution or sale of any dividend or distribution of rights, until such proof or other information is filed or such certifications are executed, or such representations are made, or such other documentation or information is provided, in each case, to the Depositary’s, the Registrar’s and our reasonable satisfaction.

Holders and beneficial owners of GDRs shall make all necessary notifications or filings and shall obtain, maintain, extend or renew all necessary approvals to, with or from state authorities in the Russian Federation, and shall take all such other actions, as may be required to remain at all times in compliance with applicable rules and regulations of the Russian Federation.

The Depositary shall be entitled to provide to Russian state authorities of competent jurisdiction, directly or through the Company, all such information or documents (in the form of copies or originals) of any kind or nature whatsoever concerning holders and beneficial owners (including without limitation, to the fullest extent permitted by applicable law, information concerning the identity and domicile of persons that are holders or beneficial owners, and their respective holdings of GDRs, from time to time) as the Depositary may deem to be necessary or advisable, including without limitation for the purpose of (i) obtaining, maintaining, extending or renewing any approval from or making any filing with or notification to such Russian state authorities which may be required under the laws and regulations of the Russian Federation or (ii) obtaining, maintaining, extending or renewing an exemption, exemptive interpretation or waiver from any such approval, filing or notification requirement; it being understood that the Depositary accepts no responsibility for or liability arising out of or in connection with any inaccuracies or misstatements in or misleading omissions from any information or documents furnished to it directly or indirectly by or on behalf of the holders and beneficial owners, or in connection with any failure by the Company to timely provide to the relevant Russian state authorities any such information as the Depositary submits indirectly through the Company.

Ownership of GDRs by Our Affiliates

We permit our affiliates to deposit shares against the issuance of Rule 144A GDRs, so long as they satisfy the requirements, including delivery of the requisite certifications to the Depositary, as required by the Rule 144A Deposit Agreement. We also permit our affiliates to exchange their Rule 144A GDRs for Regulation S GDRs solely to allow them to sell their GDRs in transactions meeting the requirements of Regulation S, so long as each exchanging affiliate delivers the requisite certifications to the Depositary and otherwise satisfies the requirements of the Deposit Agreements. We do not otherwise permit our affiliates

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to deposit shares against the issuance of Regulation S GDRs unless they certify to the Depositary that they have sold or irrevocably agreed to sell the Regulation S GDRs to be issued in respect of the Shares so deposited in a transaction meeting the requirements of Regulation S, and deliver the other requisite certifications to the Depositary.

The requirements for such deposits and exchanges of GDRs by our affiliates are more fully described in the Deposit Agreements.

Voting Rights

As a holder, you generally have the right under the Deposit Agreements to instruct the Depositary to exercise the voting rights for the Shares represented by your GDRs. The voting rights of holders of shares are described in *“Description of Share Capital and Certain Requirements of Russian Legislation”*.

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Upon our timely written request, and provided no US, English or Russian legal prohibitions (including, without limitation, the listing rules and the prospectus rules of the FSA, the admission and disclosure standards of the London Stock Exchange and the rules of Russian stock exchanges on which the Shares are listed) exist, the Depositary will distribute to you any notice of shareholders’ meetings or solicitation of consents or proxies from holders of shares received from us together with information explaining how to instruct the Depositary to exercise the voting rights of the Shares represented by the GDRs.

If the Depositary timely receives voting instructions from a holder of GDRs in the manner specified by the Depositary, it will endeavor, insofar as practicable and permitted under applicable law, the provisions of the applicable Deposit Agreement, our charter and the terms of our Ordinary Shares, to vote or cause the Custodian to vote the Shares represented by the holder’s GDRs in accordance with such voting instructions. Russian securities regulations expressly permit a Depositary to split the vote of shares registered in its name in accordance with the instructions from GDR holders. However, because the Depositary does not have express statutory authority to split the vote with respect to the Shares in accordance with instructions from GDR holders, and given the untested nature of such securities regulations, the Depositary may refrain from voting at all unless all GDR holders have instructed it to vote the Shares in the same manner. Consequently, you may have significant difficulty in exercising voting rights with respect to the underlying Shares. See *“Risk Factors—Risks Relating to the Shares and GDRs—Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreements for the GDRs and relevant requirements of Russian law”*.

Neither the Depositary nor the Custodian will, under any circumstances, exercise any discretion as to voting, vote any number of Shares other than an integral number thereof or vote Shares in a manner that would be inconsistent with any applicable law, and neither the Depositary nor the Custodian will vote, or attempt to exercise the right to vote, the Shares except pursuant to and in accordance with instructions from holders of the GDRs. If the Depositary timely receives voting instructions from a holder of GDRs which fail to specify the manner in which the Depositary is to vote the Shares represented by such holder’s GDRs, the Depositary will deem the holder to have instructed the Depositary not to vote the Shares with respect to the items for which no instruction was given. The Shares represented by GDRs for which no specific voting instructions are received by the Depositary from the GDR holder will not be voted.

Notwithstanding anything else contained in the Deposit Agreements, the Depositary shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of the Shares if the taking of such action would violate US, English or Russian legal prohibitions (including, without limitation, the listing rules and the prospectus rules of the FSA, the admission and disclosure standards of the London Stock Exchange and the rules of Russian stock exchanges on which the Shares are listed). We have agreed in the Deposit Agreements that we shall not establish internal procedures that would prevent the Depositary from complying with, or that are inconsistent with, the terms and conditions of the sections of the Deposit Agreements which deal with voting.

The ability of the Depositary to carry out voting instructions may be limited by practical, legal and regulatory limitations and the terms of the securities on deposit. We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the Depositary in a timely manner. Securities for which no voting instructions have been received from GDR holders will not be voted. See “Risk Factors—Risks Relating to the Shares and GDRs—Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreements for the GDRs and relevant requirements of Russian law”.

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Fees and Charges

Under the Deposit Agreements, the Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the holders, beneficial owners and persons depositing Shares or surrendering GDRs for cancellation in respect of its services under the Deposit Agreements:

- (i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering or any subsequent offering of GDRs by the Company) or the cancellation of GDRs upon the withdrawal of deposited securities (as defined in the relevant Deposit Agreement): up to \$0.05 per GDR issued or canceled (except for issuances and cancellations covered by clause (ix) below);
- (ii) for issuing GDR Certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR Certificates: a sum per GDR Certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;
- (iii) for issuing GDR Certificates in definitive registered form (other than pursuant to clause (ii) above): a sum per GDR Certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs (including, but not limited to, printing costs) and expenses involved;
- (iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the deposited securities: a fee of up to \$0.02 per GDR for each such dividend or distribution;
- (v) in respect of any issue of rights or distribution of shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution (except where converted to cash): up to \$0.05 per GDR for each such issue of rights, dividend or distribution;
- (vi) for the operation and maintenance costs associated with the administration of the GDRs: an annual fee of \$0.02 per GDR (such fee to be assessed against holders of record as at the date or dates set by the Depositary as it sees fit and collected at the sole discretion of the Depositary by billing such holders for such fee or by deducting such fee from one or more cash dividends or cash distributions) provided, however, that if the Depositary imposes a fee under this clause (vi), then the total of fees assessed under this clause (vi) combined with the total of fees assessed under clause (iv) shall not exceed in aggregate \$0.02 per calendar year;
- (vii) for the expenses incurred by the Depositary, the Custodian or their respective agents in connection with inspections of the relevant share register maintained by the local registrar and/or performing due diligence on the central securities depository for the Russian Federation, if applicable, an annual fee of \$0.01 per GDR (such fee to be assessed against holders of record as at the date or dates set by the Depositary as it sees fit and collected at the sole discretion of the Depositary by billing such holders for such fee or by deducting such fee from one or more cash dividends or other cash distributions);
- (viii) for the issue of GDRs pursuant to a change for any reason in the number of Shares represented by each GDR, regardless of whether or not there has been a deposit of shares to the Custodian or the Depositary for such issuance: a fee of up to \$0.05 per GDR (or portion thereof); and
- (ix) for transferring interests from and between the Regulation S GDRs and the Rule 144A GDRs: a fee of up to \$0.05 per GDR.

In addition, the holders, beneficial owners, persons depositing Shares for deposit and persons surrendering GDRs for cancellation and for the purpose of withdrawing deposited securities shall be responsible for the following charges:

- (i) taxes (including applicable interest and penalties) and other governmental charges;
- (ii) such registration fees as may from time to time be in effect for the registration of Shares or other deposited securities on the share register and applicable to transfers of Shares or other deposited securities to or from the name of the Custodian, the Depositary or any nominees upon the making of deposits and withdrawals, respectively;
- (iii) such facsimile transmission and delivery expenses as are expressly provided in the Deposit Agreements to be at the expense of the person depositing or withdrawing Shares or holders and beneficial owners of GDRs;

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- (iv) the expenses and charges incurred by the Depositary in the conversion of foreign currency; and
- (v) such fees and expenses as are incurred by the Depositary in connection with compliance with exchange control regulations applicable to Shares, deposited securities, GDRs and GDR Certificates.

We have agreed to pay certain other charges and expenses of the Depositary. The fees and charges that a GDR holder may be required to pay may vary over time and may be changed by us and by the Depositary. Each GDR holder will receive prior notice of such changes. The Depositary will provide, without charge, a copy of its latest fee schedule to anyone upon request.

Amendments and Termination

We may agree with the Depositary to modify the Deposit Agreements at any time without your prior consent. We undertake to give holders 30 days' prior notice of any modifications that would materially prejudice any of their substantial rights under the Deposit Agreements or that shall impose or increase fees or charges (other than charges in connection with foreign exchange control regulations and taxes and other governmental charges, delivery expenses and other such expenses). We will not consider being materially prejudicial to your substantial rights, among other things, any amendments or supplements that are reasonably necessary for the GDRs or Shares to be settled solely in book-entry form, in each case without imposing or increasing the fees and charges you are required to pay. In addition, we may not be able to provide you with prior notice of any amendments or supplements that are required to accommodate compliance with applicable provisions of law.

You will be bound by the modifications to the Deposit Agreements if you continue to hold your GDRs after the modifications to the applicable Deposit Agreements become effective.

The Deposit Agreements cannot be amended to prevent you from withdrawing the Shares represented by your GDRs. Notwithstanding any such restriction on amendments or supplements to the Deposit Agreements, we and the Depositary may at any time amend or supplement the Deposit Agreements or the GDR Certificates in order to comply with mandatory provisions of applicable laws, rules or regulations, and such amendments or supplements may become effective before notice thereof is given to holders or within any other period required to comply with such laws, rules or regulations.

We have the right to direct the Depositary to terminate the Deposit Agreements. Similarly, the Depositary may in certain circumstances on its own initiative terminate the Deposit Agreements. In addition, the Depositary may resign, with such resignation to take effect upon the earlier of 90 days' notice or the acceptance of appointment by a successor depositary, or we may remove the Depositary, with such removal to take effect upon the later of 90 days notice or the acceptance of appointment by a successor depositary, and if in either such case no successor depositary shall have accepted appointment by us, then the Depositary may terminate the Deposit Agreements. In either case, the Depositary must give notice to the holders of the GDRs at least 30 days before termination.

Upon termination, the following will occur under the Deposit Agreements:

- for a period of six months after termination, you will be able to request the cancellation of your GDRs and the withdrawal of the Shares represented by your GDRs and the delivery of all other property held by the Depositary in respect of those Shares on the same terms as prior to the termination, including the payment of any applicable taxes or governmental charges. During such six months' period the Depositary will continue to collect all distributions received on the Shares on deposit (i.e., dividends) but will not distribute any such property to you until you request the cancellation of your GDRs.
- after the expiration of such six-month period, the Depositary may sell the securities held on deposit. The Depositary will hold uninvested, the net proceeds from such sale and any other funds then held for the pro rata benefit of the holders of GDRs in an unsegregated, non-interest bearing account, without liability for interest. At that point, the Depositary will have no further obligations to holders other than to account for the funds then held for the pro rata benefit of the holders of GDRs still outstanding, net of fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements.

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Books of Depositary

The Depositary will maintain GDR holder records at its principal office in New York. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the GDRs and the Deposit Agreements.

The Depositary will maintain facilities in New York and London to record and process the issuance, cancellation, combination, split-up and transfer of GDRs, provided that the transfer of the GDRs shall only be effected by the registrar (as that term is defined in the Deposit Agreements), including the Depositary in its capacity as registrar. These facilities may be closed from time to time, to the extent not prohibited by law.

Transmission of Notices to Shareholders

We will promptly transmit to the Depositary those communications that we make generally available to our shareholders. If those communications were not originally in English, we will translate them prior to transmitting. Upon our request and at our expense, the Depositary will arrange for the mailing of copies of such communications to all GDR holders and will make a copy of such communications available for inspection at its principal offices in New York and London.

Limitations on Obligations and Liabilities

The Deposit Agreements limit our obligations and the Depositary's obligations to you. Please note the following:

- we and the Depositary are obligated only to take the actions specifically stated in the Deposit Agreements without negligence or bad faith;
- neither we nor the Depositary, nor any of our or their respective controlling persons or agents, shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Shares or in respect of the GDR Certificates, which in our or their respective opinion may involve us or them, as the case may be, in expense or liability, unless an indemnity satisfactory to us or them (as the case may be) against all expense (including fees and disbursements of counsel) and liability be furnished as often as may be required (and no Custodian shall be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depositary);
- the Depositary and its agents disclaim any liability for any failure to carry out any voting instructions to vote any deposited securities, for any manner in which a vote is cast or for the effect of any vote, provided it acts without negligence and in good faith and in accordance with the terms of the Deposit Agreements;
- the Depositary disclaims any liability for any failure to determine the lawfulness or practicality of any distribution or action, for the content of any information submitted by us to it for distribution to you or for the accuracy of any translation thereof for any investment risks associated with acquiring an interest in the deposited securities, for the validity or worth of the deposited securities, for any tax consequences that result from the ownership of the deposited securities or the GDRs, for the credit worthiness of any third party, for allowing any rights to lapse under the terms of the Deposit Agreements or for the failure or timeliness of any of our notices;
- the Depositary and the Custodian disclaim any liability with respect to Russia's system of share registration and custody, including any liability in respect of the unavailability of the deposited securities (or any distribution in respect thereof);
- we and the Depositary agree that neither the Depositary nor the Custodian assumes any obligation or responsibility to make any payments for, nor shall either of them be subject to any liability under the Deposit Agreements or otherwise for nonpayment for, any Shares newly issued and placed by us or sold by any Selling Shareholders in the Offering;
- the Depositary disclaims any liability for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with any matter arising wholly after the removal or resignation of the Depositary, provided that in connection with the issue out of which such potential liability arises the Depositary performed its obligations while it acted as Depositary without negligence or bad faith;

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- we, the Depositary and our or the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing will not be obligated to do or perform any act that is inconsistent with the provisions of the Deposit Agreements;
- we, the Depositary and our and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing disclaim any liability if we or the Depositary are prevented or forbidden from or delayed in doing or performing any act or thing required by the terms of the Deposit Agreements by reason of any provision of any present or future law or regulation of any applicable jurisdiction, or of any other governmental authority or regulatory authority or stock exchange, or on account of the possible criminal or civil penalties or restraint, or any present or future provision of our charter, any provision of or governing any deposited securities or by reason of any act of God or war or other circumstances beyond our control (including, without limitation, nationalization, expropriation, currency restrictions, work stoppage, strikes, civil unrest, acts of terrorism, revolutions, rebellions, explosions and computer failure);
- we, the Depositary and our and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreements or in our charter or in any provisions of or governing the deposited securities;
- we, the Depositary and our and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing further disclaim any liability for any action or inaction in reliance in good faith on the advice or information received from legal counsel, accountants, any person presenting Shares for deposit, any holder of GDRs, any beneficial owner or authorized representative thereof or any other person believed in good faith to be competent to give such advice or information;
- we, the Depositary and our and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing also disclaim liability for the inability by a holder or any beneficial owner to benefit from any distribution, offering, right or other benefit which is made available to holders of Shares but is not, under the terms of the Deposit Agreements, made available to holders of the GDRs;
- we, the Depositary and our respective controlling persons and agents and the Custodian may rely and shall be protected in acting upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties;
- we, the Depositary and our and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing also disclaim any liability for indirect, special, consequential or punitive damages for any breach of the terms of the applicable Deposit Agreement; and
- the Depositary disclaims liability for any actions taken in accordance with our instructions to take action with respect to the ownership interest of any holder or beneficial owner in excess of the limits applicable to the Shares under applicable law or our charter.

Indemnification

The Depositary has agreed to indemnify us and our directors, officers, employees, agents and affiliates against, and hold each of them harmless from, any direct loss, liability, tax, charge or expense of any kind whatsoever, including the reasonable fees and expenses of counsel, which may arise out of acts performed or omitted by the Depositary or, provided that the Custodian is a branch or subsidiary of Deutsche Bank AG at the time of such act or omission, by the Custodian under the Deposit Agreements due to the negligence or bad faith of the Depositary or the Custodian (subject to the proviso above).

We have agreed to indemnify the Depositary, the Custodian and any of their respective directors, officers, employees, agents and affiliates against, and hold each of them harmless from, any direct loss, liability, tax, charge or expense of any kind whatsoever, including the reasonable fees and expenses of counsel, that may arise, among other things, (1) out of any issuance, offer or sale of the GDRs or the Shares, (2) out of any offering document in respect thereof (3) out of acts performed or omitted in accordance with the provisions of the Deposit Agreements, in any such case by the Depositary, the Custodian or any of their respective directors, officers, employees, agents and affiliates, except to the extent such loss, liability, tax, charge or expense is due to the negligence or bad faith of any of them, or by us or any of our directors,

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officers, employees, agents and affiliates or (4) out of the unavailability of deposited securities or the failure to make any distribution with respect thereto in the case of certain situations.

Pre-Release Transactions

The Depositary may, in certain circumstances, deliver GDRs before receiving a deposit of Shares, unless requested in writing by the Company to cease doing so. These transactions are ordinarily referred to as “pre-release transactions”. The Deposit Agreements limit the aggregate size of pre-release transactions and imposes a number of conditions on such transactions (i.e., the need to receive collateral, the type of collateral required, the representations required from brokers, etc.). The Depositary may retain the compensation received from the pre-release transactions.

Taxes

You will be responsible for the taxes and other governmental charges payable on the GDRs and the securities represented by the GDRs. We, the Depositary and the Custodian may withhold or deduct from any distribution any withholding taxes and any other taxes and governmental charges payable by holders and may sell any and all Shares on deposit to pay any such taxes and governmental charges. You will be liable for any deficiency if the sale proceeds do not cover such taxes and charges that are due. The Depositary may refuse to issue GDRs, to deliver, transfer, split and combine GDRs or to release securities on deposit until all taxes and charges are paid by the applicable holder.

Neither we nor the Depositary or the Custodian are obligated to take any actions to obtain tax refunds or reduced tax withholding for any distributions on your behalf. However, you may be required to provide to the Depositary and to the Custodian proof of taxpayer status and residence and such other information as the Depositary and the Custodian may require to fulfill legal obligations.

The Depositary is under no obligation to provide you with any information about our tax status. The Depositary shall not incur any liability for any tax consequences that may be incurred by you on account of your ownership of the GDRs, including without limitation by virtue of our tax status.

By purchasing GDRs, you agree to indemnify the Depositary, us, the Custodian and any of their or our agents, officers, employees and affiliates for, and to hold each of them and us harmless from, any claims with respect to taxes (including applicable interest and penalties thereon) arising from any tax benefit obtained for you as a GDR holder.

Disclosure of Interests and Compliance

By purchasing GDRs, you agree to comply with requests from us or the Depositary pursuant to Russian law, the rules and requirements of any stock exchange on which the Shares are, or may be, registered, traded or listed, or our charter, which are made to provide information, inter alia, as to the capacity in which you hold or own a beneficial interest in the GDRs (and the Shares, as the case may be) and regarding the identity of any other person interested in such GDRs, the nature of such interest and various related matters, whether or not you are a holder or owner of a beneficial interest in the GDRs at the time of such request.

The Depositary shall be entitled to provide to the Russian Federal Service or other relevant Russian state authorities of competent jurisdiction, to the extent reasonably necessary to satisfy the requirements of Russian law, information or documents (in the form of copies or originals) concerning holders and beneficial owners. However, the Depositary has no responsibility for or liability arising out of or in connection with any inaccuracies or misstatements in or misleading omissions from any information or documents furnished to it directly or indirectly by or on behalf of the Holders and beneficial owners.

Holders and beneficial owners shall make all necessary notifications or filings and shall obtain, maintain, extend or renew all necessary approvals to, with or from FAS or other relevant Russian state authorities of competent jurisdiction, and shall take such other actions, as may be necessary to satisfy the applicable requirements of Russian law or regulation.

Foreign Currency Conversion

The Depositary will arrange for the conversion into US dollars of all foreign currency received if such conversion is in the reasonable judgment of the Depositary practicable, and it will distribute the US dollars in accordance with the terms of the Deposit Agreements. You will have to pay fees and expenses incurred

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in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

The Depositary may, but is not obligated to, make any filing with any governmental authority required to obtain an approval or license necessary for any conversion of any foreign currency into or distribution of US dollar funds. If the conversion of foreign currency is not practicable or lawful, or if any required approvals are denied or, in the reasonable judgment of the Depositary, not obtainable at a reasonable cost or within a reasonable period, the Depositary may take the following actions in its discretion:

- convert the foreign currency to the extent practicable and lawful and distribute the US dollars to the holders for whom the conversion and distribution is lawful and practicable;
- distribute the foreign currency to holders for whom the distribution is lawful and practicable; or
- hold the foreign currency (without liability for interest) for the applicable holders.

The Depositary will not invest the currency it cannot convert and it will not be liable for any interest thereon. If exchange rates fluctuate during a time when the Depositary cannot convert the Rubles, you may lose some or all of the value of the distribution.

Governing Law and Arbitration of Disputes

Although New York law has been chosen to govern the construction and interpretation of the Deposit Agreements and the GDRs, the rights of holders of the Shares and other deposited securities and our obligations and duties in respect of such holders shall be governed by the laws of Russia (or such other jurisdiction's laws as may govern the deposited securities).

Under the terms of the Deposit Agreements owners of GDRs agree that any dispute, controversy or cause of action against us and/or the Depositary arising out of or relating to the GDRs, the Deposit Agreements or any transaction contemplated therein, the Shares or other deposited securities will be referred to and finally resolved by arbitration in accordance with the rules of the LCIA (formerly, the London Court of International Arbitration) in proceedings in London, England, as more fully described in the Deposit Agreements.

EACH PARTY TO THE DEPOSIT AGREEMENTS (INCLUDING, FOR AVOIDANCE OF DOUBT, EACH HOLDER AND BENEFICIAL OWNER) IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THE DEPOSIT AGREEMENTS OR THE TRANSACTIONS CONTEMPLATED THEREIN (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY).

Russian Share Register

We have appointed ZAO Ediny Registrator as the registrar of our shares in Russia and we have agreed to continue such appointment so long as the GDRs remain outstanding or any of the Deposit Agreements remain in force.

We have agreed in the Deposit Agreements to:

- take any and all actions reasonably necessary to ensure the accuracy and completeness of all of the information contained in the register of shareholders maintained by the share registrar;
- provide or use our reasonable efforts to cause the share registrar to provide unrestricted access by the Depositary and the Custodian to the register of shareholders regularly, and not less than monthly, so as to permit verification of the registration of Shares represented by the GDRs in the name of the Depositary or the Custodian or their respective nominees;
- use our reasonable efforts to cause the share registrar to promptly (and, in any event, within three business days in Moscow, Russia of receipt by the share registrar of such documentation as may be required by applicable law and regulation and the reasonable and customary internal regulations of the share registrar, or as soon as practicable thereafter, and subject to applicable laws and regulations) re-register the Shares being deposited into or withdrawn from the GDR facilities; and
- use our reasonable efforts to cause the share registrar to promptly notify the Depositary (1) of any alleged unlawful elimination of shareholders from the shareholder register (or any alleged unlawful alteration of shareholder records), (2) of any alleged unlawful refusal to register shares and (3) any

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time the share registrar holds the Shares for its own account. In the Deposit Agreements we have agreed to assume sole liability for:

- any act or failure to act of the share registrar (other than as a result of any act or failure to act by the Depositary or the Custodian or their respective directors, employees, agents or affiliates);
- unavailability of Shares on deposit under the terms of the Deposit Agreements; and
- failure of the Depositary to make any distributions contemplated by the Deposit Agreements as a result of our actions or those of our agents, the actions of the share registrar (other than as a result of any act or failure to act by the Depositary or the Custodian or their respective directors, employees, agents or affiliates), and provisions of our present or future charter (or other instrument governing the deposited securities), and any provisions of any securities we issue or distribute and any related distribution or offering.

The Depositary has agreed, for the benefit of the owners of GDRs, to confirm not less frequently than monthly, the number of Shares identified on the share register as being on deposit pursuant to the terms of the Deposit Agreements. We have agreed with the Depositary that the Custodian shall maintain custody of all duplicate share extracts (or other evidence of verification) provided to the Depositary, the Custodian or their respective agents, and that any known material discrepancies between the records of the Depositary and the Custodian, on the one hand, and the records of the share registrar, on the other hand, will be brought to our attention promptly. We will use our reasonable efforts to cause the share registrar to reconcile any discrepancies and to effectuate the requisite corrections to the share register. In the event we are unable to obtain such reconciliation of records and the discrepancy exceeds 0.5% of the number of Shares identified on the records of the Depositary or the Custodian as being on deposit under the terms of any one of the Deposit Agreements, we will give notice thereof to the owners of GDRs (through the Depositary) and the Depositary shall cease issuance of new GDRs until the records have been appropriately reconciled.

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TAXATION

The following summary of the principal US federal income, United Kingdom and Russian tax consequences of ownership of the Shares and GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming. Any such changes or interpretations could affect the tax consequences to holders of the Shares or GDRs, possibly on a retroactive basis, and could alter or modify the statements and conclusions set forth herein. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of the Shares or GDRs. Each prospective holder is urged to consult its own tax advisor as to the particular tax consequences to such holder of the ownership and disposition of the Shares or GDRs, including the applicability and effect of any other tax laws or tax treaties, of pending or proposed changes in applicable tax laws as of the date of this prospectus, and of any actual changes in applicable tax laws after such date.

US Federal Income Tax Considerations

The discussion of US tax matters set forth in this Prospectus was written in connection with the promotion or marketing of this offering and was not intended or written to be used, and cannot be used, by any person for the purpose of avoiding tax-related penalties under US federal, state or local tax law. Each taxpayer should seek advice based on its particular circumstances from an independent tax advisor.

The following is a summary of certain US federal income tax considerations relevant to a US Holder (as defined below) acquiring, holding and disposing of Ordinary Shares or GDRs. This summary is based upon existing US federal income tax law, which is subject to change, possibly with retroactive effect as well as certain representations of the Depositary and the assumption that each obligation in the Deposit Agreements, and any related agreements, will be performed in accordance with its terms. This summary does not discuss all aspects of US federal income taxation which may be important to particular investors in light of their individual investment circumstance, including investors subject to special tax rules, such as residents of the Russian Federation, investors that conduct a business or have a permanent establishment in the Russian Federation, financial institutions, insurance companies, broker-dealers, tax-exempt organizations, partnerships, holders who are not US Holders, holders who own (directly, indirectly or constructively) 10% or more of our voting stock, investors that will hold Ordinary Shares or GDRs as part of a straddle, hedge, conversion, constructive sale, or other integrated transaction for US federal income tax purposes, or investors that have a functional currency other than the US dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this summary does not discuss any other US federal, state, local or non-US tax considerations. This summary assumes that investors will hold their Ordinary Shares or GDRs as “capital assets” (generally, property held for investment) for US federal income tax purposes. You are urged to consult your tax advisor regarding the US federal, state, local and non-US income and other tax considerations relevant to an investment in the Ordinary Shares or GDRs.

For purposes of this summary, a “US Holder” is a beneficial owner of Ordinary Shares or GDRs that is for US federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation created in, or organized under the law of, the United States or any State or political subdivision thereof, (iii) an estate the income of which is includible in gross income for US federal income tax purposes regardless of its source, or (iv) a trust the administration of which is subject to the primary supervision of a US court and which has one or more US persons who have the authority to control all substantial decisions of the trust.

Ownership of GDRs in General

For US federal income tax purposes, an owner of GDRs generally will be treated as the owner of the Ordinary Shares represented by such GDRs. However, the US Treasury has expressed concerns that parties to whom interests such as the GDRs are delivered in transactions similar to pre-release transactions (see “Description Of The Global Depositary Receipts—Pre-Release Transactions” above) may be taking actions that are inconsistent with the claiming of foreign tax credits for US holders of GDRs. Accordingly, the analysis of the creditability of Russian Federation taxes and the availability of the reduced rate for dividends received by certain non-corporate shareholders could be affected by actions taken by parties to whom the GDRs are pre-released.

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Dividends

Subject to the application of the passive foreign investment company rules discussed below, the US dollar value of distributions paid by us (including the amount of any taxes withheld) out of our earnings and profits, as determined under US federal income tax principles, will be subject to tax as foreign source ordinary dividend income and will be includible in your gross income upon receipt. Subject to applicable limitations, dividends received by non-corporate US Holders may be subject to US federal income tax at lower rates (generally 15%) than other types of ordinary income. Dividends received on the Ordinary Shares or GDRs will not be eligible for the dividends received deduction allowed to corporations. You should consult your own advisor about how to account for payments that are not made in US dollars and, if you are not a corporation, about the applicability and implications of this preferential rate on dividends in your particular circumstances.

Subject to certain limitations, Russian Federation withholding tax, if any, paid in connection with any distribution with respect to Ordinary Shares or GDRs may be claimed as a credit against the US federal income tax liability of a US Holder if such US Holder elects for that year to credit all foreign income taxes; otherwise, such Russian Federation withholding tax may be taken as a deduction. If you are eligible for benefits under the double tax treaty between the United States and the Russian Federation (the “**Treaty**”), you will not be entitled to a foreign tax credit for the amount of any Russian Federation taxes withheld in excess of the maximum rate under the Treaty and with respect to which you can obtain a refund from the Russian Federation taxing authorities. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. As the relevant rules are very complex, you should consult your own tax advisors concerning the availability and utilization of the foreign tax credit in your particular circumstances.

Sale or Other Disposition of Ordinary Shares or GDRs

Subject to the application of the passive foreign investment company rules discussed below, you will recognize US source capital gain or loss upon the sale or other disposition of Ordinary Shares or GDRs in an amount equal to the difference between the US dollar value of the amount realized upon the disposition and your adjusted tax basis in such Ordinary Shares or GDRs (generally their cost in US dollars). Any capital gain or loss will be long-term if the Ordinary Shares or GDRs have been held for more than one year. The deductibility of capital losses may be subject to limitations. You should consult your own advisor about how to account for sale or other disposition proceeds that are not paid in US dollars.

Passive Foreign Investment Company Rules

We do not believe we were a passive foreign investment company (a “PFIC”) for our preceding tax year and do not expect to be classified as a PFIC in the foreseeable future. However, the determination of whether we are a PFIC is made annually and is based on the composition of our assets and income on certain dates. Therefore, it is possible that we could become a PFIC in the current or any future year due to our asset or income composition, as well as that of our subsidiaries, on the relevant testing dates. In general, a non-US corporation will be classified as a PFIC for any taxable year if at least (i) 75% of its gross income is classified as “passive income” or (ii) 50% of the average quarterly value of its assets produce or are held for the production of passive income. In making this determination, the non-US corporation is treated as earning its proportionate share of any income and owning its proportionate share of any assets of any company in which it holds a 25% or greater interest, by value. For these purposes, rental income is generally passive unless it is derived from the active conduct of a trade or business. Under the PFIC rules, if we were considered a PFIC at any time that you held our Ordinary Shares or GDRs, we would continue to be treated as a PFIC with respect to your investment unless you have made certain elections under the PFIC rules.

If we are classified as a PFIC at any time that you hold our Ordinary Shares or GDRs, you may be subject to materially adverse US federal income tax consequences compared to an investment in a company that is not considered a PFIC, including being subject to greater amounts of US tax and being subject to additional US tax form filing requirements. Additionally, dividends paid by us would not be eligible for the special reduced rate of tax described above under “*Dividends.*” You should consult your own tax advisor about the application of the PFIC rules to you.

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Information Reporting and Backup Withholding

You may be subject to information reporting on amounts received by you from a distribution on, or disposition of, Ordinary Shares or GDRs, unless you establish that you are exempt from these rules. If you are not exempt from these rules, you may be subject to backup withholding on the amounts received unless you provide your taxpayer identification number and otherwise comply with the requirements of the backup withholding rules. The amount of any backup withholding from a payment that you receive will be allowed as a credit against your US federal income tax liability and may entitle you to a refund, provided that the required information is furnished to the US Internal Revenue Service.

UK Tax Considerations

The comments below are of a general nature and are based on current UK law (except where otherwise indicated) and published H.M. Revenue & Customs practice as of the date of this prospectus, as well as the provisions of the 1994 Income and Capital Gains Tax Convention between the UK and Russia (the “**UK Treaty**”), each of which is subject to change, possibly with retroactive effect. The summary only covers the principal UK tax consequences for the absolute beneficial owners of the Shares and GDRs (and any dividends paid in respect of them) who:

- are resident (and, in the case of individuals only, ordinarily resident and domiciled) solely in the UK for tax purposes;
- are not resident in Russia for tax purposes; and
- do not have a permanent establishment or fixed base in Russia with which the holding of the Shares or GDRs (and the payment of dividends in respect of the Shares or GDRs) is connected.

Such absolute beneficial owners of the Shares or GDRs are referred to in this discussion as “UK holders”.

In addition, the summary only addresses the principal UK tax consequences for UK holders who hold the Shares or GDRs as capital assets. It does not address the UK tax consequences that may be relevant to certain other categories of holders, for example, brokers, dealers or traders in shares, securities or currencies. It also does not address the UK tax consequences for holders that are banks, financial institutions, insurance companies, investment companies, collective investment schemes, tax-exempt organizations or persons connected with us.

Further, the summary assumes that:

- a holder of the GDRs is, for UK tax purposes, beneficially entitled to the underlying shares and to the dividends on those shares;
- the UK holder acquires the shares or GDRs as an initial investor in the Offering;
- the UK holder did not acquire and will not be deemed to have acquired his/her shares by virtue of an office or employment;
- the shares will not be held by, and the GDRs will not be issued by, a depository incorporated in the UK;
- the UK holder does not control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, 10% or more of the shares and/or voting power of the Company; and
- neither the shares nor the GDRs are registered in a register kept in the UK, by or on behalf of the Company, and they will not become so registered; and
- the shares are not paired with the shares issued by a body corporate incorporated in the UK nor will they be so paired.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular holder. You should satisfy yourself as to the overall tax consequences, including, specifically, the consequences under UK law and H.M. Revenue & Customs practice, of acquisition, ownership and disposition of the Shares or GDRs in your own particular circumstances, by consulting your own tax advisors.

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Taxation of Dividends

Income Tax and Corporation Tax

UK holders will, in general, be subject to UK income tax or corporation tax, as applicable, on the total of the dividends received on their shares or GDRs plus any withholding tax deducted in Russia.

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Withholding Tax and Tax Credits

Any Russian withholding tax may be allowed as a credit against the UK income or corporation tax liability, as applicable, of a UK holder depending on the circumstances but any excess of such Russian withholding tax over the UK tax payable on the aggregate amount of the dividend is not generally refundable. The amount of credit for Russian tax cannot exceed the credit that would have been allowed had all reasonable steps been taken under Russian domestic law and under the UK Treaty to minimize the amount of tax payable in the Russian Federation, including obtaining relief at source and any available refunds. See also “—*Russian Tax Considerations*”.

The Company need not make any deduction from payments of dividends for or on account of UK tax.

Tax Liability for Individual Holders

For an individual UK holder who is liable to UK income tax on dividends, UK income tax will be chargeable on the gross dividend with potential credit (as described above) for Russian tax deducted at source. For an individual UK holder who is liable to UK tax on the dividend at the dividend ordinary rate (currently 10%), any credit for Russian tax deducted at source may equal or exceed his UK income tax liability in respect of the dividend, in which case he will have no further UK income tax to pay.

Tax Liability for Corporate Shareholders

For a UK holder within the charge to UK corporation tax who is liable for UK corporation tax on the receipt of the gross dividend, UK corporation tax will be chargeable with potential credit for Russian tax deducted at source (as described above). In appropriate cases, a holder may be entitled to relief at source or a refund of Russian tax.

Provision of Information

Persons in the United Kingdom paying “foreign dividends” to, or receiving “foreign dividends” on behalf of, another person may be required to provide certain information to H.M. Revenue & Customs regarding the identity of the payee or the person entitled to the “foreign dividend” and, in certain circumstances, such information may be exchanged with tax authorities in other countries. Certain payments on or under the shares or GDRs may constitute “foreign dividends” for this purpose.

Taxation of Capital Gains

The disposal or deemed disposal of all or part of the shares or GDRs held by a UK holder may give rise to a chargeable gain or an allowable loss for the purposes of UK capital gains tax (where the UK holder is an individual) and UK corporation tax on chargeable gains (where the UK holder is within the charge to UK corporation tax), depending on their circumstances and subject to any available exemption or relief.

As regards individual UK holders, the principal factors that will determine the extent to which such gain will be subject to UK capital gains tax are the extent to which they realize any other capital gains in that year, the extent to which they have incurred capital losses in that or any earlier year, the level of the annual allowance of tax-free gains in the tax year in which the disposal takes place (the “annual exemption”) and the level of available taper relief (if any). In the Pre-Budget report on October 9, 2007 the Chancellor of the Exchequer announced plans to abolish taper relief for disposals of assets by individuals on or after April 8, 2008 (even if assets were held before this date) and for such chargeable gain to be liable to tax at a new rate of 18%. These changes are not yet law and may be subject to change.

The annual exemption for individuals is £8,800 for the 2006-2007 tax year and £9,200 for the 2007-2008 tax year.

A UK holder that is a company may be entitled to an indexation allowance that applies to reduce chargeable gains to the extent that they arise due to inflation. Indexation allowance may reduce a

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chargeable gain but not create or increase any allowable loss. The changes to the taxation of capital gains announced in the Pre-Budget Report of 9 October 2007 do not affect holders that are companies.

As discussed in “—*Russian Tax Considerations—Taxation of Capital Gains*,” certain capital gains may be subject to Russian tax. Credit against UK capital gains or corporation tax on the same gain may be available in respect of the Russian tax suffered, subject to the detailed UK tax law and practice regarding the availability and calculation of such credit.

Stamp Duty and Stamp Duty Reserve Tax

No ad valorem stamp duty will be payable in the UK in connection with a transfer of the Shares provided that any instrument of transfer is executed outside the UK and does not relate to any property situated or to any matter or thing done or to be done in the UK.

No stamp duty reserve tax (“SDRT”) will be payable in the UK in respect of any agreement to transfer the Shares.

No ad valorem stamp duty or SDRT will arise in the UK in respect of:

- the issue of the GDRs;
- the delivery of GDRs into a clearance service, such as DTC, Euroclear or Clearstream; or
- any dealings in the GDRs once they are issued into the clearance service, where such dealings are effected in book entry form in accordance with the procedures of the clearance service and not by written instrument of transfer.

Inheritance tax

UK inheritance tax may be chargeable on the death of, or in certain circumstances on a gift by the owner of, shares or GDRs where the owner is an individual who is domiciled or is deemed to be domiciled in the UK. For inheritance purposes, a transfer of assets at less than the full Market Value may be treated as a gift and particular rates apply to gifts where the donor reserves or retains some benefit.

Russian Tax Considerations

The following is a summary of certain Russian tax considerations relevant to payments to Russian resident and non-resident holders of the Shares and the GDRs and to the purchase, ownership and disposition of the Shares and the GDRs by Russian resident and non-resident holders. This summary is based on the laws of Russia in effect as of the date of this document. The discussion with respect to Russian legislation is based on our understanding of current Russian law and tax rules, which are subject to frequent change and varying interpretations.

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The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there might be practical difficulties involved in claiming relief under an applicable double tax treaty. You should consult your own professional advisors regarding the tax consequences of investing in the Shares and GDRs. No representations with respect to the Russian tax consequences to any particular holder are made hereby.

The Russian tax rules applicable to GDRs are characterized by uncertainties and by an absence of special provisions with respect to transactions with GDRs. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian authorities may be subject to more rapid and unpredictable change than in a jurisdiction with more developed capital markets and more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectors.

For the purposes of this summary, a “Russian resident holder” means (i) an individual holder of the Shares and GDRs, actually present in the Russian Federation for 183 days or more in 12 consecutive months or (ii) an organization, in each case organized under Russian law, or (iii) an organization, which holds the Shares and GDRs in each case organized under a foreign law, that holds and disposes of the Shares and GDRs through its permanent establishment in Russia. Individual presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) for the purpose of medical treatment or education.

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For the purposes of this summary, a “non-resident holder” is a holder of the Shares or GDRs which is not qualified to be a Russian resident holder defined in the previous paragraph.

Taxation of Acquisition of the Shares and GDRs

No Russian tax implications should arise for holders of the Shares and GDRs, Russian resident holders as well as non-resident holders, upon purchase of the Shares and GDRs. However, under the certain conditions the taxable material gain may arise for individuals if the Shares and GDRs are purchased at the price below the deemed market value.

Taxation of Dividends

A Russian company that pays dividends is generally obliged to act as a tax agent to withhold tax on the dividends and remit the amount of tax due to the Russian Federation state budget. However, the applicable withholding tax rate will depend on the status of the dividend’s recipient.

Russian Resident Holders

- Shares

Dividends paid to a Russian resident holder of the Shares that is a Russian organization or an individual will be generally subject to Russian withholding tax at the rate of 9%. The effective rate of this tax may be lower than 9% owing to the fact that generally we should calculate this tax by multiplying the basic tax rate (9%) by the difference between (1) the dividends to be distributed by us to our shareholders (other than to non-resident companies and non-resident individuals) and (2) dividends collected by us in the current and preceding tax periods from other Russian entities.

According to clarifications issued by the Russian tax authorities, it may be possible to claim that the 9% withholding tax rate should apply to dividends paid to a Russian permanent establishment of a foreign organization, based on non-discrimination provisions of a double tax treaty between Russia and the country of tax residency of the respective foreign organization. However, as the Russian Tax Code does not specifically provide for the application of the reduced tax rate in such situations and application of treaty-based non-discrimination cases is still rare in Russian tax practice, no assurance can be given that the claims for application of the 9% tax rate would not be challenged by the Russian tax authorities, hence it is likely that 15% withholding tax rate would be applied by us.

- GDRs

There are uncertainties in relation to withholding tax on dividends payable to Russian resident holders of GDRs primarily because the taxation of dividends payable under GDRs is not specifically addressed in Russian tax law. In the absence of any official interpretative guidance and as the Depository (and not the holders of the GDRs) is the legal holder of ordinary shares under Russian law, we will likely withhold tax at a domestic rate of 15% applicable to dividends payable to non-resident holders (as described below). Upon receiving dividends Russian holders which are organizations may be required to pay additional Russian profits tax at the rate of 15% (the rate applied to dividends received from non-residents) or 24% (if the income received will not be recognized as dividends) while Russian holders who are individuals—personal income tax at the rate of 9% or 13% (the higher rate applies if the income received will not be recognized as dividends for Russian tax purposes). There is also no established procedure providing for the refund of tax withheld from dividends payable through the Depository to Russian resident holders of GDRs. Accordingly, Russian residents are urged to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of the GDRs.

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Taking into account that we may be unaware of the exact amount of income payable to each particular holder, the maximum withholding income tax rate on dividends may constitute even 30% (the rate applicable to income of non-resident individuals).

Non-Resident Holders

- Shares

Dividends paid to a non-resident holder of Shares will generally be subject to Russian withholding tax, which we will withhold. The applicable tax rate on dividends will depend on whether the

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dividend recipient is an organization or an individual. Under Russian domestic law dividends paid to a non-resident holder, which is an organization will be subject to Russian withholding tax at a rate of 15% while dividends paid to non-resident individual holders will be subject to Russian withholding tax at a rate of 30%. Withholding tax on dividends may be generally reduced under the terms of a double tax treaty between the Russian Federation and the country of tax treaty residence of a non-resident holder of the shares.

- GDRs

Comments provided in the previous section (see “—*Taxation of Dividends—Non Resident Holders—Shares*”) are also applicable to GDRs. Notwithstanding the foregoing, treaty relief for dividends received may not be available to non-resident holders of GDRs. In 2005 and 2006, the Ministry of Finance of the Russian Federation repeatedly expressed an opinion that depositary receipt holders (rather than the Depositary) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying ordinary shares, provided that tax residencies of the depositary receipt holders are duly confirmed. However, in the absence of any specific provisions in Russian tax legislation with respect to taxation of dividends attributable to GDR holders it is unclear how the Russian tax authorities and courts would ultimately treat the GDR holders in this regard. Moreover, from a practical perspective, it may not be possible for the Depositary to collect residence confirmations from all GDR holders and submit such information to us and, in addition, we may be unaware of the exact amount of income payable to each particular holder.

Although non-resident holders of GDRs may apply for a refund of a portion of the tax withheld under an applicable tax treaty, the procedure to do so may be time consuming and no assurance can be given that the Russian tax authorities will grant refund. See “—*Tax Treaty Procedures*” below.

With respect to individuals who are non-resident holders of GDRs, we may also be obligated to withhold income tax at the rate of 15% from dividend payments made to the Depositary. We will not be able to act as a tax agent for these individuals and will not be able to withhold personal income tax with respect to such dividend payments. In practice, it may be impossible to apply a beneficial withholding tax rate in advance with respect to payments made in favor of individuals, as documentation is to be first provided to the tax authorities to obtain their approval for the double tax treaty relief. Individuals who are non-resident holders of GDRs will then be obliged to submit a personal tax return to the Russian tax authorities. When submitting the tax return, individuals may claim an application of the reduced rates of withholding tax established by the respective international double tax treaties, provided that the procedures described in “—*Tax Treaty Procedures*” are complied with. Obtaining the respective approvals from the tax authorities may be time-consuming and burdensome. In practice, the tax authorities may not take into account the 15% tax withheld from payment of dividends to the Depositary as the tax authorities are unlikely to treat the 15% withholding tax as a tax liability of individual holders. Therefore, it is possible that non-resident holders may be subject to up to a 45% effective tax on dividends accrued on shares held on deposit, i.e. 15% income tax withheld by us plus 30% Russian personal income tax payable on the self-assessed basis.

Taxation of Capital Gains

The following sections summarize the taxation of capital gains in respect of the disposition of the Shares and GDRs.

Russian Resident Holders

As the Russian legislation related to taxation of capital gains derived by Russian resident holders (including organizations and individuals) in connection with GDRs is not entirely clear, we urge Russian residents to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of GDRs.

- Organizations

Capital gains arising from the sale of the Shares and GDRs by a Russian resident holder which is an organization will be taxable at the regular Russian corporate income tax rate of 24%. Russian tax legislation contains a requirement that a profit arising from activities connected with securities

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quoted on a stock exchange must be calculated and accounted for separately from a profit from activities connected with securities that are not quoted on a stock exchange and from other profits. Therefore, Russian resident holders may be able to apply losses arising in respect of the listed Shares and the GDRs to offset capital gains, or as a carry-forward amount to offset future capital gains, from the sale, exchange or other disposition of securities quoted on a stock exchange and, in respect of the non-listed GDRs, from the sale, exchange or other disposition of securities not quoted on a stock exchange. Special tax rules apply to Russian organizations that hold a broker and/or dealer license.

The Russian Tax Code also establishes special rules for calculation of the tax base for the purposes of transactions with securities.

- Individuals

Capital gains arising from the sale, exchange or other disposition of the Shares and GDRs by individuals who are Russian resident holders must be declared on the holder's tax return and are subject to personal income tax at a rate of 13%.

The income in respect of sale of the Shares or the GDRs by an individual is calculated as sale proceeds less documentary confirmed expenses related to purchase of these securities (including cost of securities and expenses associated with purchase, keeping and sale of these securities).

Under Russian law, the acquisition value can be deducted at the source of payment if the sale was made by a holder through a professional trustee, dealer or broker that is a Russian organization or a foreign company with a permanent establishment in Russia. This professional trustee, dealer or broker should also act as a tax agent and withhold the applicable tax. Such a tax agent will be required to report to the Russian tax authorities the amount of income realized by the non-resident individual and tax withheld upon the sale of the Shares and GDRs not later than on April 1 of the year following the reporting year.

Non-Resident Holders

- Organizations

Capital gains arising from the sale, exchange or other disposition of the Shares and GDRs by organizations that are non-resident holders should not be subject to tax in Russia if immovable property located in Russia constitutes 50% or less of our assets. If more than 50% of our assets were to consist of immovable property located in Russia, organizations that are non-resident holders of the Shares and GDRs should be subject (except as described below) to a 20% withholding tax on the gross proceeds from sale, exchange or other disposition of the Shares and GDRs or 24% withholding tax on the difference between the sales, exchange or other disposition price and the acquisition costs of the Shares and GDRs.

However, it should be noted that the determination of whether more than 50% of our assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis, and the relevant Russian legislation and regulations in this respect are not entirely clear. Hence, there can be no assurance that immovable property owned by us and located in Russia will not constitute more than 50% of the Company's assets as at the date of the sale of Shares and GDRs by non-residents. Certain international double tax treaties may provide for protection from the Russian taxation in the case in question.

Where the Shares and GDRs are sold by organizations to persons other than a Russian company or a foreign company with a registered permanent establishment in Russia, even if the resulting capital gain is considered taxable in Russia, there is currently no mechanism under which the purchaser will be able to withhold the tax and remit it to the Russian budget.

- Individuals

The taxation of the income of non-resident individuals depends on whether this income is received from Russian or non-Russian sources. Russian tax law considers the place of sale as an indicator of source. Accordingly, the sale of the Shares and GDRs outside of Russia by individuals who are non-resident holders should not be considered Russian source income and, therefore, should not be taxable in Russia. However the Russian tax law gives no clear indication as to how the place of sale

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of the Shares and GDRs should be defined in this respect. Therefore, the Russian tax authorities may have a certain amount of flexibility in concluding whether a transaction is in Russia or out of Russia.

The sale, exchange or other disposal of the Shares and the GDRs by non-resident holders in Russia will be considered Russian source income and will be subject to tax at the rate of 30% on the difference between the sales price and the acquisition value of such Shares and GDRs as well as other documented expenses, such as depositary expenses and broker fees, among others.

Under Russian law, the acquisition value can only be deducted at the source of payment if the sale was made by a non-resident holder through a professional trust manager, dealer or broker that is a Russian organization or a foreign company with a permanent establishment in Russia. Such professional trust manager, dealer or broker should also act as a tax agent and withhold the applicable tax. Such a tax agent will be required to report to the Russian tax authorities the amount of income realized by the non-resident individual and tax withheld upon the sale of the Shares and GDRs not later than on April 1 of the year following the reporting year.

Otherwise, if the sale is made to other organizations and individuals, generally no withholding needs to be made and the non-resident holder will have an obligation to file a tax return, report his income realized and apply for a deduction of acquisition expenses (which includes filing of support documentation). Although Russian tax law imposes this responsibility only on professional trust manager, brokers or dealers, in practice, the tax authorities may require Russian organizations or foreign companies with a permanent establishment in Russia that are not professional trust manager, dealers or brokers to act as tax agents and withhold the applicable tax when purchasing securities from non-resident individuals.

In some circumstances, a non-resident holder may be exempt from Russian personal income tax on the sale, exchange or other disposition of the Shares and GDRs under the terms of a double tax treaty between the Russian Federation and the country of residence of the non-resident holder. Under the United States-Russia Tax Treaty, capital gains from the sale of the Shares and/or GDRs by US holders should be relieved from taxation in Russia, unless 50% or more of our assets (as the term “fixed assets” is used in the Russian version of the United States-Russia Tax Treaty) were to consist of immovable property located in Russia. If this 50% threshold is not met, individuals who are US holders may seek to obtain the benefit of the United States-Russia Tax Treaty in relation to capital gains resulting from the sale, exchange or other disposition of the Shares and/or GDRs. The UK—Russia Treaty provides for an exemption from personal income tax on capital gains received by UK holders unless the gains relate to shares that both (a) derive their value or the greater part of their value directly or indirectly from immovable property in Russia and (b) are not quoted on a registered stock exchange. Therefore, individuals who are UK holders, may also apply the provisions of the UK—Russia Tax Treaty as it exempts from Russian taxation any gain on the disposition of the Shares and GDRs quoted on a registered stock exchange.

In order to apply the provisions of relevant double tax treaties, the individual holders should receive clearance from the Russian tax authorities as described below. See “—Tax Treaty Procedures” below.

New Changes in the Russian Tax Laws

The new tax law establishing changes in the taxation of dividends regime was signed by the President on May 16, 2007 and will come into force starting from January 1, 2008.

This law establishes the following major changes with respect to taxation of dividends in Russia:

- (a) Dividends received by individuals treated as non-residents for tax purposes from Russian organizations would be taxed at the rate of 15% (currently such income is taxed at the 30% rate);
- (b) Dividends received by Russian organizations from foreign organizations would be taxed at the rate of 9% (currently such income is taxed at the 15% rate); and
- (c) Dividends received by Russian organizations from the qualified Russian and foreign subsidiaries would not be taxable (currently any dividends received by Russian organizations from Russian subsidiaries are taxable at the 9% rate while dividends received from foreign subsidiaries are taxable at the 15% rate). This participation exemption would be available with respect to subsidiaries in which (1) the participation of the parent company is not less than 50% and (2) the amount of participation is not less than RUB 500 million (approximately EUR 14.3 million).

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As a result of the above changes, the effective tax rates on dividends received by holders of the Shares or the GDRs may be reduced.

Tax Treaty Procedures

The Russian Tax Code does not contain a requirement that a non-resident holder that is an organization must obtain tax treaty clearance from the Russian tax authorities prior to receiving any income in order to qualify for benefits under an applicable tax treaty. However, a non-resident organization seeking to obtain relief from Russian withholding tax under a tax treaty must provide to a tax agent (i.e. the entity paying income to a non-resident) a confirmation of its tax treaty residence that complies with the applicable requirements in advance of receiving the relevant income.

In accordance with the Russian Tax Code, a non-resident holder who is an individual must present to the tax authorities a document confirming his residency in the home country and also other supporting documentation including a statement confirming the income received and the tax paid offshore, confirmed by the foreign tax authorities. Technically, such a requirement means that an individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her residence. Therefore advance relief from withholding taxes for individuals will generally be impossible as it is very unlikely that the supporting documentation for the treaty relief can be provided to the tax authorities and approval from the latter obtained before the year end. A non-resident holder which is an individual may apply for treaty-based benefits within one year following the end of the tax period in which the relevant income was received.

If a non-resident holder which is an organization does not obtain double tax treaty relief at the time that income or gains are realized and tax is withheld by a Russian tax agent, the non-resident holder may apply for a refund within three years from the end of the tax period (a calendar year) in which the tax was withheld. To process a claim for a refund, the Russian tax authorities require (i) a confirmation of the tax treaty residence of the non-resident at the time the income was paid, (ii) an application for the refund of the tax withheld in a format provided by the Russian tax authorities and (iii) copies of the relevant contracts under which the foreign entity received income as well as payment documents confirming the payment of the tax withheld to the Russian budget (Form 1012DT for dividends and interest and Form 1011DT for other income are designed by the Russian tax authorities to combine requirements (i) and (ii) specified above and recommended for application). The Russian tax authorities may require a Russian translation of the above documents if they are prepared in foreign language. The refund of the tax withheld should be granted within one month of the filing of the above set of documents with the Russian tax authorities. However, procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds.

The procedures referred to above may be more complicated with respect to GDRs, because Russian tax law does not specifically address taxation and tax treaty procedures for dividends payable under GDRs. Thus, no assurance can be given that we will be able to apply the respective double tax treaties when paying dividends to non-resident holders.

Stamp Duties

No Russian stamp duty will be payable by the holders of Shares and GDRs upon carrying out of transactions with the Shares and GDRs as discussed in the Taxation section of this prospectus (i.e. on a purchase of the Shares and GDRs, sale of the Shares and GDRs, etc.).

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SUBSCRIPTION AND SALE

We, the Selling Shareholders, the Underwriters named below, Deutsche Bank Ltd. and Uralsib Capital, Limited Liability Corporation and Uralsib Securities Limited (together, “Uralsib”) have entered into an underwriting agreement (the “Underwriting Agreement”) with respect to the Shares and the GDRs being offered. Subject to the satisfaction of certain conditions set out in the Underwriting Agreement (described below), each has agreed, severally but not jointly, to purchase such number of Shares and/or GDRs as are set forth opposite its name in the following table.

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<u>Underwriter</u>	<u>Number of Shares (in the form of Shares and GDRs)⁽¹⁾</u>
ABN AMRO Rothschild (the unincorporated equity capital markets joint venture between ABN AMRO Bank N.V. and NM Rothschild & Sons Limited)	3,193,085
Credit Suisse Securities (Europe) Limited	3,193,085
Deutsche Bank AG, London Branch	4,257,448
Total	<u>10,643,618</u>

(1) Assuming no exercise of the Over-Allotment Option.

The GDRs will be represented by a Master Rule 144A GDR Certificate and a Master Regulation S GDR Certificate and will be subject to certain restrictions as further discussed in “Description of The Global Depositary Receipts”.

The offer price is \$72.50 per Share and \$14.50 per GDR. The Underwriters will receive an aggregate underwriting commission equal to \$19.3 million in connection with the Offering, from which they will pay to Uralsib \$0.75 million for its role as Co-Lead Manager.

In addition, the Underwriters and Uralsib will receive a discretionary fee of \$7.7 million in connection with the Offering.

See “Use of Proceeds” for information regarding the fees and expenses payable by us in connection with the Offering and the Closed Subscription.

Underwriting Agreement

In the Underwriting Agreement, the Company and the Selling Shareholders have made certain representations and warranties and agreed to indemnify the several Underwriters and Uralsib against certain liabilities, including liability under the Securities Act. The Underwriters are offering the Shares and GDRs (including the Optional Shares in the form of GDRs) when, as and if delivered to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Shares, and other conditions contained in the Underwriting Agreement, such as Admission and the receipt by the Joint Bookrunners of officers’ certificates and legal opinions.

The Joint Bookrunners may terminate the Underwriting Agreement prior to the closing of the Offering under certain specified conditions that are typical for an agreement of this nature. If any of such conditions are not satisfied or waived, or the Underwriting Agreement is terminated prior to the closing of the Offering, then this Offering will lapse.

Over-Allotment Option

Mr. Andrey Molchanov has granted to the Underwriters an option exercisable within 30 days after the announcement of the offer price, to purchase up to an additional 851,489 Ordinary Shares in the form of GDRs at the offer price, solely to cover over-allotments, if any, in the Offering.

Lock-up Arrangements

The Company and the Selling Shareholders have each undertaken, among other things, not to issue, offer, sell, lend, mortgage, assign, contract to sell or issue, pledge, charge, sell any option on or right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any Ordinary Shares or securities convertible or exchangeable into or exercisable for any Ordinary Shares or warrants or other rights to purchase Ordinary Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the Ordinary Shares, including equity swaps, forward sales and options or GDRs representing the right to receive any such

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Ordinary Shares or other securities above, whether such transaction is to be settled by delivery of Ordinary Shares or such other securities, in cash or otherwise, or enter into any swap or other agreement that transfers, in whole or in part, any economic consequences of ownership of such Ordinary Shares, or agree to, or publicly announce any intention to, enter into any transaction described above for a period of 180 days after the Closing Date, without the prior consent of the Joint Bookrunners, except pursuant to this Offering, or, in the case of the Company, pursuant to the Closed Subscription.

Stabilization

In connection with the Offering, Deutsche Bank AG, London Branch (or any agent or other person acting for Deutsche Bank AG, London Branch), as stabilizing underwriter, may over-allot or effect transactions intended to enable it to satisfy any over-allocations or which stabilize, maintain, support or otherwise affect the market price of the GDRs at a level higher than that which might otherwise prevail in the open market. Such transactions may commence on or after the announcement of the offer price and will end no later than 30 days thereafter. Such transactions may be effected on the London Stock Exchange and any other securities market, over the counter market, stock exchange or otherwise. There is no assurance that such transactions will be undertaken and, except as required by law, Deutsche Bank AG, London Branch does not intend to disclose the extent of allotments and/or stabilization transactions under the Offering.

Other Relationships

The Underwriters and Uralsib and their respective affiliates have engaged in transactions with and performed various investment banking, financial advisory and other services for the Company and the Selling Shareholders and their respective affiliates, for which they received customary fees. In particular, Deutsche Bank AG, London Branch, one of the Underwriters, is acting as arranger and agent of a RUB 5 billion term facility agreement (Deutsche Bank Term Facility Agreement). In addition, we entered into a €55 million term Bridge Loan Agreement with ABN AMRO ZAO, an affiliate of one of the Underwriters, as lender. ABN AMRO ZAO, along with OOO "Uralsib Capital," an affiliate of Uralsib, a Co-Lead Manager of the Offering, acted as underwriters of RUB 3 billion four-year non-convertible notes issued by our subsidiary OOO LSR Invest. Uralsib Capital also acted as an underwriter of RUB 2 billion three-year notes issued by our subsidiary OOO LSR Invest. In addition, Uralsib Financial Corporation acted as an underwriter of our issue of RUB 1 billion three-year notes. See "*Description of Certain Indebtedness*" for details of these facilities and notes. The Underwriters and Uralsib and their respective affiliates may provide such services for the Company and the Selling Shareholders and their respective affiliates in the future.

In connection with the Offering, each of the Underwriters and Uralsib and any affiliate, acting as an investor for its own account may take up Shares or GDRs and in that capacity may retain, purchase or sell for its own account such Shares or GDRs and any related investments and may offer or sell such Shares or GDRs or other investments otherwise than in connection with the Offering. Accordingly, references in this prospectus to the Shares or GDRs being offered or placed should be read as including any offering or placement of Shares or GDRs to the Underwriters and Uralsib and any affiliate acting in such capacity. None of the Underwriters or Uralsib intend to disclose the extent of any such investment or transactions otherwise than to the Company and the Selling Shareholders and in accordance with any legal or regulatory obligation to do so. In addition, in connection with the Offering, certain of the Underwriters or Uralsib may enter into financing arrangements with investors, such as share swap arrangements or lending arrangements where securities are used as collateral, that could result in such Underwriters or Uralsib acquiring shareholdings in the Company.

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SELLING AND TRANSFER RESTRICTIONS

Selling Restrictions

No action has been taken or will be taken in any jurisdiction, that would permit a public offering of the Shares or GDRs in any country or jurisdiction where action for that purpose is required.

United States

The Shares and the GDRs have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act.

The Shares and the GDRs are being offered and sold outside of the United States in reliance on Regulation S. The Underwriting Agreement provides that certain of the Underwriters may directly or through their respective US broker-dealer affiliates, arrange for the offer and resale of the Shares and GDRs within the United States only to QIBs in reliance on Rule 144A.

In addition, until 40 days after the commencement of the Offering of the Shares and the GDRs, an offer or sale of Shares and GDRs within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each of the Underwriters and Uralsib has represented and agreed that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Shares or GDRs in circumstances in which section 21(1) of the FSMA does not apply; and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Shares or GDRs in, from or otherwise involving the United Kingdom.

European Economic Area

Each of the Underwriters and Uralsib has represented and agreed in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), that it has not made and will not make an offer to the public of any Shares or GDRs which are the subject of the Offering contemplated herein in that Relevant Member State other than the offers contemplated in the Prospectus in relation to the Shares or GDRs once it has been approved by the competent authority in the United Kingdom, except that an offer of Shares and GDRs may be made to the public in that Relevant Member State at any time under the following exemptions under the Prospectus Directive, if they are implemented in that Relevant Member State:

- (i) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- (ii) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR 3.0 million and (3) an annual net turnover of more than EUR 50.0 million, as shown in its last annual or consolidated accounts;
- (iii) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Underwriters for any such offer; or
- (iv) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of shares and GDRs shall result in a requirement for the publication by the group or any Underwriter or Uralsib of a prospectus pursuant to Article 3 of the Prospectus Directive.

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

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State; and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

In the case of any Shares or GDRs being offered to a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the Shares or GDRs acquired by it have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to persons in circumstances which may give rise to an offer of any shares or GDRs to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the Underwriters or Uralsib has been obtained to each such proposed offer or resale. The group, the Selling Shareholders, the Underwriters and Uralsib and their respective affiliates, and others will rely (and the group and the Selling Shareholders each acknowledges that the Underwriters and Uralsib and their respective affiliates and others will rely) upon the truth and accuracy of the foregoing representations, acknowledgements, and agreements. Notwithstanding the above, a person who is not a qualified investor and who has notified the Underwriters and Uralsib of such fact in writing may, with the consent of the Underwriters, be permitted to subscribe for or purchase Shares or GDRs.

Russian Federation

Each of the Underwriters and Uralsib has represented and agreed that the GDRs will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law; it being understood and agreed that the Underwriters and Uralsib may distribute the prospectus to persons in the Russian Federation in a manner that does not constitute advertisement (as defined in Russian law) of the GDRs and may sell the GDRs to Russian persons in a manner that does not constitute “placement” or “public circulation” of the GDRs in the Russian Federation (as defined in Russian law).

Dubai International Financial Center

The Shares and GDRs must not be sold, subscribed for, transferred or delivered, directly or indirectly, to any person in the Dubai International Financial Center who is not a client within the meaning of the Conduct of Business Module of the Rules of the Dubai Financial Services Authority unless in accordance with the offered Securities Rules of the Dubai Financial Services Authority.

Japan

The Shares and GDRs offered hereby have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the “**Financial Instruments and Exchange Law**”). Accordingly, the Shares and GDRs which are subscribed by any Underwriter will be subscribed by it as principal and, in connection with the Offering made hereby, the Shares and GDRs will not, either directly or indirectly, be offered or sold in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and other relevant laws and regulations of Japan.

Australia

This prospectus does not constitute a disclosure document or a product disclosure statement for the purposes of the Corporations Act 2001 of the Commonwealth of Australia (the “**Corporations Act**”) and has not been, and will not be, lodged with the Australian Securities and Investments Commission. No securities commission or similar authority in Australia has reviewed or in any way passed upon this document or the merits of these securities, and any representation to the contrary is an offence. The Shares and GDRs will be offered to persons who receive offers in Australia only to the extent that both:

- (1) those persons are “wholesale clients” for the purposes of Chapter 7 of the Corporations Act; and
- (2) such offer of the Shares for issue or sale does not need disclosure to investors under Part 6D.2 of the Corporations Act.

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Any offer of the Shares or GDRs received in Australia is void to the extent that it needs disclosure to investors under the Corporations Act. In particular, offers for the issue or sale of the Shares or GDRs will only be made, and this document may only be distributed, in Australia in reliance on various exemptions from such disclosure to investors provided by section 708 of the Corporations Act (“section 708”) and where the investors are also “wholesale clients” as described above.

As any offer for the Shares or GDRs will be made in Australia without disclosure under the Corporations Act, the offer of the Shares or GDRs for sale in Australia within 12 months of their issue may, under section 707(3) or 1012C(6) of the Corporations Act, require disclosure to investors under the Corporations Act if none of the exemptions under the Corporations Act apply. Accordingly, any person to whom the Shares or GDRs are issued or sold pursuant to this document must not, within 12 months after the issue, offer (or transfer, assign or otherwise alienate) those Shares or GDRs to investors in Australia except in circumstances where disclosure to investors is not required under the Corporations Act or unless a compliant disclosure document or product disclosure statement is prepared and lodged with the Australian Securities and Investments Commission.

None of the Company, the Selling Shareholders, the Underwriters and Uralsib holds Australian financial services licenses. None of the Company, the Selling Shareholders, the Underwriters and Uralsib is licensed to provide financial product advice in relation to the Shares and GDRs. An investor in the Company will not have cooling off rights.

Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, no Shares or GDRs will be offered or sold, or will be caused to be made the subject of an invitation for subscription or purchase, directly or indirectly, to persons in Singapore. Nor shall this prospectus, or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of such Shares or GDRs, be circulated or distributed, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Shares or GDRs are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Shares or GDRs pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- (2) where no consideration is or will be given for the transfer; or
- (3) where the transfer is by operation of law.

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Transfer Restrictions

None of the Shares or GDRs (or the Ordinary Shares represented thereby) has been or will be registered under the Securities Act and the Shares and GDRs may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Shares and GDRs are being offered and sold only:

- (a) to QIBs in compliance with Rule 144A under the Securities Act or in reliance on another exemption from, or transaction not subject to, registration under the Securities Act; and
- (b) in offshore transactions in compliance with Regulation S under the Securities Act. As used in this document, the term “offshore transaction” has the meaning given to it in Regulation S.

Shares and GDRs purchased pursuant to Rule 144A

Each purchaser of Shares or GDRs in the Offering pursuant to Rule 144A, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used therein as defined therein):

- (a) The purchaser (i) is a QIB, (ii) is aware, and each beneficial owner of such Shares or GDRs has been advised, that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring such Rule 144A GDRs for its own account or for the account of a QIB;
- (b) The purchaser is aware that such Shares or the GDRs (and the Shares represented thereby) have not been and will not be registered under the Securities Act and are being offered in the United States in reliance on Rule 144A only in a transaction not involving any public offering in the United States within the meaning of the Securities Act and that such Shares or the GDRs (and the Shares represented thereby) are subject to significant restrictions on transfer;
- (c) If in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Shares or GDRs (or the Ordinary Shares represented thereby), such GDRs and Shares may be offered, sold, pledged or otherwise transferred only in accordance with the appropriate following legend, which such Shares or GDRs will bear, as applicable, unless otherwise determined by the Company and the Depositary in accordance with applicable law:

THIS SHARE OF THE COMPANY (“**THE SHARE**”) HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON (A) WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER (“**QIB**”) (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A (B) AND WHO IS AWARE THAT THE OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OWNER OF THE SHARE WILL, AND EACH SUBSEQUENT OWNER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH SHARE OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF THIS SHARE MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARE INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK (INCLUDING ANY SUCH FACILITY MAINTAINED FOR THE RULE 144A GDRS), OTHER THAN A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE “RESTRICTED SECURITIES” WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPT.

THIS RULE 144A GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF THE COMPANY REPRESENTED HEREBY (“**THE SHARES**”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED

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(THE "SECURITIES ACT"), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON (A) WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("QIB") (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A AND (B) WHO IS AWARE THAT THE OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OWNER OF THE GDRS WILL, AND EACH SUBSEQUENT OWNER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GDRS OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK (INCLUDING ANY SUCH FACILITY MAINTAINED FOR THE RULE 144A GDRS), OTHER THAN A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

- (d) The purchaser acknowledges that the Depositary will not be required to accept for registration of transfer any GDRs acquired by such purchaser, except upon presentation of evidence satisfactory to the Company and the Depositary that the restrictions set forth herein have been complied with.

Each purchaser of Shares or GDRs purchased pursuant to Rule 144A will be deemed to have acknowledged that we, the Underwriters and Uralsib, our and their affiliates and others will rely upon the truth and accuracy of the foregoing representations and agreements and agrees that if any of the representations or agreements deemed to have been made by its purchase of such Shares or GDRs are no longer accurate, it shall promptly notify us, the Underwriters and Uralsib. If it is acquiring such Shares or GDRs as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations and agreements on behalf of each account.

Prospective purchasers are hereby notified that sellers of the Shares and GDRs purchased pursuant to Rule 144A may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Shares and GDRs purchased pursuant to Regulation S

Each purchaser of Shares or GDRs in the Offering pursuant to Regulation S, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

- (a) The purchaser (i) is, and the person, if any, for whose account it is acquiring such Shares or GDRs is, outside the United States, (ii) is not an affiliate of the Company or a person acting on behalf of such an affiliate and (iii) is not a securities dealer or, if it is a securities dealer, it did not acquire such Shares or GDRs (or the Ordinary Shares represented thereby) from the Company or an affiliate thereof in the initial distribution of Regulation S.
- (b) The purchaser is aware that such Shares or GDRs (and the Shares represented thereby) have not been and will not be registered under the Securities Act, are being offered outside the United States in reliance on Regulation S and are subject to significant restrictions on transfer.
- (c) The purchaser will not offer, resell, pledge or otherwise transfer such Shares or GDRs, except in accordance with the Securities Act and all applicable securities laws of each relevant state of the United States.

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- (d) If in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Shares or GDRs (or the Shares represented thereby), such GDRs and Shares may be offered, sold, pledged or otherwise transferred only in accordance with the appropriate following legend, which such Shares or GDRs will bear, as applicable, unless otherwise determined by the Company and the Depository in accordance with applicable law:

THIS SHARE OF THE COMPANY (THE "SHARE") HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE SECURITIES ACT AND ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

THIS REGULATION S GLOBAL DEPOSITARY RECEIPT AND THE SHARES OF THE COMPANY REPRESENTED HEREBY (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE SECURITIES ACT AND ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

- (e) The purchaser acknowledges that the Depository will not be required to accept for registration of transfer any GDRs acquired by such purchaser, except upon presentation of evidence satisfactory to the Company and the Depository that the restrictions set forth herein have been complied with.

Each purchaser of Shares or GDRs purchased pursuant to Regulation S will be deemed to have acknowledged that we, and the Underwriters and Uralsib, our and their respective affiliates and others will rely upon the truth and accuracy of the foregoing representations and agreements and agrees that if any of the representations or agreements deemed to have been made by its purchase of such Shares or GDRs are no longer accurate, it shall promptly notify us, the Underwriters and Uralsib. If it is acquiring such Shares or GDRs as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations and agreements on behalf of each account.

Each purchaser of Shares or GDRs purchased pursuant to Regulation S will be deemed to have acknowledged that we, the Underwriters and Uralsib, our and their affiliates and others will rely upon the truth and accuracy of the foregoing representations and agreements and agrees that if any of the representations or agreements deemed to have been made by its purchase of such Shares or GDRs are no longer accurate, it shall promptly notify us, the Underwriters and Uralsib. If it is acquiring such Shares or GDRs as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations and agreements on behalf of each account.

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SETTLEMENT AND DELIVERY

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

DTC

DTC has advised us as follows: DTC is a limited-purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerized book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant US tax laws and regulations. See "*Taxation—US Federal Income Tax Considerations*".

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream will be represented by the Master Regulation S GDR Certificate registered in the name of BT Globenet Nominees Limited, as nominee of Deutsche Bank AG, London Branch, as common depositary for Euroclear and Clearstream. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR Certificate registered in the name of Cede & Co., as nominee for DTC, which will be held by Mellon Investor Services LLC as custodian for DTC. As necessary, the Registrar will adjust the amounts of GDRs on the relevant register for the accounts of the common nominee and nominee, respectively, to reflect the amounts of GDRs held through Euroclear, Clearstream and DTC, respectively. Beneficial ownership in

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the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depository will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common nominee for Euroclear and Clearstream and the nominee for DTC. The Depository will be responsible for ensuring that payments received by it from us for holders holding through Euroclear and Clearstream are credited to Euroclear or Clearstream, as the case may be, and the Depository will also be responsible for ensuring that payments received by it from us for holders holding through DTC are received by DTC. The address for DTC is P.O. Box 5020, New York, New York 10274, United States. The address for Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address for Clearstream is 42 Avenue J.F Kennedy, L-1855 Luxembourg, Luxembourg.

We will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream or DTC and certain fees and expenses payable to the Depository in accordance with the terms of the Deposit Agreements.

Settlement and Delivery of Shares

Each purchaser of the Shares in the Offering is required to pay for any such Shares in US dollars or rubles, as the case may be, within one business day after share delivery. The settlement price of such Shares in rubles will be the US dollar price converted into rubles using the official exchange rate established by the CBR for exchange of US dollars into Russian rubles for the date preceding the date on which the relevant investor makes payment for the Shares purchased by it. In order to take delivery of the Shares, an investor should either have a direct account with our share registrar, ZAO Ediny Registrator, or a deposit account with CJSC Depository Clearing Company (“DCC”) or any other depository that has an account with DCC or a direct account with our share registrar. Investors may at their own expense choose to hold the Shares through a direct account with our share registrar. However, directly-held Shares are ineligible for trading on MICEX or RTS. Only if the Shares are deposited with DCC (or through another depository having an account at DCC) can they be traded on RTS and only if the Shares are deposited with Non-for-Profit Partnership “The National Depository Center” (“NDC”) (or through another depository having an account in NDC) can they be traded on MICEX.

Global Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the two Global Master GDR Certificates. Purchasers electing to hold book-entry interests in the GDRs through Euroclear and Clearstream accounts will follow the settlement procedures applicable to depository receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depository receipts.

Secondary Market Trading

Each purchaser of the Shares offered hereby in reliance on Rule 144A (“Rule 144A Shares”) will be deemed to have represented and agreed as follows:

- (1) The purchaser is (a) a QIB, (b) aware, and each beneficial owner of the Shares has been advised, that the sale of the Shares to it is being made in reliance on Rule 144A and (c) acquiring the Shares for its own account or for the account of a QIB; and
- (2) The purchaser understands that the Shares have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be reoffered, resold, pledged or otherwise transferred except (a)(i) to a person whom the purchaser and any person acting on its behalf reasonably believes is a QIB purchasing for its own account or the account of a QIB in a transaction meeting the requirements of Rule 144A, (ii) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S or (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144

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thereunder (if available) and (b) in accordance with all applicable securities laws of the states of the United States. Such purchaser acknowledges that the Shares offered and sold in accordance with Rule 144A are “restricted securities” within the meaning of Rule 144A(a)(3) under the Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of the Shares.

Transfer Restrictions

For a description of the transfer restrictions relating to the GDRs, see “*Description of The Global Depositary Receipts—Transfer Restrictions*” and “*Selling and Transfer Restrictions*.”

Trading between Euroclear and Clearstream Participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC Participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in US dollars, or free of payment, if payment is not effected in US dollars. Where payment is not effected in US dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC Seller and Euroclear/Clearstream Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, as the case may be, to credit the relevant account of the Euroclear or Clearstream participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (1) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate and (2) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Master Regulation S GDR Certificate.

Trading between Clearstream/Euroclear Seller and DTC Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream participant to the account of a DTC participant, the Euroclear or Clearstream participant must send to Euroclear or Clearstream a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant, as the case may be. On the settlement date, Euroclear or Clearstream, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, as the case may be, shall on the settlement date instruct the Depositary to (1) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR Certificate and (2) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream and DTC, none of Euroclear, Clearstream or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of us, the Underwriters, Uralsib, the Depositary, the Custodian or our or their respective agents will have any responsibility for the performance by Euroclear, Clearstream or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

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INFORMATION RELATING TO THE DEPOSITARY

The Depositary is Deutsche Bank Trust Company Americas, a state registered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was incorporated on March 5, 1903 as a bank with limited liability in the State of New York and operates under the laws of New York and is an indirect wholly-owned subsidiary of Deutsche Bank AG. The Depositary is subject to regulation and supervision by the New York State Banking Department, the Federal Reserve Board and the Federal Deposit Insurance Corporation. The registered office of the Depositary is located at 60 Wall Street, New York, New York 10005, and the registered number is BR1026. A copy of the Depositary's by-laws, as amended, together with copies of its most recent financial statements and annual report will be available for inspection at the principal administrative establishment of the Depositary located at 60 Wall Street, DR Department, 27th Floor, New York 10005 and at the office of the Depositary located at 1 Great Winchester Street, London EC2N 2DB. Such information will be updated periodically so long as the GDRs are admitted to listing on the Official List maintained by the UKLA.

LEGAL MATTERS

Certain legal matters with respect to the Offering will be passed upon for us by Clifford Chance LLP, London, England and Clifford Chance CIS Limited, Moscow, Russian Federation. Certain legal matters with respect to the Offering will be passed upon for the Underwriters by Linklaters LLP, London, England and Linklaters CIS, Moscow, Russian Federation.

INDEPENDENT AUDITORS

The consolidated financial statements of the Group as of and for the years ended December 31, 2004, 2005 and 2006 and as of June 30, 2007 and for the six months periods ended June 30, 2007 and June 30, 2006, included in this prospectus, have been audited or reviewed, as the case may be, by ZAO KPMG, of 19 Moscovsky Prospect, St. Petersburg, Russia 190005, independent accountants, as stated in their reports appearing herein. The reports for 2004 and 2005 were qualified as ZAO KPMG did not observe the counting of inventories as of January 1, 2004 and December 31, 2004 because they were engaged as auditors of the Group only after those dates. Accordingly, ZAO KPMG were unable to determine whether any adjustments might be necessary to cost of sales, taxation expense and net profit for the years ended December 31, 2004 and December 31, 2005.

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A10.20.3.1

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GENERAL INFORMATION

1. It is expected that the GDRs will be admitted, subject only to the issue of the Master Regulation S GDR Certificate and the Master Rule 144A GDR Certificate, to the Official List on or about November 16, 2007. Application has been made for the GDRs to be traded on the London Stock Exchange. Prior to admission to the Official List, however, dealings will be permitted by the London Stock Exchange in accordance with its rules on an “as, when and if issued” basis. Transactions in GDRs will normally be effected for delivery on the third working day after the day of the transaction. A10.30.1
2. The Shares underlying the GDRs being offered were registered with the FSFM on August 14, 2006.
3. The issue of New Shares to be offered to the Selling Shareholders in the Closed Subscription was authorized by the extraordinary shareholders’ meeting of the Company on August 23, 2007 and the issuance of the New Shares was registered by the FSFM on September 20, 2007. The Company must register a placement report in respect of the New Shares after the Closed Subscription. The Registration of the placement report with the FSFM in accordance with Russian law will take place upon completion of the placement. The circulation of Shares outside the Russian Federation in the form of GDRs was approved by the FSFM on October 18, 2007.
4. We have obtained all consents, approvals and authorizations in Russia in connection with the issue of the GDRs.
5. Copies of the following documents will be available for inspection free of charge, during normal business hours on any weekday, at the registered offices of the Company from the date of publication of this prospectus to the admission: A10.24
 - the prospectus;
 - our charter (English translation);
 - the Deposit Agreements; and
 - our financial statements as of and for the years ended December 31, 2004, 2005 and 2006, together with the auditors’ reports relating thereto.

The registered office of the Company is located at 36 Kazanskaya Street, 190031 St. Petersburg, Russian Federation.

6. If definitive certificates are issued in exchange for the Master GDR Certificates, we will appoint an agent in the United Kingdom.
7. There has been no significant change in the financial or trading position of the group since June 30, 2007, the end of the last financial period for which financial information has been published, except as set forth in “*Capitalization*” and except in relation to the Tsvetnoy Gorod project and Ruch’i development, the Sophia (Yuzhnoe Shosse) project, the Yugnaya Aquatona (Doblesti Street) project, the Electric City (Medikov, 10) project, the acquisition of OOO Cement, the Sberbank-GDSK Credit Facility, the Sberbank Credit Facility, the VTB Facility, the Sberbank Revolving Credit Facility and the RUB 3 billion non-convertible bearer notes due 2011 and issued on July 19, 2007, in each case as described in “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments*”. A10.20.8
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There has been no material change in the aggregate Market Value of our properties since June 30, 2007, which is the date as of which our properties were assigned the Market Value set forth in the Valuation Report. A10.7.2

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8. The following table sets forth the registered offices of our significant subsidiaries:

<u>Company name</u>	<u>Ownership/ voting as of December 31, 2006</u>	<u>Registered office</u>
ZAO Gatchinsky DSK	98.23%	Industrial zone 1, quarter 1, build. 1, Gatchina 188300, the Leningrad region, the Russian Federation
OA O Construction Corporation "Revival of St. Petersburg"	95.53%	The Russian Federation, 191014, St. Petersburg, Saperny side street, 24, build. 3N, A
OOO Gatchinsky DSK	100.00%	The Russian Federation, 190031, St. Petersburg, Kazanskaya street, 36
OA O Lenstroirekonstruktsiya	99.99%	The Russian Federation, 190031, St. Petersburg, Kazanskaya street, 36
OA O Granit-Kuznechnoye	95.09%	The Russian Federation, 188751, the Leningrad region, Priozersky district, village Kuznechnoye
OA O Rudas	86.55%	The Russian Federation, 190000, St. Petersburg, Kazanskaya street, 60
OA O Leningrad River Port	100.00%	The Russian Federation, 187332, the Leningrad region, Kirovsky district, Otradnoye, Kirpichnaya street, 10
ZAO Skanex	100.00%	The Russian Federation, 198095, St. Petersburg, Khimicheskyy side street, 6
ZAO Vertikal	100.00%	The Russian Federation, 195027, St. Petersburg, Partizanskaya street, 5
OA O PO Barrikada	95.35%	The Russian Federation, 195027, St. Petersburg, Energetikov avenue, 9
ZAO DSK Blok	100.00%	The Russian Federation, 194292, St. Petersburg, the third verkhny side street, 5
OA O UM-260	97.11%	The Russian Federation, 194100, St. Petersburg, Gribalevoy street, 9
OA O St. Petersburg River Port	100.00%	The Russian Federation, 190000, St. Petersburg, Kazanskaya street, 60
OA O Obyedineniye 45	93.83%	The Russian Federation, 190031, St. Petersburg, Krylenko street, 8
ZAO Mosstroyrekonstruktsiya	100.00%	The Russian Federation, 101000, Moscow, Pokrovsky boulevard, 4/17, build. 1, office 39
OA O GATP-1	74.63%	The Russian Federation, 192102, St. Petersburg, Salova street, 61
OA O Pobeda LSR	99.87%	The Russian Federation, 187330, the Leningrad region, Otradnoye, Kirpichnaya street, 10
OOO Aerok SPb	100.00%	The Russian Federation, 193091, St. Petersburg, Ochyabrskaya quay, 42
OOO Osobnyak	100.00%	The Russian Federation, 190031, St. Petersburg, Kazanskaya street, 36
OOO Kvartira LuxServis	100.00%	The Russian Federation, 190031, St. Petersburg, Kazanskaya street, 36
ZAO Stroitrest 28	89.63%	The Russian Federation, 195027, St. Petersburg, Yakornaya street, 9 A
OOO Stroitrest 28	50.00%	The Russian Federation, 195027, St. Petersburg, Partizanskaya street, 5
Branch Petrostroyinvest (formerly ZAO GSK Petrostroyinvest)	100.00%	<u>194292, 3-d Verhniy alley, 5</u>

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<u>Company name</u>	<u>Ownership/ voting as of December 31, 2006</u>	<u>Registered office</u>
OOO TD Granit-Kuznechnoye	100.00%	The Russian Federation, 199155, St. Petersburg, Kima avenue, 19 A
ZAO Paradny kvartal	100.00%	The Russian Federation, 190031, St. Petersburg, Kazanskaya street, 36
OOO Nevsky portal	100.00%	The Russian Federation, 190031, St. Petersburg, Kazanskaya street, 44
OOO Novy kvartal	100.00%	The Russian Federation, 190031, St. Petersburg, Kazanskaya street, 36
OOO Nisk	74.00%	The Russian Federation, 190031, St. Petersburg, Kazanskaya street, 44
OOO LSK-ecologiya	50.00%	The Russian Federation, 187026, the Leningrad region, Tosnensky district, Nikolskoye, Zavodskaya street, 1
OOO Promichlenno Stroitel'naya Gruppa LSR	100.00%	The Russian Federation, 190031, St. Petersburg, Kazanskaya street, 36
ZAO Promyshlenny leasing	100.00%	The Russian Federation, 190031, St. Petersburg, Kazanskaya street, 44
OOO Martynovka	100.00%	The Russian Federation, 197110, St. Petersburg, Martynova quay, 62
OAO NKSM	97.00%	The Russian Federation, 187310, the Leningrad region, Kirovsky district, village Nazia
ZAO Vyborgstroyrekonstruktsiya	80.00%	The Russian Federation, 188800, the Leningrad region, Vyborgsky district, Vyborg, Podgornaya street, 14
OOO Yuna	100.00%	The Russian Federation, 197022, St. Petersburg, Kamennooostrovsky avenue, 60
MSR <u>companies</u>	24.00%	The Russian Federation, 101000, Moscow, Pokrovsky boulevard, 4/17, build. 1, office 39
OAO Zavod Zhelezobetonnich Izdeliy-6	57.70%	The Russian Federation, 109052, Moscow, Novohohlovskaya street, 89
ZAO Galernaya	100.00%	The Russian Federation, St. Petersburg, 190000, Galernaya Street, 10
OOO GDSK Yugo-Zapad	100.00%	The Russian Federation, 198095, St. Petersburg, Khimichesky side street, 6
OOO GDSK-invest Primorsky	100.00%	The Russian Federation, 192230, St. Petersburg, Krylenko street, 8
ZAO Zarechye	100.00%	The Russian Federation, 190031, St. Petersburg, Kazanskaya street, 36
OOO LSSMO Promstroyontazh	100.00%	The Russian Federation, 190031, St. Petersburg, Kazanskaya street, 44
OOO Smolny kvartal	100.00%	The Russian Federation, 190031, St. Petersburg, Kazanskaya street, 44
ZAO Severnaya Venecia	100.00%	The Russian Federation, 190031, St. Petersburg, Kazanskaya street, 36
ZAO Vsevolozhskoye SMP	100.00%	The Russian Federation, 188710, the Leningrad region, Vsevolozhsky district, Vsevolozsk, Otyabrsky avenue, 76
OOO Yakornaya	100.00%	The Russian Federation, 195027, St. Petersburg, Partizanskaya street, 5
OOO BaltStroyKomplekt	100.00%	The Russian Federation, 190031, St. Petersburg, Kazanskaya street, 36
Aerok International AS	90.00%	Myaniky Tea 123, 11216 Tallinn, Estonia

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<u>Company name</u>	<u>Ownership/ voting as of December 31, 2006</u>	<u>Registered office</u>
OOO Obyedineniye 45M	100.00%	The Russian Federation, 109052, Moscow, Novokhokhlovskaya street, 89
OOO LSR-invest	100.00%	The Russian Federation, 190031, St. Petersburg, Kazanskaya street, 36
ZAO Chifko Plus	100.00%	The Russian Federation, 195027, St. Petersburg, Energuetikov avenue, 9
LSR Europe GmbH	100.00%	Nymphenburger Str. 3, 80335 Munchen
ZAO A Plus Estate	100.00%	The Russian Federation, 190031, St. Petersburg, Kazanskaya street, 44
ZAO Ingeokom	100.00%	The Russian Federation, 191186, St. Petersburg, Kazanskaya street, 7 A
ZAO Electron	100.00%	The Russian Federation, 190031, St. Petersburg, Kazanskaya street, 44
ZAO Stroitel	100.00%	The Russian Federation, 190031, St. Petersburg, Kazanskaya street, 44
OAO Stroicorporatciya	84.44%	The Russian Federation, 191186, St. Petersburg, Nevsky avenue, 1
ZAO Petropolis	100.00%	The Russian Federation, 190031, St. Petersburg, Kazanskaya street, 44
ZAO Baltiyskaya panorama	100.00%	The Russian Federation, 190031, St. Petersburg, Kazanskaya street, 44
OOO Gidrotehnik	100.00%	The Russian Federation, 190000, St. Petersburg, Kazanskaya street, 60
OOO Zolotaya Kazanskaya	100.00%	The Russian Federation, 190031, St. Petersburg, Kazanskaya street, 44 A
OAO MTO Arhproekt	89.92%	The Russian Federation, 125009, Moscow, Tverskoy boulevard, 16
OOO LSR Ukraina	100.00%	Ukraine, 04053, Kiev, Arguema vul, 37-41
ZAO Gvardeiskoe	100.00%	The Russian Federation, the Leningrad region, Vyborgsky district, village Gvardeiskoye
ZAO Parnas	100.00%	The Russian Federation, 194292, St. Petersburg, the fifth verkhny side street, 12 A
OOO Velikan XXI	100.00%	The Russian Federation, 117419, Moscow, Donskaya street, 24
OAO Zavod Elektrik	30.00%	The Russian Federation, 197376, St. Petersburg, Medikov street, 10
ZAO Kikerino Elektrik	30.00%	The Russian Federation, 188400, the Leningrad region, Volosovsky district, village Kikerino, Gatchinskoye highway, 8 A
ZAO Zavod Stroifarfor	20.00%	The Russian Federation, 192241, St. Petersburg, Yuznoye highway, 49
OOO BSK Invest	20.00%	The Russian Federation, 190031, St. Petersburg, Kazanskaya street, 36

9. The GDRs are not denominated in any currency and have no nominal or par value. The offer price was determined based on the results of the bookbuilding exercise conducted by the Underwriters. The results of the Offering will be made public by us through a press release and notice to the Regulatory Information Service promptly upon the closing of the Offering.
10. Holders of GDRs may contact Deutsche Bank Trust Company Americas, as Depositary for the GDRs with questions relating to the transfer of GDRs on the books of the Depositary, which shall be maintained at the Depositary's corporate trust office at 60 Wall Street, DR Department, 27th Floor, New York 10005.

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11. DTZ, whose registered office is at Suite 360, 7 Gasheka Street, Moscow 123056, Russia has given and has not withdrawn its written consent to the inclusion of the Valuation Report in this prospectus and to the inclusion of the references to the Valuation Report and its name in the form and context in which they are respectively included and has authorized the contents of the Valuation Report for the purposes of paragraph 5.5.4(R)(2)(f) of the Prospectus Rules and Annex X item 23.1 in Appendix 3 to the Prospectus Rules. DTZ accepts responsibility for the information contained in the Valuation Report, and to the best of DTZ's knowledge and belief that, having taken all reasonable care to ensure that such is the case, the information contained in the Valuation Report is in accordance with the facts and does not omit anything likely to affect the import of such information. A10.23.1
12. ZAO KPMG, whose registered office is at 19 Moscovsky Prospect, St. Petersburg 190005, Russia, has given and not withdrawn its written consent to the inclusion of the Independent Auditors' Report on the Special Purpose Consolidated Financial Statements for 2004 in the form and context in which the Report is included and has authorized the contents of the Report for the purposes of paragraph 5.5.4(R)(2)(f) of the Prospectus Rules and Annex X item 23.1 in Appendix 3 to the Prospectus Rules. KPMG accepts responsibility for the information contained in the Independent Auditors' Report on the Special Purpose Consolidated Financial Statements for the year ended December 31, 2004, as set out on pages F-55 and F-56, and, to the best of KPMG's knowledge and belief, having taken all reasonable care to ensure that such is the case, the information contained in the Report is in accordance with the facts and does not omit anything likely to affect its import.

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as of and for the years ended December 31, 2006 and 2005**

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as of and for the year ended December 31, 2004**

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as of and for the six month periods ended June 30, 2007 and June 30, 2006**

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**OJSC LSR Group
(formerly OOO Group LSR)**

**Consolidated Financial Statements
for the year ended
31 December 2006**

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www.kpmg.ru

Independent Auditors' Report

Board of Directors of OJSC LSR Group (formerly OOO Group LSR)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OJSC LSR Group (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2006 and 31 December 2005, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

We did not observe the counting of inventories stated at RUR 5,399,499 thousand/USD 194,585 thousand as at 1 January 2005 because we were engaged as auditors of the Group only after that date. It was impracticable to satisfy ourselves as to those inventory quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to cost of sales, taxation expense and net profit for the year ended 31 December 2005.

ZAO KPMG, a company incorporated under the Laws of the Russian Federation and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

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Independent Auditors' Report
Page 2

Qualified Opinion

In our opinion, except for the effects on the corresponding figures of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the basis for Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at each of 31 December 2006 and 31 December 2005, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
25 May 2007

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OJSC LSR GROUP
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 '000 RUR	2005 '000 RUR	2006 '000 USD	2005 '000 USD
Continuing operations					
Revenues		21,110,751	13,085,517	776,553	462,608
Cost of sales		(13,796,464)	(9,371,320)	(507,498)	(331,301)
Gross profit		7,314,287	3,714,197	269,055	131,307
Distribution expenses		(1,702,328)	(693,999)	(62,620)	(24,535)
Administrative expenses	8	(3,051,103)	(1,890,586)	(112,234)	(66,837)
Fair value adjustment of investment property		130,106	—	4,786	—
Other expenses	9	(56,159)	(101,167)	(2,066)	(3,577)
Results from operating activities		2,634,803	1,028,445	96,921	36,358
Financial income	11	213,796	140,148	7,864	4,955
Financial expenses	11	(1,089,615)	(787,236)	(40,081)	(27,831)
Profit before income tax		1,758,984	381,357	64,704	13,482
Income tax expense	12	(658,039)	(118,184)	(24,206)	(4,178)
Net profit from continuing operations		1,100,945	263,173	40,498	9,304
Discontinued operations					
Loss from discontinued operations, net of income tax	5	—	(149,814)	—	(5,296)
Net profit for the year		1,100,945	113,359	40,498	4,008
Attributable to:					
Shareholders of the Company		984,514	10,563	36,215	374
Minority interest		116,431	102,796	4,283	3,634
		<u>1,100,945</u>	<u>113,359</u>	<u>40,498</u>	<u>4,008</u>
Basic and diluted earnings per share					
Ordinary shares	23	<u>11.56 RUR</u>	<u>0.12 RUR</u>	<u>0.43 USD</u>	<u>0.004 USD</u>
Continuing operations					
Ordinary shares		<u>11.56 RUR</u>	<u>3.09 RUR</u>	<u>0.43 USD</u>	<u>0.11 USD</u>

These consolidated financial statements were approved by management on 25 May 2007 and were signed on its behalf by:



I.M. Levit
Chief Executive Officer



E.V. Tumanova
Chief Financial Officer

The consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-13 to F-52.

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OJSC LSR GROUP
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006

	<u>Note</u>	<u>2006</u> <u>'000 RUR</u>	<u>2005</u> <u>'000 RUR</u>	<u>2006</u> <u>'000 USD</u>	<u>2005</u> <u>'000 USD</u>
ASSETS					
Non-current assets					
Property, plant and equipment	13	10,621,122	8,121,466	403,368	282,167
Investment property under development	15	496,852	178,040	18,869	6,186
Investment property	16	1,046,666	—	39,750	—
Intangible assets	14	575,903	24,269	21,872	843
Other investments	17	327,088	37,200	12,422	1,292
Deferred tax assets	18	337,162	304,381	12,805	10,575
Other non-current assets		11,702	477	444	18
		<u>13,416,495</u>	<u>8,665,833</u>	<u>509,530</u>	<u>301,081</u>
Current assets					
Other investments	17	800,439	574,668	30,399	19,966
Inventories	19	13,950,288	8,321,742	529,803	289,125
Income tax receivable		58,412	13,049	2,218	453
Trade and other receivables	20	8,836,540	3,661,381	335,593	127,209
Cash and cash equivalents	21	1,608,222	776,045	61,077	26,962
Assets classified as held for sale	6	70,933	—	2,694	—
		<u>25,324,834</u>	<u>13,346,885</u>	<u>961,784</u>	<u>463,715</u>
Total assets		<u><u>38,741,329</u></u>	<u><u>22,012,718</u></u>	<u><u>1,471,314</u></u>	<u><u>764,796</u></u>

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-13 to F-52.

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OJSC LSR GROUP
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006

	Note	2006 '000 RUR	2005 (Restated) '000 RUR	2006 '000 USD	2005 (Restated) '000 USD
EQUITY AND LIABILITIES					
Equity	22				
Share capital		30,106	30,106	1,078	1,078
Additional paid in capital		2,145,697	990,919	77,510	35,032
Foreign currency translation reserve		—	—	8,785	(3,503)
Retained earnings		<u>2,522,636</u>	<u>1,538,122</u>	<u>91,639</u>	<u>55,424</u>
Total equity attributable to shareholders of the Company		<u>4,698,439</u>	<u>2,559,147</u>	<u>179,012</u>	<u>88,031</u>
Minority interest		<u>441,248</u>	<u>455,858</u>	<u>16,182</u>	<u>16,721</u>
Total equity		<u>5,139,687</u>	<u>3,015,005</u>	<u>195,194</u>	<u>104,752</u>
Non-current liabilities					
Loans and borrowings	24	8,721,215	1,500,559	331,213	52,134
Deferred tax liabilities	18	939,735	743,464	35,689	25,830
Trade and other payables		<u>12,954</u>	<u>3,119</u>	<u>492</u>	<u>109</u>
		<u>9,673,904</u>	<u>2,247,142</u>	<u>367,394</u>	<u>78,073</u>
Current liabilities					
Bank overdraft		25,944	9,467	985	329
Loans and borrowings	24	5,730,721	5,639,038	217,641	195,919
Income tax payable		81,733	78,420	3,104	2,725
Trade and other payables	26	17,848,371	10,703,900	677,844	371,889
Provisions	25	213,040	319,746	8,091	11,109
Liabilities classified as held for sale	6	<u>27,929</u>	<u>—</u>	<u>1,061</u>	<u>—</u>
		<u>23,927,738</u>	<u>16,750,571</u>	<u>908,726</u>	<u>581,971</u>
Total liabilities		<u>33,601,642</u>	<u>18,997,713</u>	<u>1,276,120</u>	<u>660,044</u>
Total equity and liabilities		<u>38,741,329</u>	<u>22,012,718</u>	<u>1,471,314</u>	<u>764,796</u>

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-13 to F-52.

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

	<u>2006</u> <u>'000 RUR</u>	<u>2005</u> <u>'000 RUR</u>	<u>2006</u> <u>'000 USD</u>	<u>2005</u> <u>'000 USD</u>
OPERATING ACTIVITIES				
Net profit for the period	1,100,945	113,359	40,498	4,008
Adjustments for:				
Depreciation and amortisation	1,120,731	987,495	41,227	34,911
Loss on disposal of property, plant and equipment	94,332	93,516	3,470	3,309
Change in fair value of investment property .	(130,106)	—	(4,786)	
Interest expense	1,062,238	806,585	39,074	28,515
Interest income	(43,253)	(35,273)	(1,591)	(1,247)
Dividend income	(73,512)	—	(2,704)	—
Other non-cash movement	281	(30,936)	10	(1,096)
Income tax expense	658,039	79,728	24,206	2,818
Operating profit before changes in working capital and provisions	3,789,695	2,014,474	139,404	71,218
Increase in inventories	(4,213,754)	(2,906,867)	(155,002)	(102,766)
Increase in trade and other receivables . . .	(1,709,160)	(1,711,194)	(62,871)	(60,495)
Increase in trade and other payables	4,404,448	3,693,735	162,016	130,583
Increase/(decrease) in provisions	113,436	(92,310)	4,173	(3,263)
Cash flows from operations before income taxes and interest paid	2,384,665	997,838	87,720	35,277
Income taxes paid	(770,924)	(276,883)	(28,358)	(9,789)
Interest paid	(1,056,365)	(752,355)	(38,858)	(26,598)
Cash flows from/(utilised by) operating activities	557,376	(31,400)	20,504	(1,110)

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-13 to F-52.

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

	<u>2006</u> <u>'000 RUR</u>	<u>2005</u> <u>'000 RUR</u>	<u>2006</u> <u>'000 USD</u>	<u>2005</u> <u>'000 USD</u>
INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment	388,641	134,679	14,296	4,761
Interest received	43,253	35,273	1,591	1,247
Dividends received	73,512	—	2,704	—
Acquisition of property, plant and equipment	(1,886,871)	(1,425,178)	(69,408)	(50,384)
Acquisition of investment property under development	(218,368)	(144,031)	(8,033)	(5,092)
Loans given	(337,433)	(560,993)	(12,412)	(19,833)
Loans repaid	—	340,895	—	12,052
Disposal of discontinued operations net of cash disposed of	(14,187)	—	(522)	—
Disposal of subsidiaries net of cash disposed of	31,955	—	1,175	—
Acquisition of subsidiaries, net of cash acquired	(3,927,535)	(2,448)	(144,473)	(87)
Acquisition of minority interest	(34,285)	(40,414)	(1,261)	(1,429)
Purchase of other investments	(155,269)	86,592	(5,712)	3,061
Cash flows utilised by investing activities . .	<u>(6,036,587)</u>	<u>(1,575,625)</u>	<u>(222,055)</u>	<u>(55,704)</u>
FINANCING ACTIVITIES				
Proceeds from borrowings	21,621,324	7,867,322	795,334	278,131
Repayment of borrowings	(14,985,220)	(5,510,776)	(551,227)	(194,821)
Contribution from shareholder	226,663	318,409	8,338	11,257
Payment of finance lease liabilities	(567,856)	(454,234)	(20,888)	(16,058)
Cash flows from financing activities	<u>6,294,911</u>	<u>2,220,721</u>	<u>231,557</u>	<u>78,509</u>
Net increase in cash and cash equivalents .	815,700	613,696	30,006	21,695
Cash and cash equivalents at beginning of period	766,578	152,882	26,633	5,510
Effect of exchange rate fluctuations on cash and cash equivalents	—	—	3,453	(572)
Cash and cash equivalents at end of period (note 21)	<u>1,582,278</u>	<u>766,578</u>	<u>60,092</u>	<u>26,633</u>

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-13 to F-52.

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

'000 RUR	Attributable to shareholders of the Company				Minority interest	Total equity
	Share capital	Additional paid in capital	Retained earnings	Total		
Balance at 1 January 2005						
(Restated)	19,623	—	1,527,559	1,547,182	884,021	2,431,203
Profit for the year	—	—	10,563	10,563	102,796	113,359
Total recognised income and expense for the year	—	—	—	10,563	102,796	113,359
Excess of minority interest acquired for entities under common control over consideration paid	—	870,886	—	870,886	(729,335)	141,551
Shareholder contributions	—	318,409	—	318,409	—	318,409
Participation of minority interest in additional issues of subsidiaries and effect of transfer of shares between subsidiaries	—	(198,376)	—	(198,376)	198,376	—
Shares issued	10,483	—	—	10,483	—	10,483
Balance at 31 December 2005						
(Restated)	30,106	990,919	1,538,122	2,559,147	455,858	3,015,005
Profit for the year	—	—	984,514	984,514	116,431	1,100,945
Total recognised income and expense for the year	—	—	—	984,514	116,431	1,100,945
Excess of book values of net assets acquired for entities under common control over consideration paid	—	474,463	—	474,463	220,726	695,189
Excess of minority interest acquired for entities under common control over consideration paid	—	263,994	—	263,994	(298,279)	(34,285)
Excess of book values of net assets sold for entities under common control over consideration received	—	(234,370)	—	(234,370)	(53,488)	(287,858)
Excess of consideration received for entities under common control over book values of net assets sold	—	23,735	—	23,735	—	23,735
Excess of consideration received for entities under common control over book values of net assets sold from discontinued operations	—	333,714	—	333,714	—	333,714
Shareholder contributions	—	293,242	—	293,242	—	293,242
Balance at 31 December 2006	30,106	2,145,697	2,522,636	4,698,439	441,248	5,139,687

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-13 to F-52.

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

'000 USD	Attributable to shareholders of the Company					Minority interest	Total equity
	Share capital	Additional paid in capital	Foreign currency translation reserve	Retained earnings	Total		
Balance at 1 January 2005 (Restated)	707	—	—	55,050	55,757	31,858	87,615
Profit for the year	—	—	—	374	374	3,634	4,008
Foreign exchange translation differences . .	—	—	(3,503)	—	(3,503)	—	(3,503)
Total recognised income and expense for the year .	—	—	—	—	(3,129)	3,634	505
Excess of minority interest acquired for entities under common control over consideration paid .	—	30,788	—	—	30,788	(25,784)	5,004
Shareholder contributions . .	—	11,257	—	—	11,257	—	11,257
Participation of minority interest in additional issues of subsidiaries and effect of transfer of shares between subsidiaries	—	(7,013)	—	—	(7,013)	7,013	—
Shares issued	371	—	—	—	371	—	371
Balance at 31 December 2005 (Restated)	<u>1,078</u>	<u>35,032</u>	<u>(3,503)</u>	<u>55,424</u>	<u>88,031</u>	<u>16,721</u>	<u>104,752</u>
Profit for the year	—	—	—	36,215	36,215	4,283	40,498
Foreign exchange translation differences . .	—	—	12,288	—	12,288	—	12,288
Total recognised income and expense for the year .	—	—	—	—	48,503	4,283	52,786
Excess of book values of net assets acquired for entities under common control over consideration paid	—	17,453	—	—	17,453	8,119	25,572
Excess of minority interest acquired for entities under common control over consideration paid .	—	9,711	—	—	9,711	(10,973)	(1,262)
Excess of book values of net assets sold under common control over consideration received . .	—	(8,621)	—	—	(8,621)	(1,968)	(10,589)
Excess of consideration received for entities under common control over book values of net assets sold	—	873	—	—	873	—	873
Excess of consideration received for entities under common control over book values of net assets sold from discontinued operations .	—	12,276	—	—	12,276	—	12,276
Shareholder contributions . .	—	10,786	—	—	10,786	—	10,786
Balance at 31 December 2006	<u>1,078</u>	<u>77,510</u>	<u>8,785</u>	<u>91,639</u>	<u>179,012</u>	<u>16,182</u>	<u>195,194</u>

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-13 to F-52.

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OJSC LSR GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

1 Background

(a) Organisation and operations

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

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

The Group’s principal activity is construction of buildings in St. Petersburg, Moscow and Munich, production of construction materials at plants located in St. Petersburg, Leningradskaya Oblast, Latvia and Estonia and extraction of materials in different areas of Leningradskaya Oblast. These products are sold mainly in the Russian Federation.

The Group is ultimately controlled (78.4%) by a single individual, Mr. Molchanov, who has the power to direct the transactions of the Group at his own discretion and for his own benefit. He also has a number of other business interests outside of the Group. Related party transactions are detailed in note 30.

(b) Russian business environment

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

2 Basis of preparation

(a) Statement of compliance

These consolidated IFRS financial statements have been prepared following the requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards (“IFRSs”). The Group has not prepared consolidated financial statements in accordance with Russian accounting principles. Accordingly, no reconciliation between the consolidated financial statements and consolidated financial statements prepared under Russian accounting principles has been prepared.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that investments available-for-sale are stated at fair value; property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs; and the carrying amounts of assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKom.Stat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

(c) Functional and presentation currency

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

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(d) Use of estimates and judgments

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

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

- Note 13—deemed cost of property plant and equipment;
- Note 25(a)—provision for loss making contracts;
- Note 25(b)—provision for site restoration; and
- Note 29—contingencies.

3 Significant accounting policies

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

Changes in classification

During the current year the Group modified the classification of its expenses in the income statement. Comparatives were reclassified for consistency, which resulted in RUR 306,532 thousand/USD 10,836 thousand being reclassified from administrative to cost of sales in amount of 286,605 thousand/USD 10,132 thousand and distribution expenses in amount of RUR 19,927 thousand/USD 704 thousand.

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Special purpose entities

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

(iii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Company are accounted for at the date of transfer of shares to the Group. The assets and liabilities acquired are recognised at their previous book values as recognised in the individual financial statements of the acquiree. Any difference between the book value of net assets acquired and consideration paid is recognised as contribution from or distribution to shareholders.

(iv) Disposals to entities under common control

Disposals of controlling interests in entities to the same controlling shareholder that controls the Company are accounted for at the date of transfer of shares from the Group. The assets and liabilities sold are derecognised at their previous book values as recognised in the individual financial statements of the

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Group. Any difference between the book value of net assets sold and consideration received is recognised as contribution from or distribution to shareholders.

(v) *Acquisitions and disposals of minority interests*

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

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

(vi) *Associates*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(vii) *Transactions eliminated on consolidation*

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) *Foreign currencies*

(i) *Foreign currency transactions*

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

(ii) *Foreign operations*

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

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

(iii) *Translation to presentation currency*

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

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(c) Financial instruments

(i) Non-derivative financial instruments

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

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

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

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

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

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

Investments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in the income statement.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

(d) Share capital

Ordinary shares

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

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

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(e) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

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

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

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

(f) Intangible assets

(i) Goodwill and negative goodwill

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

Acquisitions prior to 1 January 2005

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

Acquisitions on or after 1 January 2005

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

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment.

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(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortisation

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

(g) Leased assets

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

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(h) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both. Investment property is measured at fair value with any change therein recognised in the income statement. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(i) Inventories

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

(j) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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

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

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

(ii) Reversal of impairment

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale

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financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(iii) Non-financial assets

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

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

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

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

(k) Employee benefits

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

(l) Provisions

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

(i) Site restoration

In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration in respect of land suffered from quarrying, and the related expense, is recognised when the land is suffered from quarrying.

(ii) Onerous contracts

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

(m) Revenues

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the

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consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. Revenue from the sale of flats is recognised when the buyer takes occupation of the property.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Construction contracts

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract. The stage of completion is assessed as the proportion that contract costs incurred for work performed to date bear to estimated total contract costs. An expected loss on a contract is recognised immediately in the income statement.

(n) Other expenses

(i) Lease payments

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

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

(ii) Social expenditure

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

(o) Financial income and expenses

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

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

(p) Income tax

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for

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taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

(q) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(r) Segment reporting

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

(s) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2006, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective. Of these pronouncements, potentially the following will have an impact on the Group's operations.

- IFRS 7 *Financial Instruments: Disclosures* and the *Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to Group's financial instruments and share capital.
- IFRS 8 *Operating Segments*, which is effective for annual periods beginning on or after 1 January 2009. The Standard introduces the "management approach" to segment reporting.
- IFRIC 8 *Scope of IFRS 2 Share-based Payment* addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Group's 2007 financial statements, with retrospective application required.
- IFRIC 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e. 1 January 2004).
- IFRIC 11 *IFRS 2—Group and Treasury Share Transactions*, which is effective for annual periods beginning on or after 1 March 2007. The Interpretation addresses the classification of the share-based payment as equity-settled or cash-settled in the financial statements of the entity receiving the services.

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4 Segment reporting

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

Inter-segment pricing in the case of certain transactions is not determined on an arm's length basis.

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

(a) Business segments

The Group comprises the following main business segments:

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

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

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

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

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

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

Roads construction. Road construction companies that provided a wide range of road development, construction and maintenance services. This segment was sold in January 2006.

(b) Geographical segments

The operations of the Group are conducted and managed in the North-West region of Russia, cities of St. Petersburg and in Moscow where production facilities and sales offices of the Group are located. The Group also has operations in Munich, Latvia and Estonia the volume of which is not significant to total operations of the Group and, accordingly, no geographical segmental information is presented.

(i) Business segments

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

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	Development	Building materials	Aggregates	Roads construction (discontinued)	Construction	Construction services	Other entities	Eliminations	Consolidated	Less Roads construction (discontinued)	Continuing operations
2005											
'000 RUR											
Revenue from											
external customers	2,408,733	4,981,855	2,222,371	2,634,902	2,552,102	639,354	118,391	—	15,557,708	(2,634,902)	12,922,806
Inter-segment revenue	20,008	355,249	353,020	127,814	680,641	220,888	184,410	(1,651,505)	290,525	(127,814)	162,711
Total revenue	2,428,741	5,337,104	2,575,391	2,762,716	3,232,743	860,242	302,801	(1,651,505)	15,848,233	(2,762,716)	13,085,517
Segment result	6,680	540,349	355,334	(128,960)	75,617	292,152	58,281	(57,413)	1,142,040	141,816	1,283,856
Unallocated expenses									(255,411)	—	(255,411)
Financial income									157,324	(17,176)	140,148
Financial expenses									(850,866)	63,630	(787,236)
Income tax expense/ (benefit)									(79,728)	(38,456)	(118,184)
Net profit/(loss) for the year									113,359	149,814	263,173
Depreciation/amortization	8,275	226,915	350,179	82,466	155,012	81,931	82,717	—	987,495	(82,466)	905,029
Capital expenditure	31,124	910,015	318,023	349,310	164,019	168,372	414,677	(374,340)	1,981,200	(349,310)	1,631,890

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

	Development	Building materials	Aggregates	Roads construction (discontinued)	Construction	Construction services	Other entities	Eliminations	Consolidated	Less Roads construction (discontinued)	Continuing operations
2005											
'000 USD											
Revenue from											
external customers	85,155	176,122	78,567	93,151	90,224	22,603	4,185	—	550,007	(93,151)	456,856
Inter-segment revenue	707	12,559	12,480	4,519	24,062	7,809	6,519	(58,384)	10,271	(4,519)	5,752
Total revenue	85,862	188,681	91,047	97,670	114,286	30,412	10,704	(58,384)	560,278	(97,670)	462,608
Segment result	236	19,104	12,562	(4,559)	2,673	10,328	2,060	(2,030)	40,374	5,014	45,388
Unallocated expenses									(9,030)	—	(9,030)
Financial income									5,562	(607)	4,955
Financial expenses									(30,080)	2,249	(27,831)
Income tax expense/ (benefit)									(2,818)	(1,360)	(4,178)
Net profit/(loss) for the year									4,008	5,296	9,304
Depreciation/amortization	293	8,022	12,380	2,915	5,480	2,896	2,925	—	34,911	(2,915)	31,996
Capital expenditure	1,100	32,171	11,243	12,349	5,799	5,952	14,660	(13,233)	70,041	(12,349)	57,692

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

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	Development	Building materials	Aggregates	Roads construction (discontinued)	Construction	Construction services	Other entities	Eliminations	Consolidated
2005									
'000 RUR									
Segment assets	8,704,486	4,879,402	2,472,736	1,539,247	2,660,088	1,103,297	226,960	(1,604,043)	19,982,173
Unallocated assets									2,030,545
Total assets									22,012,718
Segment liabilities	8,282,203	1,176,489	567,789	1,450,591	820,918	175,743	70,376	(1,448,856)	11,095,253
Unallocated liabilities									7,902,460
Total liabilities									18,997,713

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

	Development	Building materials	Aggregates	Roads construction (discontinued)	Construction	Construction services	Other entities	Eliminations	Consolidated
2005									
'000 USD									
Segment assets	302,423	169,527	85,911	53,479	92,420	38,332	7,885	(55,730)	694,247
Unallocated assets									70,549
Total assets									764,796
Segment liabilities	287,751	40,875	19,727	50,398	28,521	6,106	2,445	(50,338)	385,485
Unallocated liabilities									274,559
Total liabilities									660,044

5 Discontinued operation

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

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Results attributable to the discontinued operation were as follows:

	2005	
	'000 RUR	'000 USD
Results of discontinued operation		
Revenue	2,762,716	97,670
Cost of sales	(2,740,253)	(96,877)
Administrative expenses	(169,333)	(5,986)
Other income	5,054	179
Financial income	17,176	607
Financial expenses	(63,630)	(2,249)
Loss from operating activities	(188,270)	(6,656)
Income tax benefit	38,456	1,360
Loss from operating activities, net of income tax	(149,814)	(5,296)
Basic and diluted loss per share	(1.76) RUR	(0.06) USD
Cash flows from discontinued operation		
Net cash utilised by operating activities	(350,630)	(12,397)
Net cash utilised by investing activities	(166,006)	(5,870)
Net cash from financing activities	557,149	19,697
Net cash utilised by discontinued operation	40,513	1,430
	As at 31 December 2005	
	'000 RUR	'000 USD
Effect of disposal on the financial position of the Group		
Property, plant and equipment	480,164	17,663
Deferred tax asset	157,682	5,800
Inventories	487,951	17,949
Trade and other receivables	876,411	32,239
Cash and cash equivalents	48,254	1,775
Trade and other payables	(1,132,791)	(41,669)
Other liabilities	(1,217,318)	(44,780)
Net identifiable assets and liabilities	(299,647)	(11,023)
Difference between net assets disposed and consideration received recognised in net assets attributable to shareholders	333,714	12,276
Consideration received, satisfied in cash	34,067	1,253
Cash disposed of	(48,254)	(1,775)
Net cash outflow	(14,187)	(522)

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6 Non-current assets held for sale

Two entities within a Group are presented as disposal group held for sale following the commitment of the Group's management to plan to sell these entities representing non-core businesses of the Group. Efforts to sell the disposal Group have commenced, and the sale is expected to take place within 2007.

	As at 31 December 2006	
	'000 RUR	'000 USD
Assets classified as held for sale		
Property plant and equipment	53,182	2,020
Inventories	14,898	566
Receivables	2,135	81
Financial assets	718	27
	<u>70,933</u>	<u>2,694</u>
Liabilities classified as held for sale		
Trade and other payables	26,884	1,021
Deferred tax liabilities	1,045	40
	<u>27,929</u>	<u>1,061</u>

7 Acquisition and disposals of subsidiaries and minority interests

(a) Acquisition of subsidiaries

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

It has not been possible to determine the carrying amounts of the assets and liabilities of subsidiaries acquired from third parties on an IFRS basis immediately prior to the date of acquisition because the subsidiaries' financial statements were prepared in accordance with Russian accounting principles which are significantly different form IFRSs.

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

	Recognised fair/book values on acquisition	
	<u>'000 RUR</u>	<u>'000 USD</u>
Non-current assets		
Property, plant and equipment	1,843,625	67,816
Investment property under development	100,444	3,695
Investment property	916,560	33,715
Long-term investments	42,405	1,560
Intangible assets	436	16
Deferred income tax assets, net	53,426	1,965
Other non-current assets	133,057	4,894
Current assets		
Investments	100,287	3,689
Inventories	1,969,041	72,432
Income tax receivable	14,125	520
Trade and other receivables	4,305,484	158,376
Cash and cash equivalents	276,562	10,173
Assets classified as held for sale	70,764	2,603
Due from affiliates	258,888	9,523
Non-current liabilities		
Deferred tax liability	(222,240)	(8,175)
Loans and borrowings	(471,723)	(17,353)
Current liabilities		
Bank overdrafts	(13,134)	(483)
Loans and borrowings	(580,408)	(21,350)
Income tax payable	(6,300)	(232)
Provisions	(23,683)	(871)
Liabilities classified as held for sale	(27,929)	(1,027)
Trade and other payables	(2,121,167)	(78,027)
Due to affiliates	(2,182,945)	(80,299)
Net identifiable assets, liabilities and contingent liabilities	4,435,575	163,160
Minority interest	(220,726)	(8,119)
Minority interest in OOO companies	(86,506)	(3,182)
Net identifiable assets, liabilities and contingent liabilities acquired	4,128,343	151,859
Goodwill on acquisition	550,217	20,240
Difference between net assets acquired and consideration paid recognised in net assets attributable to shareholders	(474,463)	(17,453)
Consideration paid	4,204,097	154,646
Cash acquired	(276,562)	(10,173)
Net cash outflow/(inflow)	<u>3,927,535</u>	<u>144,473</u>

(b) Acquisition of minority interests

During 2006 the Group acquired additional minority interest in a number of subsidiaries for RUR 34,285 thousand/USD 1,261 thousand. The Group recognised a decrease in minority interest of RUR 298,279 thousand/USD 10,973 thousand, contribution from shareholders of RUR 263,994 thousand/USD 9,711 thousand was recognised directly in equity.

(c) Disposal of subsidiaries

During year ended 31 December 2006 the Group disposed of eight subsidiaries to companies controlled by the ultimate controlling party. The subsidiaries reduced the net profit for the year by RUR 59,241 thousand/USD 2,188 thousand. The net loss on disposal of RUR 210,635 thousand/USD 7,748 thousand was recognised in net assets attributable to shareholders. The Group also recognised

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income from disposal of discontinued operations in amount of RUR 333,714 thousand/
 USD 12,276 thousand (see note 5).

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

	Carrying amount at date of disposal	
	'000 RUR	'000 USD
Non-current assets		
Property, plant and equipment	213,945	7,870
Intangible assets	52	2
Investments	200	7
Long-term investments	56,857	2,091
Current assets		
Investments	835	31
Inventories	66,614	2,450
Income tax receivable	434	16
Trade and other receivables	290,616	10,690
Due from affiliates	3,018	111
Cash and cash equivalents	24,389	897
Non-current liabilities		
Deferred tax liability	(30,017)	(1,104)
Other non-current liabilities	(194)	(7)
Current liabilities		
Loans and borrowings	(22,849)	(840)
Bank overdrafts	(260)	(10)
Trade and other payables	(282,116)	(10,377)
Provisions	(55)	(2)
Income tax payable	(1,002)	(37)
Net identifiable assets and liabilities	320,467	11,788
Minority interest	(53,488)	(1,968)
Net identifiable assets, liabilities and contingent liabilities disposed	266,979	9,820
Excess of consideration received for entities under common control over book values of net assets sold	23,735	873
Excess of book values of net assets sold for entities under common control over consideration received	(234,370)	(8,621)
Consideration received	56,344	2,072
Cash disposed of	(24,389)	(897)
Net cash inflow	<u>31,955</u>	<u>1,175</u>

8 Administrative expenses

	2006 '000 RUR	2005 '000 RUR	2006 '000 USD	2005 '000 USD
Wages and salaries	1,264,334	942,388	46,508	33,316
Services	836,940	456,218	30,787	16,129
Materials	74,194	72,414	2,729	2,560
Depreciation and amortisation	36,120	48,575	1,329	1,717
Taxes other than profit tax	145,340	113,817	5,346	4,024
Social expenditure	314,973	33,062	11,586	1,169
Insurance	10,413	10,905	383	386
Other administrative expenses	368,789	213,207	13,566	7,536
	<u>3,051,103</u>	<u>1,890,586</u>	<u>112,234</u>	<u>66,837</u>

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9 Other expenses

	2006 '000 RUR	2005 '000 RUR	2006 '000 USD	2005 '000 USD
Loss on disposal of property, plant and equipment	(94,332)	(83,146)	(3,470)	(2,940)
Gain on disposal of other assets	38,173	(18,021)	1,404	(637)
	<u>(56,159)</u>	<u>(101,167)</u>	<u>(2,066)</u>	<u>(3,577)</u>

10 Total personnel costs

	2006 '000 RUR	2005 '000 RUR	2006 '000 USD	2005 '000 USD
Wages and salaries:				
Cost of sales	2,881,893	1,426,813	106,010	50,442
Administrative expenses	1,264,334	942,388	46,508	33,316
Distribution expenses	144,849	78,614	5,328	2,779
	<u>4,291,076</u>	<u>2,447,815</u>	<u>157,846</u>	<u>86,537</u>

11 Financial income and expenses

	2006 '000 RUR	2005 '000 RUR	2006 '000 USD	2005 '000 USD
Financial income				
Foreign exchange gain	84,262	58,779	3,099	2,078
Interest income	43,253	39,320	1,591	1,390
Income from sale of available-for-sale investments	12,769	41,889	470	1,481
Dividend income	73,512	160	2,704	6
	<u>213,796</u>	<u>140,148</u>	<u>7,864</u>	<u>4,955</u>
Financial expenses				
Interest expense	(1,062,238)	(763,907)	(39,074)	(27,006)
Minority interest in limited liability subsidiaries	(27,377)	(23,329)	(1,007)	(825)
	<u>(1,089,615)</u>	<u>(787,236)</u>	<u>(40,081)</u>	<u>(27,831)</u>

12 Income tax expense/(benefit)

	2006 '000 RUR	2005 '000 RUR	2006 '000 USD	2005 '000 USD
Current tax expense				
Current year	791,028	304,833	29,098	10,777
Deferred tax expense				
Origination and reversal of temporary differences	(132,989)	(186,649)	(4,892)	(6,599)
Income tax expense	<u>658,039</u>	<u>118,184</u>	<u>24,206</u>	<u>4,178</u>
Income tax from continuing operations	<u>658,039</u>	<u>118,184</u>	<u>24,206</u>	<u>4,178</u>
Income tax from discontinued operations	—	(38,456)	—	(1,360)
	<u>658,039</u>	<u>79,728</u>	<u>24,206</u>	<u>2,818</u>

The Group's applicable tax rate is the corporate income tax rate of 24% (2005: 24%).

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Reconciliation of effective tax rate:

	2006		2005		2006		2005	
	'000 RUR	%	'000 RUR	%	'000 USD	%	'000 USD	%
Profit for the period	1,100,945		113,359		40,498		4,008	
Income tax expense	658,039		79,728		24,206		2,818	
Profit before income tax	1,758,984	100	193,087	100	64,704	100	6,827	100
Income tax at applicable tax rate . .	422,156	24	46,341	24	15,529	24	1,638	24
Non-deductible and non-taxable items	235,883	13	33,387	17	8,677	13	1,180	17
	658,039	37	79,728	41	24,206	37	2,818	41

13 Property, plant and equipment

'000 RUR	Land and buildings	Machinery and equipment	Transportation equipment	Other fixed assets	Assets under construction	Total
<i>Cost/Deemed cost</i>						
At 1 January 2005	3,159,426	1,613,761	994,810	744,114	728,658	7,240,769
Acquisitions through business combinations	84,045	53,248	4,634	12,722	—	154,649
Additions	173,933	595,984	386,261	306,908	518,114	1,981,200
Disposals	(121,030)	(259)	(12,636)	(61,595)	(79,958)	(275,478)
Transfers	77,339	496,786	25,329	36,180	(635,634)	—
At 31 December 2005	3,373,713	2,759,520	1,398,398	1,038,329	531,180	9,101,140
At 1 January 2006	3,373,713	2,759,520	1,398,398	1,038,329	531,180	9,101,140
Acquisitions through business combinations	1,473,116	371,798	10,608	18,923	58,787	1,933,232
Additions	326,566	917,170	788,258	78,310	854,552	2,964,856
Disposals	(95,770)	(166,724)	(117,231)	(65,134)	(140,122)	(584,981)
Business disposals	(267,078)	(168,213)	(377,005)	(39,188)	(25,675)	(877,159)
Transfers	258,512	546,731	29,383	(513,629)	(343,573)	(22,576)
Effect of movements in exchange rates	3,526	3,860	(27)	185	651	8,195
At 31 December 2006	5,072,585	4,264,142	1,732,384	517,796	935,800	12,522,707

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'000 RUR	Land and buildings	Machinery and equipment	Transportation equipment	Other fixed assets	Assets under construction	Total
<i>Depreciation and impairment losses</i>						
At 1 January 2005	(371)	—	(38,569)	(835)	—	(39,775)
Depreciation charge	(240,190)	(303,310)	(273,693)	(169,989)	—	(987,182)
Disposals	6,066	8,721	17,097	15,399	—	47,283
Transfers	—	—	(201)	201	—	—
At 31 December 2005	(234,495)	(294,589)	(295,366)	(155,224)	—	(979,674)
At 1 January 2006	(234,495)	(294,589)	(295,366)	(155,224)	—	(979,674)
Depreciation charge	(236,050)	(550,243)	(233,483)	(100,713)	—	(1,120,489)
Acquisitions through business combinations	(53,510)	(22,374)	(6,919)	(6,804)	—	(89,607)
Disposals	9,604	46,906	21,588	23,910	—	102,008
Business disposals	45,049	29,689	101,650	6,662	—	183,050
Transfers	(1,502)	(61,006)	(6,008)	73,216	—	4,700
Effect of movements in exchange rates	(513)	(939)	(33)	(88)	—	(1,573)
At 31 December 2006	(471,417)	(852,556)	(418,571)	(159,041)	—	(1,901,585)
<i>Net book value</i>						
At 1 January 2005	3,159,055	1,613,761	956,241	743,279	728,658	7,200,994
At 31 December 2005	3,139,218	2,464,931	1,103,032	883,105	531,180	8,121,466
At 31 December 2006	4,601,168	3,411,586	1,313,813	358,755	935,800	10,621,122

'000 USD	Land and buildings	Machinery and equipment	Transportation equipment	Other fixed assets	Assets under construction	Total
<i>Cost/Deemed cost</i>						
At 1 January 2005	113,859	58,156	35,851	26,816	26,259	260,941
Acquisitions through business combinations	2,971	1,882	164	450	—	5,467
Additions	6,149	21,070	13,655	10,850	18,317	70,041
Disposals	(4,279)	(9)	(447)	(2,178)	(2,827)	(9,740)
Transfers	2,734	17,563	895	1,279	(22,471)	—
Effect of movements in exchange rates	(4,220)	(2,787)	(1,531)	(1,142)	(823)	(10,503)
At 31 December 2005	117,214	95,875	48,587	36,075	18,455	316,206
At 1 January 2006	117,214	95,875	48,587	36,075	18,455	316,206
Acquisitions through business combinations	54,188	13,676	390	696	2,162	71,112
Additions	12,013	33,738	28,996	2,881	31,434	109,062
Disposals	(3,523)	(6,133)	(4,312)	(2,396)	(5,154)	(21,518)
Business disposals	(9,824)	(6,188)	(13,868)	(1,442)	(944)	(32,266)
Transfers	9,509	20,111	1,081	(18,894)	(12,638)	(831)
Effect of movements in exchange rates	13,069	10,865	4,921	2,744	2,225	33,824
At 31 December 2006	192,646	161,944	65,795	19,664	35,540	475,589

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'000 USD	Land and buildings	Machinery and equipment	Transportation equipment	Other fixed assets	Assets under construction	Total
<i>Depreciation and impairment losses</i>						
At 1 January 2005	(13)	—	(1,390)	(30)	—	(1,433)
Depreciation charge	(8,491)	(10,723)	(9,676)	(6,010)	—	(34,900)
Disposals	214	308	604	544	—	1,670
Transfers	—	—	(7)	7	—	—
Effect of movements in exchange rates	143	180	206	95	—	624
At 31 December 2005	(8,147)	(10,235)	(10,263)	(5,394)	—	(34,039)
At 1 January 2006	(8,147)	(10,235)	(10,263)	(5,394)	—	(34,039)
Depreciation charge	(8,683)	(20,241)	(8,589)	(3,705)	—	(41,218)
Acquisitions through business combinations	(1,968)	(823)	(255)	(250)	—	(3,296)
Disposals	353	1,725	794	880	—	3,752
Transfers	(55)	(2,244)	(221)	2,693	—	173
Business disposals	1,657	1,092	3,739	245	—	6,733
Effect of movements in exchange rates	(1,060)	(1,653)	(1,104)	(509)	—	(4,326)
At 31 December 2006	(17,903)	(32,379)	(15,899)	(6,040)	—	(72,221)
<i>Net book value</i>						
At 1 January 2005	113,846	58,156	34,461	26,786	26,259	259,508
At 31 December 2005	109,067	85,640	38,324	30,681	18,455	282,167
At 31 December 2006	174,743	129,565	49,896	13,624	35,540	403,368

Depreciation expense of RUR 1,074,859 thousand/USD 39,540 thousand has been charged in cost of goods sold, RUR 9,631 thousand/USD 354 thousand in distribution expenses and RUR 35,999 thousand/USD 1,324 thousand in administrative expense.

(a) Determination of deemed cost

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

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

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

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

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

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

- Cash flows were projected based on actual operating results and the five-year business plan.
- Total production at the Group companies for which assessment of the reasonableness of values has been done was projected at RUR 22,456 million/USD 829 million in the first year of the business plan. The anticipated annual production growth included in the cash flow projections was from 6% to 13% for each year since 2007 to 2011.

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- Cash flows for further periods during which property plant and equipment is planned to be used were extrapolated assuming no further growth in production, and revenue and expenses increasing in line with inflation.
- Discount rates from 17.48% to 22.68% were applied in determining the recoverable amount of the plants. The discount rate was estimated based on an industry average weighted average cost of capital.

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

The above estimates are particularly sensitive in the following areas:

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

(b) Security

Properties with a carrying amount of RUR 3,619,920 thousand/USD 137,476 thousand are subject to a registered debenture to secure bank loans (2005: RUR 2,384,823 thousand/USD 82,856 thousand) (see note 24).

(c) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2006 the net book value of leased plant and machinery was RUR 1,699,923 thousand/USD 64,560 thousand (2005: RUR 1,276,380 thousand/USD 44,346 thousand). The leased equipment secures the lease obligations.

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14 Intangible assets

'000 RUR	<u>Goodwill</u>	<u>Other</u>	<u>Total</u>
Cost			
Balance at 1 January 2005	22,451	1,211	23,662
Additions	—	1,530	1,530
Disposals	—	(271)	(271)
Balance at 31 December 2005	<u>22,451</u>	<u>2,470</u>	<u>24,921</u>
Balance at 1 January 2006	22,451	2,470	24,921
Acquisitions through business combinations	—	411	411
Additions	550,218	1,289	551,507
Disposals	—	(126)	(126)
Balance at 31 December 2006	<u>572,669</u>	<u>4,044</u>	<u>576,713</u>
Amortisation and impairment losses			
Balance at 1 January 2005	—	(573)	(573)
Amortisation charge	—	(313)	(313)
Disposals	—	234	234
Balance at 31 December 2005	<u>—</u>	<u>(652)</u>	<u>(652)</u>
Balance at 1 January 2006	—	(652)	(652)
Amortisation charge	—	(242)	(242)
Disposals	—	84	84
Balance at 31 December 2006	<u>—</u>	<u>(810)</u>	<u>(810)</u>
Net book value			
At 1 January 2005	<u>22,451</u>	<u>638</u>	<u>23,089</u>
At 31 December 2005	<u>22,451</u>	<u>1,818</u>	<u>24,269</u>
At 31 December 2006	<u>572,669</u>	<u>3,234</u>	<u>575,903</u>

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'000 USD	Goodwill	Other	Total
Cost			
Balance at 1 January 2005	809	44	853
Additions	—	54	54
Disposals	—	(10)	(10)
Effect of movements in exchange rates	(29)	(2)	(31)
Balance at 31 December 2005	780	86	866
Balance at 1 January 2006	780	86	866
Acquisitions through business combinations	—	15	15
Additions	20,240	47	20,287
Disposals	—	(5)	(5)
Effect of movements in exchange rates	729	11	740
Balance at 31 December 2006	21,749	154	21,903
Amortisation and impairment losses			
Balance at 1 January 2005	—	(21)	(21)
Amortisation charge	—	(11)	(11)
Disposals	—	8	8
Effect of movements in exchange rates	—	1	1
Balance at 31 December 2005	—	(23)	(23)
Balance at 1 January 2006	—	(23)	(23)
Amortisation charge	—	(9)	(9)
Disposals	—	3	3
Effect of movements in exchange rates	—	(2)	(2)
Balance at 31 December 2006	—	(31)	(31)
Net book value			
At 1 January 2005	809	23	832
At 31 December 2005	780	63	843
At 31 December 2006	21,749	123	21,872

(a) Impairment testing of goodwill

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

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

	Allocated goodwill	
	'000 RUR	'000 USD
Zavod Zhelezobetonich Izdeliy-6	254,173	9,655
Aeroc International AS	245,952	9,340
LSR Europe GmbH	50,093	1,902
OAO Construction corporation Revival of Saint-Petersburg (formerly SKV SPb)	22,451	852
	572,669	21,749

No impairment losses were recognised.

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

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

- Cash flows were projected based on actual operating results and the five-year business plan.
- Total production at the entities for 2006 was approximately 98,643 m3 of reinforced concrete products at Zavod Zhelezobetonich Izdeliy-6, 519,665 m3 of lightweighted concrete blocks at Aeroc International AS, 3,300 m2 of real estate development at LSR Europe GmbH and 42,827 m2 of real estate

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development at OAO Construction corporation Revival of Saint-Petersburg. The anticipated annual production growth included in the cash flow projections was up to 37% for the years 2007 to 2011.

- Cash flows for a further five years were extrapolated assuming no further growth in production, and revenue and expenses increasing in line with inflation.
- Discount rates from 12.0% to 19.8% were applied in determining the recoverable amount of the entities. The discount rates were estimated based on an industry average weighted average cost of capital, which was based on a possible range of debt leveraging of 4.0% at a market interest rates from 5.8% to 14.0%.

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

Although no impairment loss was recognised in respect of goodwill allocated to the plants, the determination of recoverable amount is sensitive to the rate at which the plant achieves its planned growth in production. If actual production were to be below estimated production by 28% for Zavod Zhelezobetonich Izdeliy-6, by 25% for Aeroc International AS, by 51% for LSR Europe GmbH and by 89% for OAO Construction corporation Revival of Saint-Petersburg in 2007 and subsequent years, the value in use would approximate the carrying amount of the entities.

15 Investment property under development

'000 RUR	2006	2005
<i>Cost</i>		
At 1 January	178,040	34,009
Acquisitions through business combinations	100,444	—
Costs capitalised	218,368	144,031
At 31 December	496,852	178,040
'000 USD	2006	2005
<i>Cost</i>		
At 1 January	6,186	1,182
Acquisitions through business combinations	3,695	—
Costs capitalised	8,033	5,092
Effect of movements in exchange rates	955	(88)
At 31 December	18,869	6,186

16 Investment property

'000 RUR	2006	2005
<i>Cost</i>		
At 1 January	—	—
Acquisitions through business combinations	916,560	—
Change in fair value	130,106	
At 31 December	1,046,666	—

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'000 USD	2006	2005
Cost		
At 1 January	—	—
Acquisitions through business combinations	33,715	—
Change in fair value	4,786	—
Effect of movements in exchange rates	1,249	—
At 31 December	39,750	—

Investment property comprises a number of commercial properties that are leased to third parties and a plot of land owned by the Group which is used for construction of commercial properties to be used for lease to third parties when construction is completed.

External, independent valuation companies, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, value the Group's investment property portfolio on a regular basis. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each knowledgeable, prudently and without compulsion.

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

17 Other investments

	2006 '000 RUR	2005 '000 RUR	2006 '000 USD	2005 '000 USD
Non-current				
Available-for-sale investments:				
Stated at cost	166,481	30,308	6,322	1,053
Originated loans	160,607	6,892	6,100	239
	327,088	37,200	12,422	1,292
Current				
Available-for-sale investments:				
Stated at fair value	47,259	14,636	1,795	509
Originated loans	753,180	560,032	28,604	19,457
	800,439	574,668	30,399	19,966

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

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18 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

'000 RUR	Assets		Liabilities	
	2006	2005	2006	2005
Property, plant and equipment	(63,093)	(12,578)	1,138,508	1,050,516
Investment property under development	—	—	(79)	—
Investment property	—	—	251,120	—
Investments	(22,203)	(403)	—	6,649
Inventories	(291,301)	(220,560)	30,386	15,658
Trade and other receivables	(122,914)	(74,754)	13,008	22,940
Loans and borrowings	(237,823)	(223,410)	553	—
Provisions	(2,738)	(36,237)	—	—
Trade and other payables	(60,535)	(111,331)	19,669	22,593
Tax loss carry-forwards	(49,985)	—	—	—
Tax (assets)/liabilities	(850,592)	(679,273)	1,453,165	1,118,356
Set off of tax	513,430	374,892	(513,430)	(374,892)
Net tax (assets)/liabilities	<u>(337,162)</u>	<u>(304,381)</u>	<u>939,735</u>	<u>743,464</u>

'000 USD	Assets		Liabilities	
	2006	2005	2006	2005
Property, plant and equipment	(2,396)	(437)	43,238	36,498
Investment property under development	—	—	(3)	—
Investment property	—	—	9,537	—
Investments	(843)	(14)	—	231
Inventories	(11,063)	(7,663)	1,154	544
Trade and other receivables	(4,668)	(2,597)	494	797
Loans and borrowings	(9,033)	(7,762)	21	—
Provisions	(104)	(1,259)	—	—
Trade and other payables	(2,299)	(3,868)	747	785
Tax loss carry-forwards	(1,898)	—	—	—
Tax (assets)/liabilities	(32,304)	(23,600)	55,188	38,855
Set off of tax	19,499	13,025	(19,499)	(13,025)
Net tax (assets)/liabilities	<u>(12,805)</u>	<u>(10,575)</u>	<u>35,689</u>	<u>25,830</u>

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(b) Movement in temporary differences during the year

'000 RUR	1 January 2006	Recognised in income	Acquired	Disposed of	31 December 2006
Property, plant and equipment . . .	1,037,938	190,565	(26,041)	(127,047)	1,075,415
Intangible assets	—	(31)	—	31	—
Investment property under development	—	(26)	(53)	—	(79)
Investment property	—	(26)	251,146	—	251,120
Investments	6,246	(76,226)	(606)	48,383	(22,203)
Inventories	(204,902)	(20,686)	(44,231)	8,904	(260,915)
Trade and other receivables	(51,814)	(160,336)	(3,186)	105,430	(109,906)
Trade and other payables	(88,738)	8,524	(263)	39,611	(40,866)
Loans and borrowings	(223,410)	(65,581)	(632)	52,353	(237,270)
Provisions	(36,237)	36,237	(2,738)	—	(2,738)
Tax loss carry-forwards	—	(45,403)	(4,582)	—	(49,985)
	<u>439,083</u>	<u>(132,989)</u>	<u>168,814</u>	<u>127,665</u>	<u>602,573</u>

'000 USD	1 January 2006	Recognised in income	Acquired	Disposed of	Effect of movements in exchange rate	31 December 2006
Property, plant and equipment	36,061	7,010	(989)	(4,413)	3,173	40,842
Intangible assets	—	(1)	—	1	—	—
Investment property under development	—	(1)	(2)	—	—	(3)
Investment property	—	(1)	9,538	—	—	9,537
Investments	217	(2,804)	(23)	1,681	86	(843)
Inventories	(7,119)	(761)	(1,680)	309	(658)	(9,909)
Trade and other receivables . .	(1,800)	(5,898)	(121)	3,663	(18)	(4,174)
Trade and other payables . . .	(3,083)	314	(10)	1,376	(149)	(1,552)
Loans and borrowings	(7,762)	(2,413)	(24)	1,819	(632)	(9,012)
Provisions	(1,259)	1,333	(104)	—	(74)	(104)
Tax loss carry-forwards	—	(1,670)	(174)	—	(54)	(1,898)
	<u>15,255</u>	<u>(4,892)</u>	<u>6,411</u>	<u>4,436</u>	<u>1,674</u>	<u>22,884</u>

During year ended 31 December 2005 RUR 304,833 thousand/USD 10,777 thousand of the movement in the deferred tax asset and liability was recognised in the income statement.

(c) Unrecognised deferred tax liability

A temporary difference of RUR 323,630 thousand/USD 12,291 thousand relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

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19 Inventories

	2006 '000 RUR	2005 '000 RUR	2006 '000 USD	2005 '000 USD
Work in progress, construction of buildings	9,623,210	4,855,737	365,469	168,704
Finished goods, construction of buildings	2,482,720	1,772,344	94,289	61,577
Raw materials and consumables	971,205	1,123,408	36,884	39,031
Finished goods and goods for resale	541,644	452,813	20,571	15,732
Work in progress	331,509	117,440	12,590	4,081
	<u>13,950,288</u>	<u>8,321,742</u>	<u>529,803</u>	<u>289,125</u>

Inventories with a carrying amount of RUR 14,589 thousand/USD 554 thousand are subject to a registered debenture to secure bank loans (2005: RUR 81,437 thousand/USD 2,829 thousand) (see note 24). There were no write-down of inventories during year ended 31 December 2006 and 31 December 2005.

20 Trade and other receivables

	2006 '000 RUR	2005 '000 RUR	2006 '000 USD	2005 '000 USD
Prepayments for flats	1,432,103	391,586	54,388	13,605
Accounts receivable—trade	1,196,759	989,959	45,450	34,394
Prepayments	1,899,955	920,229	72,156	31,972
Lease incentives	2,404,477	—	91,317	—
VAT receivable	349,778	546,692	13,284	18,994
Deferred expenses	172,015	117,246	6,533	4,074
Notes receivable	325,630	102,929	12,367	3,576
Accounts due from customers for contract work .	89,791	78,800	3,410	2,738
Employee receivables	69,269	40,043	2,631	1,391
Finance lease receivable	204,392	—	7,762	—
Other receivables	838,558	618,333	31,847	21,483
	<u>8,982,727</u>	<u>3,805,817</u>	<u>341,145</u>	<u>132,227</u>
Provision for doubtful debtors	(146,187)	(144,436)	(5,552)	(5,018)
	<u>8,836,540</u>	<u>3,661,381</u>	<u>335,593</u>	<u>127,209</u>

21 Cash and cash equivalents

	2006 '000 RUR	2005 '000 RUR	2006 '000 USD	2005 '000 USD
Petty cash	19,659	42,104	747	1,463
Current accounts	1,587,580	658,671	60,293	22,884
Bank promissory notes	983	75,270	37	2,615
Cash and cash equivalents in the balance sheet . .	1,608,222	776,045	61,077	26,962
Bank overdrafts	(25,944)	(9,467)	(985)	(329)
Cash and cash equivalents in the statement of cash flows	<u>1,582,278</u>	<u>766,578</u>	<u>60,092</u>	<u>26,633</u>

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22 Equity

(a) Share capital

<i>Number of shares unless otherwise stated</i>	<u>Ordinary shares 2006</u>
Authorised shares	
Par value	RUR 0.25
On issue at beginning of year	—
Converted into ordinary shares	<u>85,148,936</u>
On issue at end of year, fully paid	<u>85,148,936</u>

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

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

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

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

(b) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2006 the Company had retained earnings, including the profit for the current year, of RUR 85,763 thousand/USD 3,257 thousand (2005: RUR 80,643/USD 2,801 thousand).

23 Earnings per share

The calculation of earnings per share is based on profit attributable to the shareholders of the Company divided by the number of ordinary shares issued in July 2006 when the Company re-registered as an OAO company (see note 22(a)).

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24 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 27.

	2006	2005	2006	2005
	'000 RUR	'000 RUR	'000 USD	'000 USD
Non-current				
Secured bank loans	4,314,320	1,068,950	163,848	37,139
Unsecured other loans	1,628,146	6,626	61,834	230
Unsecured bond issues	2,000,000	—	75,956	—
Finance lease liability	778,749	424,983	29,575	14,765
	<u>8,721,215</u>	<u>1,500,559</u>	<u>331,213</u>	<u>52,134</u>
Current				
Secured bank loans	736,330	3,195,932	27,964	111,037
Current portion of secured bank loans	199,099	761,930	7,561	26,472
Current portion of unsecured other loans	—	15,065	—	524
Unsecured other loans	3,500,936	160,436	132,959	5,574
Unsecured bond issue	836,638	1,000,000	31,774	34,743
Current portion of finance lease liability	457,718	505,675	17,383	17,569
	<u>5,730,721</u>	<u>5,639,038</u>	<u>217,641</u>	<u>195,919</u>

Finance lease liabilities are payable as follows:

	2006—'000 RUR			2005—'000 RUR		
	Payments	Interest	Principal	Payments	Interest	Principal
Less than one year . .	586,159	128,441	457,718	592,255	86,580	505,675
Between one and five years	913,388	134,639	778,749	471,748	46,765	424,983
	<u>1,499,546</u>	<u>263,079</u>	<u>1,236,467</u>	<u>1,064,003</u>	<u>133,345</u>	<u>930,658</u>
	2006—'000 USD			2005—'000 USD		
	Payments	Interest	Principal	Payments	Interest	Principal
Less than one year . .	22,261	4,878	17,383	20,577	3,008	17,569
Between one and five years	34,688	5,113	29,575	16,390	1,625	14,765
	<u>56,949</u>	<u>9,991</u>	<u>46,958</u>	<u>36,967</u>	<u>4,633</u>	<u>32,334</u>

Bank loans are secured by the following:

- property, plant and equipment with a carrying amount of RUR 3,619,920 thousand/USD 137,476 thousand (2005: RUR 2,384,823 thousand/USD 82,856 thousand)—see note 13(b).
- inventories with a carrying amount of RUR 14,589 thousand/USD 554 thousand (2005: RUR 81,437 thousand/USD 2,829 thousand)—see note 19.

The finance lease liabilities are secured by the leased assets (see note 13(c)).

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

- 61% of ZAO Gatchinsky DSK;
- 100% of OAO Leningrad River Port;
- 90% of OAO Granit-Kuznechnoe;
- 87.87% of OAO GATP-1;
- 81% of OAO Pobeda LSR;

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- 90% of OAO MTO Arkhproekt;
- 26% of OOO Osobnyak.

25 Provisions

'000 RUR	Site restoration	Environment restoration	Loss-making contracts	Provision for litigation	Total
Balance at 1 January 2006	76,627	—	212,080	31,039	319,746
Discontinued operations disposed of . . .	—	—	(212,080)	—	(212,080)
Acquired in a business combination . . .	—	23,683	—	—	23,683
Provided during the period	108,702	4,028	—	—	112,730
Disposed of with sold subsidiaries	—	—	—	(31,039)	(31,039)
Balance at 31 December 2006	<u>185,329</u>	<u>27,711</u>	<u>—</u>	<u>—</u>	<u>213,040</u>
'000 USD	Site restoration	Environment restoration	Loss-making contracts	Provision for litigation	Total
Balance at 1 January 2006	2,662	—	7,369	1,078	11,109
Discontinued operations disposed of . . .	—	—	(7,801)	—	(7,801)
Acquired in a business combination . . .	—	871	—	—	871
Provided during period	3,999	148	—	—	4,147
Disposed of with sold subsidiaries	—	—	—	(1,142)	(1,142)
Effect of movements in exchange rates .	378	33	432	64	907
Balance at 31 December 2006	<u>7,039</u>	<u>1,052</u>	<u>—</u>	<u>—</u>	<u>8,091</u>

(a) Loss-making contracts

The provision for loss-making contracts relates mainly to a number of contracts for the construction of roads.

(b) Site restoration

The Group records provisions in respect of the Group's obligation to clean up the surrounding area after construction of apartment buildings in St. Petersburg. The damage caused during construction is cleaned up after the construction of buildings is completed.

(c) Environment restoration

The Group records provisions in respect of the Group's obligation to clean up the surrounding area after quarrying sand in forested areas. The damage caused during quarrying is cleaned up after quarrying is completed.

(d) Provision for litigation

The Group has recognized a provision for litigation with one of the suppliers of the Group (see note 29(b)).

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26 Trade and other payables

	2006 '000 RUR	2005 '000 RUR	2006 '000 USD	2005 '000 USD
Prepayments received for flats	13,518,896	7,142,552	513,420	248,156
Accounts payable—trade	1,690,383	1,364,072	64,197	47,392
Advances from customers	1,113,356	524,164	42,283	18,211
Notes payable	316,780	345,779	12,031	12,014
Employee-related liabilities	275,196	213,030	10,451	7,401
Other taxes payable	306,763	245,418	11,650	8,527
Minority interest in limited liability subsidiaries	90,095	38,341	3,422	1,332
Accounts due to customers for contract work	175,344	412,411	6,659	14,329
Interest payable	60,740	55,144	2,307	1,916
Deferred income	3,373	10,157	128	353
Dividends payable	93	101	4	4
Other payables	297,352	352,731	11,292	12,254
	<u>17,848,371</u>	<u>10,703,900</u>	<u>677,844</u>	<u>371,889</u>

27 Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

(a) Credit risk

The Group does not require collateral in respect of financial assets. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Interest rate risk

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

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or variable rate would be more favourable to the Group over the expected period until maturity. The following table shows the period in which interest-bearing financial assets and liabilities reprice.

2006 '000 RUR	Average interest rate		Less than 1 year	1-5 years	Over 5 years	Total
	Contractual	Effective				
Assets						
Originated loans—RUR*	4.07%	4.07%	752,254	100,024	61,509	913,787
Liabilities						
Secured bank loans:						
RUR*	10.0%-12.5%	10.54%	(460,493)	(1,005,475)	—	(1,465,968)
USD*	9.48%	9.48%	—	(789,932)	—	(789,932)
USD	Libor+4.0%- Libor+4.1%	9.46%	(842,596)	—	—	(842,596)
EUR*	5.45%-10.33%	8.41%	(275,837)	(1,054,013)	—	(1,329,850)
EUR	Libor+1.5%	5.70%	(617,869)	—	—	(617,869)
EEK*	3.80%-6.00%	4.90%	—	—	(4,435)	(4,435)
Current portion of secured bank loans:						
EUR	Eurolibor+1.6%- Eurolibor+5.1%	7.95%	(176,088)	—	—	(176,088)
RUR*	10.25%-12.5%	10.33%	(23,011)	—	—	(23,011)
Unsecured other loans:						
RUR*	8%-12.5%	9.26%	(3,418,946)	(140)	(17,320)	(3,436,406)
USD*	9.49%	9.49%	(81,990)	(789,933)	—	(871,923)
EUR	Libor+1.5%- Libor+7.5%	10.33%	(820,753)	—	—	(820,753)
Unsecured bond issues:						
RUR*	10.7%-11.0%	10.79%	(836,638)	(2,000,000)	—	(2,836,638)
Finance lease liabilities— RUR*	11%-35%	14.8%	(457,718)	(764,646)	(14,103)	(1,236,467)
			<u>(7,259,685)</u>	<u>(6,304,115)</u>	<u>25,651</u>	<u>(13,538,149)</u>

* Fixed rate

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2005 '000 RUR	Average interest rate		Less than 1 year	1-5 years	Total
	Contractual	Effective			
Assets					
Originated loans—RUR*	—	—	560,032	6,289	566,321
Liabilities					
Secured bank loans:					
RUR*	10.5%-14%	11.24%	(1,969,242)	(100,598)	(2,069,840)
USD*	11%-14.03%	10.3%	(1,226,690)	(332,234)	(1,558,924)
EUR*	7.5%-8.8%	8.86%	—	(636,118)	(636,118)
Current portion of secured long term loans:					
EUR*	7.5%-8.8%	8.86%	(239,533)	—	(239,533)
USD*	12%-12.5%	10.3%	(252,397)	—	(252,397)
RUR*	15.75%	11.24%	(270,000)	—	(270,000)
Current portion of unsecured other loans:					
RUR*	—	—	(15,065)	—	(15,065)
Unsecured other loans:					
RUR*	13%	13%	(160,436)	(6,626)	(167,062)
Unsecured bond issues:					
RUR*	14%	14%	(1,000,000)	—	(1,000,000)
Finance lease liabilities—RUR*	11%-35%	14.8%	(505,675)	(424,983)	(930,658)
			<u>(5,079,006)</u>	<u>(1,494,270)</u>	<u>(6,573,276)</u>

* Fixed rate

2006 '000 USD	Average interest rate		Less than 1 year	1-5 years	Over 5 years	Total
	Contractual	Effective				
Assets						
Originated loans—RUR*	4.07%	4.07%	28,569	3,798	2,336	34,703
Liabilities						
Secured bank loans:						
RUR*	10.0%-12.5%	10.54%	(17,489)	(38,185)	—	(55,674)
USD*	9.48%	9.48%	—	(30,000)	—	(30,000)
USD	Libor+4.0%- Libor+4.1%	9.46%	(32,000)	—	—	(32,000)
EUR*	5.45%-10.33%	8.41%	(10,475)	(40,029)	—	(50,504)
EUR	Libor+1.5%	5.70%	(23,466)	—	—	(23,466)
EEK*	3.80%-6.00%	4.90%	—	—	(168)	(168)
Current portion of secured bank loans:						
EUR	Eurolibor+1.6%- Eurolibor+5.1%	7.95%	(6,688)	—	—	(6,688)
RUR*	10.25%-12.5%	10.33%	(873)	—	—	(873)
Unsecured other loans:						
RUR*	8%-12.5%	9.26%	(129,845)	(5)	(658)	(130,508)
USD*	9.49%	9.49%	(3,114)	(30,001)	—	(33,115)
EUR	Libor+1.5%- Libor+7.5%	10.33%	(31,170)	—	—	(31,170)
Unsecured bond issues:						
RUR*	10.7%-11.0%	10.79%	(31,774)	(75,956)	—	(107,730)
Finance lease liabilities—						
RUR*	11%-35%	14.8%	(17,383)	(29,039)	(536)	(46,958)
			<u>(275,708)</u>	<u>(239,417)</u>	<u>974</u>	<u>(514,151)</u>

* Fixed rate

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2005 '000 USD	Average interest rate		Less than 1 year	1-5 years	Total
	Contractual	Effective			
Assets					
Originated loans—RUR*	—	—	19,457	219	19,676
Liabilities					
Secured bank loans:					
RUR*	10.5%-14%	11.24%	(68,418)	(3,495)	(71,913)
USD*	11%-14.03%	10.3%	(42,619)	(11,543)	(54,162)
EUR*	7.5%-8.8%	8.86%	—	(22,101)	(22,101)
Current portion of secured long term loans:					
EUR*	7.5%-8.8%	8.86%	(8,322)	—	(8,322)
USD*	12%-12.5%	10.3%	(8,769)	—	(8,769)
RUR*	15.75%	11.24%	(9,381)	—	(9,381)
Current portion of unsecured other loans:					
RUR*	—	—	(524)	—	(524)
Unsecured other loans:					
RUR*	13%	13%	(5,574)	(230)	(5,804)
Unsecured bond issues:					
RUR*	14%	14%	(34,743)	—	(34,743)
Finance lease liabilities—RUR*	11%-35%	14.8%	(17,569)	(14,765)	(32,334)
			<u>(176,462)</u>	<u>(51,915)</u>	<u>(228,377)</u>

* Fixed rate

The following table shows the contractual maturities of variable rate interest-bearing financial assets and liabilities. For fixed rate interest-bearing financial assets and liabilities the contractual maturities are consistent with the repricing shown in the above table.

2006 '000 RUR	Less than 1 year	1-5 years	Over 5 years	Total
Liabilities				
Secured bank loans:				
USD	—	(842,596)	—	(842,596)
EUR	—	(144,042)	(473,827)	(617,869)
Current portion of secured bank loans:				
EUR	(176,088)	—	—	(176,088)
Unsecured other loans:				
EUR	—	(820,753)	—	(820,753)
	<u>(176,088)</u>	<u>(1,807,391)</u>	<u>(473,827)</u>	<u>(2,457,306)</u>

2006 '000 USD	Less than 1 year	1-5 years	Over 5 years	Total
Liabilities				
Secured bank loans:				
USD	—	(32,000)	—	(32,000)
EUR	—	(5,471)	(17,995)	(23,466)
Current portion of secured bank loans:				
EUR	(6,688)	—	—	(6,688)
Unsecured other loans:				
EUR	—	(31,170)	—	(31,170)
	<u>(6,688)</u>	<u>(68,641)</u>	<u>(17,995)</u>	<u>(93,324)</u>

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(c) Foreign currency risk

The Group incurs foreign currency risk on borrowings that are denominated in a currency other than RUR. The currencies giving rise to this risk are primarily USD and Euro. Management does not hedge the Group's exposure to foreign currency risk.

The following exchange rates applied:

	USD 2006	Euro 2006	USD 2005	Euro 2005
RUR 1 equals	26.3311	34.6965	28.7825	34.1850

(d) Fair values

The fair value of unquoted equity investments is discussed in note 16. In other cases management believes that the fair value of its financial assets and liabilities approximates their carrying amounts:

In assessing fair values, management used the following major methods and assumptions:

- (i) *Quoted securities.* Quoted market prices at the balance sheet date without any deduction for transaction costs.
- (ii) *Loans and borrowings.* Expected future principal and interest cash flows were discounted at rates that approximated contractual rates.
- (iii) *Promissory notes.* Expected future principal and interest cash flows were discounted at rates that approximated contractual rates.
- (iv) *Trade and other receivables and payables.* For receivables and payables with a maturity of less than six months fair value is not materially different from the carrying amount because the effect of the time value of money is not material.

28 Commitments

At 31 December 2006, the Group was committed to purchase property, plant and equipment for approximately RUR 325,541 thousand/USD 12,363 thousand (31 December 2005: RUR 72,531 thousand/USD 2,520 thousand)

29 Contingencies

(a) Insurance

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

(b) Litigation

As at 31 December 2005 the Group was involved in a dispute relating to a promissory note of an insolvent third party which was endorsed by the Group in 2003. The holder of the promissory note successfully sued the Group on the endorsement. The Group recognised a provision for the amount of the claim of USD 1,080 thousand. During 2006, the Group sold its controlling stake in this company and released the provision accordingly.

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

(c) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a

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number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

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

(d) Environmental liabilities

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

The Group is engaged in crushed stone production in three areas covered by forests. According to existing legislation and the terms of licenses obtained by the Group there is a liability for the Group to restore these sites when quarrying is complete. The costs associated with restoration cannot be determined as, in accordance with existing licences on crushed stone production, the methods of restoration and its cost will be determined in the future based on discussions between the Group and Russian Environment Authorities after the quarrying is complete. Accordingly, no provision has been recognised in the consolidated financial statements for expected expenses on restoration. It is planned that quarrying will be completed for the currently used three areas in the years 2157, 2154 and 2051 respectively.

30 Related party transactions

(a) Control relationships

The Company is controlled by Andrey Molchanov.

(b) Transactions with management and close family members

The Directors, and their close family members control 15.6% of the voting shares of the Company.

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 10):

	<u>2006</u> <u>'000 RUR</u>	<u>2005</u> <u>'000 RUR</u>	<u>2006</u> <u>'000 USD</u>	<u>2005</u> <u>'000 USD</u>
Salaries and bonuses	271,745	38,162	9,996	1,349

(ii) Other transactions

Loans to executive directors amounting to RUR 4,876 thousand /USD 185 thousand are included in "employee receivables" (31 December 2005: RUR 9,030 thousand /USD 314 thousand) (see note 20). No interest is payable on these loans. The loans are expected to be repaid within 4 years.

(c) Transactions with other related parties

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

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(i) Revenue

	Transaction value		Outstanding balance		Transaction value		Outstanding balance	
	2006	2005	2006	2005	2006	2005	2006	2005
	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 USD	'000 USD	'000 USD	'000 USD
Sale of goods and services provided:								
Other	153,339	589,132	2,168	27,778	5,641	20,827	5,823	965
Fellow subsidiaries	249,389	3,158	21,806	8,112	9,174	112	9,471	282
	<u>402,728</u>	<u>592,290</u>	<u>23,974</u>	<u>35,890</u>	<u>14,815</u>	<u>20,939</u>	<u>15,294</u>	<u>1,247</u>

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

(ii) Expenses

	Transaction value		Outstanding balance		Transaction value		Outstanding balance	
	2006	2005	2006	2005	2006	2005	2006	2005
	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 USD	'000 USD	'000 USD	'000 USD
Purchase of goods and services:								
Other	76,896	987,102	7,136	45,415	2,829	34,897	2,920	1,578
Fellow subsidiaries	1,049,509	—	66,256	—	38,606	—	39,858	—
	<u>1,126,405</u>	<u>987,102</u>	<u>73,392</u>	<u>45,415</u>	<u>41,435</u>	<u>34,897</u>	<u>42,778</u>	<u>1,578</u>

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

(iii) Loans

	Transaction value		Outstanding balance		Transaction value		Outstanding balance	
	2006	2005	2006	2005	2006	2005	2006	2005
	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 USD	'000 USD	'000 USD	'000 USD
Loans received:								
Fellow subsidiaries	378,958	37,538	320,462	49,225	13,940	1,327	14,392	1,710
Other	276,787	98,550	176,922	76,698	10,182	3,484	10,512	2,665
Loans given:								
Fellow subsidiaries	340,065	546,416	158,115	445,130	12,509	19,317	12,915	15,465
Other	—	1,294	—	15,476	—	46	—	538
	<u>995,810</u>	<u>683,798</u>	<u>655,499</u>	<u>586,529</u>	<u>36,631</u>	<u>24,174</u>	<u>37,819</u>	<u>20,378</u>

The loans from fellow subsidiaries bear no interest and are repayable based on contractual terms.

The loans to fellow subsidiaries and entities under significant influence bear no interest and are repayable based on contractual terms. No discounting of the loans has been performed at the balance sheet date due to the short maturity of loans received and given.

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31 Significant subsidiaries

	<u>Country of incorporation</u>	<u>Ownership/voting 2006</u>	<u>Ownership/voting 2005</u>
ZAO Gatchinsky DSK	Russia	98.23%	98.23%
OAo Construction corporation Revival of Saint- Petersburg (formerly OAo SKV SPb)	Russia	95.53%	71.98%
OOO Gatchinsky DSK	Russia	100.00%	100.00%
OAo Lenstroirekonstruktsiya	Russia	99.99%	99.99%
ZAO NPO Keramika	Russia	—	75.83%
OAo Lenstroikeramika	Russia	—	87.28%
OAo Granit-Kuznechnoye	Russia	95.09%	83.98%
OAo Rudas	Russia	86.55%	86.55%
OAo Leningrad River Port	Russia	100.00%	100.00%
ZAO Skanex (formerly ZAO Skanmix SPb)	Russia	100.00%	100.00%
ZAO Vertikal	Russia	100.00%	100.00%
OAo PO Barrikada (formerly ZAO PO Barrkkada)	Russia	95.35%	88.87%
ZAO DSK Blok	Russia	100.00%	100.00%
OAo UM-260 (formerly ZAO UM-260)	Russia	97.11%	94.11%
OAo St. Petersburg River Port	Russia	100.00%	100.00%
OAo Obyedineniye 45	Russia	93.83%	92.07%
ZAO Mosstroyrekonstruktsiya	Russia	100.00%	100.00%
OAo GATP-1	Russia	74.63%	74.62%
OAo Pobeda LSR (formerly ZAO Pobeda LSR)	Russia	99.87%	99.86%
OOO Dorstroiproekt	Russia	—	100.00%
OOO Aerok SPb	Russia	100.00%	100.00%
OOO Osobnyak	Russia	100.00%	100.00%
OOO Kwartira LuxServis	Russia	100.00%	100.00%
ZAO Stroitrest 28	Russia	89.63%	89.63%
OOO Stroitrest 28	Russia	50.00%	50.00%
Branch Petrostroyinvest (formerly ZAO GSK Petrostroyinvest)	Russia	100.00%	100.00%
OOO TD Granit-Kuznechnoye	Russia	100.00%	100.00%
ZAO GATP Blok	Russia	—	100.00%
ZAO Paradny kvartal (Naberezhnaya Evropy)	Russia	100.00%	100.00%
OOO Upravlyayushchaya kompaniya	Russia	—	100.00%
OOO Paradny kvartal	Russia	—	100.00%
OOO Nevsky portal	Russia	100.00%	100.00%
OOO Novy kvartal	Russia	100.00%	100.00%
OOO Nisk	Russia	74.00%	74.00%
OOO LSK-ecologiya	Russia	50.00%	100.00%
OOO OP Agis	Russia	—	100.00%
OOO Promichlenno Stroitel'naya Gruppy LSR	Russia	100.00%	90.00%
ZAO Promyshlenny leasing (formerly OOO Promyshlenny leasing)	Russia	100.00%	100.00%
PT Aerok	Russia	—	100.00%
OOO Martynovka	Russia	100.00%	50.00%
ZAO Chekalovskoye	Russia	—	90.83%
OAo Stroydetal	Russia	—	94.79%
OOO Sevzapmostostroy	Russia	—	100.00%
OAo NKSM	Russia	97.00%	98.67%
ZAO Vyborgstroyrekonstruktsiya	Russia	80.00%	—
OOO Yuna	Russia	100.00%	—
DNP Alakul*	Russia	—	—
DNP Penaty 2*	Russia	—	—
DNP Severnoye pomestye*	Russia	—	—
GDSK Invest companies*	Russia	—	—
MSR companies*	Russia	24.00%	—
OAo Zavod Zhelezobetonnich Izdeliy-6	Russia	57.70%	—

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	<u>Country of incorporation</u>	<u>Ownership/voting 2006</u>	<u>Ownership/voting 2005</u>
ZAO Galernaya (formerly OOO Galernaya)	Russia	100.00%	—
OOO GDSK Yugo-Zapad (formerly OOO GDSK- invest-35)	Russia	100.00%	—
OOO GDSK-invest Primorsky (formerly OOO GDSK- invest-49)	Russia	100.00%	—
OOO Zarechye	Russia	100.00%	—
OOO LSSMO Promstroyontazh	Russia	100.00%	—
OOO Smolny kvartal	Russia	100.00%	—
ZAO Severnaya Venecia	Russia	100.00%	—
ZAO Vsevolozhskoye SMP	Russia	100.00%	—
OOO Yakornaya	Russia	100.00%	—
OOO BaltStroyKomplekt	Russia	100.00%	—
Aerok International AS	Estonia	90.00%	—
Obyedineniye 45M	Russia	100.00%	—
SKV-invests*	Russia	—	—
OOO LSR-invest	Russia	100.00%	—
ZAO Chifko Plus	Russia	100.00%	—
LSR Europe GmbH	Germany	100.00%	—
ZAO A Plus Estate	Russia	100.00%	—
ZAO Ingeokom	Russia	100.00%	—
ZAO Electron	Russia	100.00%	—
ZAO Stroitel	Russia	100.00%	—
OAO Stroicorporatciya	Russia	84.44%	—
ZAO Petropolis	Russia	100.00%	—
ZAO Baltiyskaya panorama	Russia	100.00%	—
OOO Gidrotehnik	Russia	100.00%	—
OOO Zolotaya Kazanskaya	Russia	100.00%	—
OAO MTO Arhproekt	Russia	89.92%	—
OOO LSR Ukraina	Ukrain	100.00%	—
ZAO Gvardeiskoe	Russia	100.00%	—
ZAO Parnas	Russia	100.00%	—
OOO Velikan XXI	Russia	100.00%	—
OAO Zavod Elektrik*	Russia	30.0%	—
ZAO Kikerino Elektrik*	Russia	30.0%	—
ZAO Zavod Stroifarfor*	Russia	20.0%	—
OOO BSK Invest*	Russia	20.00%	—

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

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**OJSC LSR Group
(formerly OOO Group LSR)**

**Special Purpose Consolidated Financial Statements
for the year ended
31 December 2004**

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Independent Auditors' Report

Board of Directors of OJSC LSR Group (formerly OOO Group LSR)

Report on the Special Purpose Consolidated Financial Statements

We have audited the accompanying special purpose consolidated financial statements of OJSC LSR Group (formerly OOO Group LSR) (the "Company") and its subsidiaries (the "Group"), which comprise the special purpose consolidated balance sheet as at 31 December 2004, and the special purpose consolidated income statement, special purpose consolidated statement of changes in equity and special purpose consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these special purpose consolidated financial statements based on our audit. Except as described in the Basis for Qualified Opinion paragraph, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared in accordance with the basis of preparation described in the notes.

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

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

Basis for Qualified Opinion

We did not observe the counting of inventories stated at RUR 2,119,133 thousand/USD 71,946 thousand and RUR 5,399,499 thousand/USD 194,586 thousand as at 31 December 2003 and 2004 respectively because we were engaged as auditors of the Group only after those dates. It was impracticable to satisfy ourselves as to those inventory quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to inventories, cost of sales, taxation, loss for the year and reserves as at and for the year ended 31 December 2004.

ZAO KPMG, a company incorporated under the Laws of the Russian Federation and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

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Independent Auditors' Report
Page 2

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the Basis for Qualified Opinion, the special purpose consolidated financial statements present fairly, in all material respects, the results, cash flows and financial position of the Group as at and for the year ended 31 December 2004 and have been prepared in accordance with the basis of preparation described in note 2(a).

ZAO KPMG

ZAO KPMG
4 October 2007

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OJSC LSR GROUP
SPECIAL PURPOSE CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 '000 RUR	2004 '000 USD
Revenue		7,530,926	261,354
Cost of sales		(6,461,625)	(224,245)
Gross profit		1,069,301	37,109
Distribution expenses		(169,469)	(5,880)
Administrative expenses	6	(793,874)	(27,551)
Impairment of goodwill		(717,071)	(24,885)
Other income and expenses	7	(124,706)	(4,328)
Loss from operating activities		(735,819)	(25,535)
Financial income	9	40,465	1,404
Financial expenses	9	(370,351)	(12,853)
Loss before income tax		(1,065,705)	(36,984)
Income tax benefit	10	10,776	374
Loss for the year		<u>(1,054,929)</u>	<u>(36,610)</u>
Attributable to:			
Shareholders of the Company		(1,059,818)	(36,780)
Minority interest		4,889	170
		<u>(1,054,929)</u>	<u>(36,610)</u>
Basic and diluted loss per share	20		
Ordinary shares		<u>(12.45) RUR</u>	<u>(0.43) USD</u>

These special purpose consolidated financial statements were approved by management on 4 October 2007 and were signed on its behalf by:



I.M. Levit
 Chief Executive Officer



E.V. Tumanova
 Chief Financial Officer

The special purpose consolidated income statement is to be read in conjunction with the notes to and forming part of the special purpose consolidated financial statements set out on pages F-64 to F-89.

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OJSC LSR GROUP
SPECIAL PURPOSE CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2004

	<u>Note</u>	<u>2004</u> <u>'000 RUR</u>	<u>2004</u> <u>'000 USD</u>
ASSETS			
Non-current assets			
Property, plant and equipment	11	7,200,994	259,507
Investment property under development	13	34,009	1,226
Goodwill	12	22,451	809
Intangible assets		630	23
Other investments	14	125,381	4,518
Other non-current assets		10,195	367
Deferred tax assets	15	148,239	5,342
Total non-current assets		<u>7,541,899</u>	<u>271,792</u>
Current assets			
Inventories	16	5,399,499	194,586
Other investments	14	352,981	12,721
Income tax receivable		16,112	581
Trade and other receivables	17	1,899,261	68,445
Cash and cash equivalents	18	158,282	5,704
Total current assets		<u>7,826,135</u>	<u>282,037</u>
Total assets		<u><u>15,368,034</u></u>	<u><u>553,829</u></u>

The special purpose consolidated balance sheet is to be read in conjunction with the notes to and forming part of the special purpose consolidated financial statements set out on pages F-64 to F-89.

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OJSC LSR GROUP
SPECIAL PURPOSE CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2004

	Note	2004 '000 RUR	2004 '000 USD
EQUITY AND LIABILITIES			
Equity	19		
Share capital		19,623	666
Foreign currency translation reserve		—	4,858
Reserves		1,527,557	51,678
Total equity attributable to shareholders of the Company		1,547,180	57,202
Minority interest		884,021	30,413
Total equity		<u>2,431,201</u>	<u>87,615</u>
Non-current liabilities			
Loans and borrowings	21	1,817,229	65,489
Trade and other payables		878	32
Deferred tax liabilities	15	841,790	30,336
Total non-current liabilities		<u>2,659,897</u>	<u>95,857</u>
Current liabilities			
Bank overdraft		5,400	195
Loans and borrowings	21	2,854,582	102,873
Trade and other payables	23	6,985,767	251,751
Provisions	22	412,056	14,850
Income tax payable		19,131	688
Total current liabilities		<u>10,276,936</u>	<u>370,357</u>
Total liabilities		<u>12,936,833</u>	<u>466,214</u>
Total equity and liabilities		<u><u>15,368,034</u></u>	<u><u>553,829</u></u>

The special purpose consolidated balance sheet is to be read in conjunction with the notes to and forming part of the special purpose consolidated financial statements set out on pages F-64 to F-89.

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OJSC LSR GROUP
SPECIAL PURPOSE CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2004

	2004 '000 RUR	2004 '000 USD
OPERATING ACTIVITIES		
Loss for the year	(1,054,929)	(36,610)
Adjustments for:		
Depreciation and amortisation	482,138	16,732
Loss on disposal of property, plant and equipment	121,859	4,229
Impairment of goodwill	717,071	24,885
Interest expense	331,044	11,489
Interest income	(35,233)	(1,223)
Dividend income	(4,711)	(163)
Income tax expense	(10,776)	(374)
Operating profit before changes in working capital and provisions	546,463	18,965
Increase in inventories	(2,774,172)	(96,275)
Increase in trade and other receivables	197,293	6,847
Increase in trade and other payables	1,470,150	51,020
Increase in provisions	137,112	4,758
Cash flows utilised by operating activities before income taxes and interest paid	(423,154)	(14,685)
Income taxes paid	(55,843)	(1,938)
Interest paid	(330,523)	(11,471)
Cash flows utilised by operating activities	(809,520)	(28,094)

The special purpose consolidated balance sheet is to be read in conjunction with the notes to and forming part of the special purpose consolidated financial statements set out on pages F-64 to F-89.

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OJSC LSR GROUP
SPECIAL PURPOSE CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2004

	2004 '000 RUR	2004 '000 USD
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	36,481	1,266
Proceeds from disposals of intangible assets	527	18
Interest received	35,233	1,223
Dividends received	4,711	163
Acquisition of property, plant and equipment	(971,898)	(33,730)
Acquisition of investment property under development	(34,009)	(1,180)
Loans given	(398,047)	(13,814)
Loans repaid	224,085	7,777
Acquisition of subsidiaries, net of cash acquired (note 5(a))	(1,151,982)	(39,979)
Acquisition of minority interest	(18,128)	(629)
Purchase of other investments	244,149	8,473
Cash flows utilised by investing activities	(2,028,878)	(70,412)
FINANCING ACTIVITIES		
Proceeds from borrowings	5,144,523	178,536
Repayment of borrowings	(2,125,412)	(73,761)
Contribution from shareholder	279,038	9,684
Payment of finance lease liabilities	(433,644)	(15,049)
Cash flows from financing activities	2,864,505	99,410
Net increase in cash and cash equivalents	26,107	904
Cash and cash equivalents at beginning of year	126,775	4,304
Effect of exchange rate fluctuations on cash and cash equivalents	—	302
Cash and cash equivalents at end of year (note 18)	152,882	5,510

The special purpose consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the special purpose consolidated financial statements set out on pages F-64 to F-89.

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OJSC LSR GROUP
SPECIAL PURPOSE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2004

'000 RUR	Attributable to shareholders of the Company			Minority interest	Total equity
	Share capital	Reserves	Total		
Balance at 1 January 2004	19,623	1,771,463	1,791,086	353,118	2,144,204
Loss and total recognised income and expense for the year	—	(1,059,818)	(1,059,818)	4,889	(1,054,929)
Excess of book values of net assets acquired for entities under common control over consideration paid	—	564,613	564,613	569,072	1,133,685
Excess of minority interest acquired over consideration paid	—	94,960	94,960	(61,088)	33,872
Revaluation of property plant and equipment	—	(122,699)	(122,699)	18,030	(104,669)
Shareholder contributions	—	279,038	279,038	—	279,038
Balance at 31 December 2004	<u>19,623</u>	<u>1,527,557</u>	<u>1,547,180</u>	<u>884,021</u>	<u>2,431,201</u>

The special purpose consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the special purpose consolidated financial statements set out on pages F-64 to F-89.

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OJSC LSR GROUP
SPECIAL PURPOSE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2004

'000 USD	Attributable to shareholders of the Company				Minority interest	Total equity
	Share capital	Foreign currency translation reserve	Reserves	Total		
Balance at 1 January 2004	666	—	60,142	60,808	11,989	72,797
Loss for the year	—	—	(36,780)	(36,780)	170	(36,610)
Foreign exchange translation differences . .	—	4,858	—	4,858	—	4,858
Total recognised income and expense for the year	—	—	—	(31,922)	170	(31,752)
Excess of book values of net assets acquired for entities under common control over consideration paid	—	—	19,594	19,594	19,748	39,342
Excess of minority interest acquired over consideration paid	—	—	3,296	3,296	(2,120)	1,176
Revaluation of property plant and equipment . . .	—	—	(4,258)	(4,258)	626	(3,632)
Shareholder contributions .	—	—	9,684	9,684	—	9,684
Balance at 31 December 2004	<u>666</u>	<u>4,858</u>	<u>51,678</u>	<u>57,202</u>	<u>30,413</u>	<u>87,615</u>

The special purpose consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the special purpose consolidated financial statements set out on pages F-64 to F-89.

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OJSC LSR GROUP
NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

1 Background

(a) Organisation and operations

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

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

The Group’s principal activities are the construction of buildings in St. Petersburg and Moscow, the production of construction materials at plants located in St. Petersburg, Leningradskaya Oblast and the extraction of materials in different areas of Leningradskaya Oblast. These products are sold mainly in the Russian Federation.

The Group is ultimately controlled (71.0%) by a single individual, Mr. Molchanov, who has the power to direct the transactions of the Group at his own discretion and for his own benefit. He also has a number of other business interests outside of the Group. Related party transactions are detailed in note 27.

(b) Russian business environment

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

2 Basis of preparation

(a) Statement of compliance

The Group adopted International Financial Reporting Standards on 1 January 2005, and the Group’s first complete set of IFRS consolidated financial statements are for the year ended 31 December 2006.

These special-purpose consolidated financial statements are not, and do not purport to be, IFRS financial statements. They have been prepared in connection with the Group’s listing of ordinary shares and are intended to present comparative information for the purposes of inclusion in the Group’s prospectus.

These special purpose consolidated financial statements have been prepared by management based upon accounting policies that are described in note 3 below. These accounting policies are consistent with those that have been applied in the Group’s IFRS consolidated financial statements as at and for the years ended 31 December 2005 and 2006, except that the revaluation model has been used in measuring property, plant and equipment and net assets acquired in a common control transactions have been recorded initially at fair value.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that property, plant and equipment is revalued periodically; and the carrying amounts of assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUR”), which is the Company’s functional currency and the currency in which these consolidated financial statements are presented. These special purpose consolidated financial statements are also presented in USD since management believes

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that this currency is useful for the users of the special purpose consolidated financial statements. All financial information presented in RUR and USD has been rounded to the nearest thousand. The RUR is not a readily convertible currency outside the Russian Federation and, accordingly, any conversion of RUR to USD should not be construed as a representation that the RUR amounts have been, could be, or will be in the future, convertible into USD at the exchange rate disclosed, or at any other exchange rate.

(d) Use of judgments, estimates and assumptions

Management has made a number of judgements, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these special purpose consolidated financial statements. Actual results may differ from those estimates.

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

- Note 11—valuation of property plant and equipment;
- Note 12—goodwill impairment;
- Note 22(a)—provision for loss making contracts;
- Note 22(b)—provision for site restoration; and
- Note 26—contingencies.

3 Significant accounting policies

The significant accounting policies applied in the preparation of the special purpose consolidated financial statements are described in note 3(a) to 3(q). These accounting policies have been consistently applied.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are enterprises controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the special purpose consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Special purpose entities

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

(iii) Acquisitions from entities under common control

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

(iv) Disposals to entities under common control

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

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(v) *Acquisitions and disposals of minority interests*

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

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

(vi) *Transactions eliminated on consolidation*

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the special purpose consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) *Foreign currencies*

(i) *Foreign currency transactions*

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

(ii) *Foreign operations*

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

Foreign currency differences are recognised directly in equity.

(iii) *Translation to presentation currency*

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

(c) *Financial instruments*

(i) *Non-derivative financial instruments*

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

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

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

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

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Available-for-sale financial assets

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

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

(d) Share capital

Ordinary shares

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

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, are recognised initially at cost. Subsequent to initial recognition, property, plant and equipment is revalued periodically.

All property, plant and equipment were revalued as at 31 December 2004. The cost of property, plant and equipment at 1 January 2004 was determined by rolling back its revalued amount as at 31 December 2004. For this purpose the depreciation for 2004 has been calculated based on remaining useful lives as at 31 December 2004, the depreciation has been added to the revalued amounts of property, plant and equipment as at 31 December 2004 in order to determine the cost as at 1 January 2004. In case additions of 2004 were revalued as at 31 December 2004, the difference between cost and revalued amount was posted directly into the equity of 2004. In case the property, plant and equipment items that were revalued as at 31 December 2004 already existed as at 1 January 2004 the revaluation effect was posted to equity as at 1 January 2004. No impairment test was performed on the deemed value at 1 January 2004.

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

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

(ii) Subsequent costs

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

(iii) Revaluation

Property, plant and equipment is measured at fair value, based on periodic valuation by external independent valuers. A revaluation increase on property, plant and equipment is recognised directly in equity except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in

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which case it is recognised in profit or loss. A revaluation decrease on property, plant and equipment is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised directly in equity. When a revalued asset is sold, the amount included in other reserves is transferred to retained earnings.

(iv) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives are as follows:

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

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

(f) Intangible assets

(i) Goodwill and negative goodwill

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

Acquisitions prior to 1 January 2004

In respect of acquisitions prior to 1 January 2004, goodwill represents the difference between the Company's interest in a subsidiary's net identifiable assets on the date of transition and the cost of that interest.

Acquisitions on or after 1 January 2004

For acquisitions on or after 1 January 2004, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the profit or loss.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment.

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortisation

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

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(g) Leased assets

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

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(h) Inventories

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

Amounts due from customers for contract work represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Amounts due from customers for contract work is represented as part of trade and other receivables in the balance sheet. If payments received from customers exceed the income recognised, then the difference is presented as deferred income in the balance sheet.

(i) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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

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

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

(ii) Reversal of impairment

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

(iii) Non-financial assets

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

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

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reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

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

(j) Employee benefits

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

(k) Provisions

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

(i) Site restoration

In accordance with applicable legal requirements, a provision for site restoration in respect of quarries, and the related expense, is recognised as quarrying progresses.

(ii) Onerous contracts

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

(l) Revenues

(i) Goods sold

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

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. Revenue from the sale of flats is recognised when the buyer takes occupation of the property.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

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(iii) Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably.

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contract. The stage of completion is assessed as the proportion that contract costs incurred for work performed to date bear to estimated total contract costs. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recovered. An expected loss on a contract is recognised immediately in profit or loss.

(m) Other expenses

(i) Lease payments

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

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

(ii) Social expenditure

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

(n) Financial income and expenses

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, minority interest in limited liability subsidiaries, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

(o) Income tax

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

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

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

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each

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reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(q) Segment reporting

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

4 Segment reporting

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

Inter-segment pricing in case of intercompany transactions is substantially determined on an arm's length basis.

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

(a) Business segments

The Group comprises the following main business segments:

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

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

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

Construction. Construction companies specialize in large panel residential building developments and pile driving.

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

Roads construction. Road construction companies provided a wide range of road development, construction and maintenance services. This segment was sold in January 2006.

(b) Geographical segments

The operations of the Group are conducted and managed in the North-West region of Russia, cities of St. Petersburg and in Moscow where production facilities and sales offices of the Group are located. Accordingly, no geographical segment information is presented.

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(i) Business segments

2004 '000 RUR	Development	Building materials	Aggregates	Construction	Construction services	Other entities	Eliminations	Consolidated
Revenue from external customers . .	2,125,433	3,336,091	1,305,079	65,364	626,950	72,009	—	7,530,926
Inter-segment revenue	4,230	25,865	6,769	211,241	31,859	43,844	(323,808)	—
Total revenue	2,129,663	3,361,956	1,311,848	276,605	658,809	115,853	(323,808)	7,530,926
Segment result	(138,207)	50,549	(93,453)	47,549	216,966	69,249	(740,613)	(587,960)
Unallocated expenses								(147,859)
Financial income								40,465
Financial expenses								(370,351)
Income tax benefit								10,776
Loss for the year								(1,054,929)
Depreciation/amortisation	2,188	161,185	251,836	1,842	53,523	11,564	—	482,138
Capital expenditure	54,805	758,284	500,498	7,767	692,652	39,720	34,288	2,088,014

2004 '000 USD	Development	Building materials	Aggregates	Construction	Construction services	Other entities	Eliminations	Consolidated
Revenue from external customers . .	73,761	115,776	45,292	2,268	21,758	2,499	—	261,354
Inter-segment revenue	147	898	235	7,331	1,106	1,522	(11,237)	—
Total revenue	73,908	116,674	45,527	9,599	22,864	4,021	(11,237)	261,356
Segment result	(4,796)	1,754	(3,243)	1,650	7,530	2,403	(25,702)	(20,404)
Unallocated expenses								(5,131)
Financial income								1,404
Financial expenses								(12,853)
Income tax benefit								374
Loss for the year								(36,610)
Depreciation/amortisation	76	5,594	8,740	64	1,857	401	—	16,732
Capital expenditure	1,902	26,316	17,369	270	24,038	1,378	1,190	72,463

2004 '000 RUR	Development	Building materials	Aggregates	Roads construction	Construction	Construction services	Other entities	Eliminations	Consolidated
Segment assets	5,279,660	4,328,031	2,372,542	498,240	1,950,302	1,117,154	97,625	(328,259)	15,315,295
Unallocated assets									52,738
Total assets									15,368,033
Segment liabilities	5,101,783	818,851	492,323	609,110	645,958	258,945	37,027	(228,204)	7,735,793
Unallocated liabilities									5,201,036
Total liabilities									12,936,829

2004 '000 USD	Development	Building materials	Aggregates	Roads construction	Construction	Construction services	Other entities	Eliminations	Consolidated
Segment assets	190,267	155,972	85,501	17,955	70,284	40,260	3,518	(11,830)	551,927
Unallocated assets									1,902
Total assets									553,829
Segment liabilities	183,857	29,510	17,742	21,951	23,279	9,332	1,334	(8,224)	278,781
Unallocated liabilities									187,433
Total liabilities									466,214

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5 Acquisition and disposals of subsidiaries and minority interests

(a) Acquisition of subsidiaries

During 2004 the Group acquired a controlling interest, settled in cash, in three entities from companies controlled by the ultimate controlling party and in seven entities from unrelated parties.

The impact of acquiring the subsidiaries was to reduce the loss for the year ended 31 December 2004 by RUR 31,394 thousand/USD 1,089 thousand.

It has not been possible to determine the carrying amounts of the assets and liabilities of subsidiaries acquired from third parties on a basis consistent with the Group's accounting policies immediately prior to the date of acquisition because the subsidiaries' financial statements were prepared in accordance with Russian accounting principles.

It has not been practicable to determine the effects on the Group's revenue and loss for the year ended 31 December 2004 had the acquisitions occurred on 1 January 2004.

The acquisition of the subsidiaries had the following effect on the Group's assets and liabilities at the dates of their acquisition.

	Recognised fair values on acquisition	
	'000 RUR	'000 USD
Non-current assets		
Property, plant and equipment	2,518,558	87,406
Intangible assets	516	18
Long-term investments	64,899	2,252
Deferred income tax assets, net	88,295	3,064
Current assets		
Investments	40,000	1,388
Inventories	505,878	17,556
Income tax receivable	5,884	204
Trade and other receivables	364,202	12,639
Cash and cash equivalents	115,098	3,994
Due from affiliates	56,399	1,957
Non-current liabilities		
Deferred tax liability	(360,873)	(12,524)
Current liabilities		
Bank overdrafts	(877)	(30)
Loans and borrowings	(121,078)	(4,202)
Income tax payable	(5,915)	(205)
Provisions	(271,634)	(9,427)
Trade and other payables	(981,360)	(34,057)
Due to affiliates	(282,298)	(9,797)
Net identifiable assets, liabilities and contingent liabilities	1,735,694	60,236
Minority interest	(569,072)	(19,749)
Net identifiable assets, liabilities and contingent liabilities acquired	1,166,622	40,487
Goodwill on acquisition	717,071	24,885
Difference between net assets acquired and consideration paid recognised in profit and loss	(52,000)	(1,805)
Difference between net assets acquired and consideration paid recognised in equity	(564,613)	(19,594)
Consideration paid	1,267,080	43,973
Cash acquired	(115,098)	(3,994)
Net cash outflow	<u>1,151,982</u>	<u>39,979</u>

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(b) Acquisition of minority interests

During 2004 the Group acquired additional minority interests in a variety of subsidiaries for RUR 18,128 thousand/USD 629 thousand. The Group recognised a decrease in minority interest of RUR 61,088 thousand/USD 2,120 thousand and a contribution from shareholders of RUR 42,960 thousand/USD 1,491 thousand was recognised directly in equity.

6 Administrative expenses

	<u>2004</u> <u>'000 RUR</u>	<u>2004</u> <u>'000 USD</u>
Wages and salaries	198,346	6,833
Services	245,942	8,535
Materials	80,262	2,785
Depreciation and amortisation	17,611	611
Taxes other than taxes on income	89,649	3,111
Social expenditure	11,637	404
Other administrative expenses	150,427	5,222
	<u>793,874</u>	<u>27,551</u>

7 Other income and expenses

	<u>2004</u> <u>'000 RUR</u>	<u>2004</u> <u>'000 USD</u>
Loss on disposal of property, plant and equipment	(121,859)	(4,229)
Excess of acquirer's interest in the fair value of acquiree's identifiable assets and liabilities	52,000	1,805
Loss on disposal of other assets	(54,847)	(1,904)
	<u>(124,706)</u>	<u>(4,328)</u>

8 Total personnel costs

	<u>2004</u> <u>'000 RUR</u>	<u>2004</u> <u>'000 USD</u>
Wages and salaries:		
Cost of sales	1,140,637	39,585
Administrative expenses	198,346	6,883
Distribution expenses	41,583	1,443
	<u>1,380,566</u>	<u>47,911</u>

9 Financial income and expenses

	<u>2004</u> <u>'000 RUR</u>	<u>2004</u> <u>'000 USD</u>
Financial income		
Interest income	35,233	1,223
Profit from sale of available-for-sale investments	521	18
Dividend income	4,711	163
	<u>40,465</u>	<u>1,404</u>
Financial expenses		
Foreign exchange loss	(31,698)	(1,100)
Interest expense	(331,044)	(11,489)
Minority interest in limited liability subsidiaries	(7,609)	(264)
	<u>(370,351)</u>	<u>(12,853)</u>

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10 Income tax benefit

	<u>2004</u> <u>'000 RUR</u>	<u>2004</u> <u>'000 USD</u>
Current tax expense		
Current year	59,010	2,048
Deferred tax expense		
Origination and reversal of temporary differences	(69,786)	(2,422)
	<u>(10,776)</u>	<u>(374)</u>

The Group's applicable tax rate is the corporate income tax rate of 24%.

Reconciliation of effective tax rate:

	<u>2004</u> <u>'000</u> <u>RUR</u>	<u>%</u>	<u>2004</u> <u>'000</u> <u>USD</u>	<u>%</u>
Loss before income tax	(1,065,705)	100	(36,984)	100
Income tax at applicable tax rate	(255,769)	24	(8,876)	24
Non-deductible and non-taxable items	244,993	(23)	8,502	(23)
	<u>(10,776)</u>	<u>1</u>	<u>(374)</u>	<u>1</u>

11 Property, plant and equipment

<u>'000 RUR</u>	<u>Land and</u> <u>buildings</u>	<u>Machinery</u> <u>and</u> <u>equipment</u>	<u>Transportation</u> <u>equipment</u>	<u>Other fixed</u> <u>assets</u>	<u>Assets under</u> <u>construction</u>	<u>Total</u>
Valuation						
At 1 January 2004	1,485,999	865,712	696,979	277,325	47,329	3,373,344
Acquisitions through business combinations	1,579,031	373,749	72,002	460,785	32,991	2,518,558
Additions	251,062	544,949	398,955	109,936	783,112	2,088,014
Effect of revaluation	(21,214)	(37,036)	(19,810)	(7,851)	(46,959)	(132,870)
Disposals	(38,386)	(18,777)	(45,853)	(19,159)	(51,874)	(174,049)
Transfer from depreciation	(133,121)	(107,420)	(114,283)	(77,389)	—	(432,213)
Transfers	36,055	(7,416)	6,820	467	(35,941)	(15)
At 31 December 2004	<u>3,159,426</u>	<u>1,613,761</u>	<u>994,810</u>	<u>744,114</u>	<u>728,658</u>	<u>7,240,769</u>
Depreciation and impairment losses						
At 1 January 2004	(1,853)	—	(154)	—	—	(2,007)
Depreciation charge	(133,849)	(110,235)	(155,279)	(82,775)	—	(482,138)
Disposals	1,102	2,258	2,672	9,677	—	15,709
Transfer to cost	133,121	107,420	114,283	77,389	—	432,213
Transfers	1,108	557	(91)	(5,126)	—	(3,552)
At 31 December 2004	<u>(371)</u>	<u>—</u>	<u>(38,569)</u>	<u>(835)</u>	<u>—</u>	<u>(39,775)</u>
Net book value						
At 1 January 2004	<u>1,484,146</u>	<u>865,712</u>	<u>696,825</u>	<u>277,325</u>	<u>47,329</u>	<u>3,371,337</u>
At 31 December 2004	<u>3,159,055</u>	<u>1,613,761</u>	<u>956,241</u>	<u>743,279</u>	<u>728,658</u>	<u>7,200,994</u>

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'000 USD	Land and buildings	Machinery and equipment	Transportation equipment	Other fixed assets	Assets under construction	Total
Valuation						
At 1 January 2004	50,451	29,392	23,663	9,415	1,607	114,528
Acquisitions through business combinations	54,799	12,971	2,499	15,991	1,145	87,405
Additions	8,713	18,912	13,845	3,815	27,177	72,462
Effect of revaluation	(736)	(1,285)	(687)	(272)	(1,630)	(4,610)
Disposals	(1,332)	(652)	(1,591)	(665)	(1,800)	(6,040)
Transfer from depreciation	(4,620)	(3,728)	(3,966)	(2,686)	—	(15,000)
Transfers	1,251	(257)	237	16	(1,247)	—
Effect of movements in exchange rates	5,333	2,804	1,852	1,201	1,006	12,196
At 31 December 2004	<u>113,859</u>	<u>58,157</u>	<u>35,852</u>	<u>26,815</u>	<u>26,258</u>	<u>260,941</u>
Depreciation and impairment losses						
At 1 January 2004	(63)	—	(5)	—	—	(68)
Depreciation charge	(4,645)	(3,826)	(5,389)	(2,873)	—	(16,733)
Disposals	38	78	93	336	—	545
Transfer to cost	4,620	3,728	3,966	2,686	—	15,000
Transfers	38	19	(3)	(178)	—	(124)
Effect of movements in exchange rates	(2)	—	(52)	(1)	—	(55)
At 31 December 2004	<u>(14)</u>	<u>—</u>	<u>(1,390)</u>	<u>(30)</u>	<u>—</u>	<u>(1,435)</u>
Net book value						
At 1 January 2004	<u>50,388</u>	<u>29,392</u>	<u>23,658</u>	<u>9,415</u>	<u>1,607</u>	<u>114,460</u>
At 31 December 2004	<u>113,845</u>	<u>58,157</u>	<u>34,462</u>	<u>26,785</u>	<u>26,259</u>	<u>259,507</u>

Depreciation expense of RUR 456,384 thousand/USD 15,838 thousand has been charged in cost of goods sold, RUR 8,143 thousand/USD 283 thousand in distribution expenses and RUR 17,611 thousand/USD 611 thousand in administrative expense.

(a) Revaluation

In 2006 management commissioned American Appraisals to independently appraise property, plant and equipment as at 1 January 2005.

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

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

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

In addition to the determination of the depreciated replacement cost, cash flow testing was conducted by the Group in order to assess the reasonableness of those values. This resulted in the depreciated replacement cost values being decreased by RUR 6,422,000 thousand/USD 231,434 thousand in arriving at the fair value.

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

- Cash flows were projected based on actual operating results for one year and the five-year business plan.
- Total production at the Group companies for which assessment of the reasonableness of values has been done was projected at RUR 22,456 million in the first year of the business plan. The anticipated annual

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production growth included in the cash flow projections was from 6% to 13% for each year from 2007 to 2011.

- Cash flows for further periods during which property plant and equipment is planned to be used were extrapolated assuming no further growth in production, and revenue and expenses increasing in line with inflation.
- Discount rates from 17.48% to 22.68% were applied in determining the recoverable amount of the property, plant and equipment. The discount rates were estimated based on an industry average weighted average cost of capital.

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

The above estimates are particularly sensitive in the following areas:

- An increase of one percentage point in the discount rate used would have decreased the fair values by RUR 221 million/USD 8 million.

A 10% decrease in future planned production would have decreased fair values by RUR 1,571 million/USD 55 million.

(b) Security

Properties with a carrying amount of RUR 1,972,530 thousand /USD 71,085 thousand are subject to a registered debenture to secure bank loans (see note 21).

(c) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2004 the net book value of leased plant and machinery was RUR 858,458 thousand/USD 30,936 thousand. The leased equipment secures the lease obligations.

12 Goodwill

<u>'000 RUR</u>	<u>Goodwill</u>
<i>Cost</i>	
Balance at 1 January 2004	22,451
Additions	<u>717,071</u>
Balance at 31 December 2004	<u>739,522</u>
Impairment loss	<u>(717,071)</u>
Net book value 31 December 2004	<u><u>22,451</u></u>
<u>'000 USD</u>	<u>Goodwill</u>
<i>Cost</i>	
Balance at 1 January 2004	762
Additions	24,885
Effect of movements in exchange rates	<u>1,004</u>
Balance at 31 December 2004	<u>26,651</u>
Impairment loss	<u>(24,885)</u>
Effect of movements in exchange rates	<u>(957)</u>
Net book value 31 December 2004	<u><u>809</u></u>

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(a) Impairment testing of goodwill

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

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

	Allocated goodwill		Impairment loss	
	'000 RUR	'000 USD	'000 RUR	'000 USD
OOO PSF Dorstroiproekt	182,838	6,589	(182,838)	(6,589)
ZAO Pobeda LSR	485,534	17,498	(485,534)	(17,498)
ZAO GSK Petrostroinvest	48,699	1,755	(48,699)	(1,755)
OAO Construction corporation Revival of Saint-Petersburg (formerly SKV SPb)	22,451	809	—	—
	<u>739,522</u>	<u>26,651</u>	<u>(717,071)</u>	<u>(25,842)</u>

The recoverable amount of each entity represents value in use as determined by discounting the future cash flows generated from the continuing use of the entities. The recoverable amount was determined during cashflow testing performed in relation to property, plant and equipment (see note 11).

13 Investment property under development

	<u>2004</u>
'000 RUR	
<i>Cost</i>	
At 1 January	—
Costs capitalised	34,009
At 31 December	<u>34,009</u>
'000 USD	<u>2004</u>
<i>Cost</i>	
At 1 January	—
Costs capitalised	1,180
Effect of movements in exchange rates	46
At 31 December	<u>1,226</u>

Investment property under development, which is part of property, plant and equipment comprises a number of commercial properties that are under construction and is carried at cost.

14 Other investments

	<u>2004</u>	<u>2004</u>
	<u>'000 RUR</u>	<u>'000 USD</u>
<i>Non-current</i>		
Available-for-sale investments:		
Stated at cost	117,466	4,233
Originated loans	7,915	285
	<u>125,381</u>	<u>4,518</u>
<i>Current</i>		
Available-for-sale investments:		
Stated at fair value	14,070	507
Originated loans	338,911	12,214
	<u>352,981</u>	<u>12,721</u>

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

15 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

	Assets	Liabilities
	2004	2004
'000 RUR		
Property, plant and equipment	(12,923)	1,090,492
Investments	(403)	—
Inventories	(97,006)	6,246
Trade and other receivables	(61,537)	6,361
Loans and borrowings	(170,968)	39,490
Provisions	(65,164)	—
Trade and other payables	(94,925)	53,888
Tax (assets)/liabilities	(502,926)	1,196,477
Set off of tax	354,687	(354,687)
Net tax (assets)/liabilities	<u>(148,239)</u>	<u>841,790</u>
	Assets	Liabilities
	2004	2004
'000 USD		
Property, plant and equipment	(466)	39,299
Investments	(15)	—
Inventories	(3,496)	225
Trade and other receivables	(2,218)	229
Loans and borrowings	(6,161)	1,423
Provisions	(2,348)	—
Trade and other payables	(3,420)	1,942
Tax (assets)/liabilities	(18,124)	43,118
Set off of tax	12,782	(12,782)
Net tax (assets)/liabilities	<u>(5,342)</u>	<u>30,336</u>

(b) Movement in temporary differences during the year

	1 January	Recognised	Acquired	Equity	31 December
	2004	in income			2004
'000 RUR					
Property, plant and equipment . . .	542,709	166,395	396,667	(28,201)	1,077,570
Investments	(695)	(258)	550	—	(403)
Inventories	21,625	(95,785)	(16,600)	—	(90,760)
Trade and other receivables	(17,904)	(32,081)	(5,191)	—	(55,176)
Trade and other payables	2,077	1,811	(44,926)	—	(41,038)
Loans and borrowings	(20,617)	(109,817)	(1,044)	—	(131,478)
Provisions	—	(3)	(65,161)	—	(65,164)
	<u>527,195</u>	<u>(69,738)</u>	<u>264,295</u>	<u>(28,201)</u>	<u>693,551</u>

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'000 USD	1 January 2004	Recognised in income	Acquired	Equity	Effect of movements in exchange rate	31 December 2004
Property, plant and equipment	18,425	5,775	13,766	(979)	1,846	38,833
Investments	(24)	(9)	19	—	(1)	(15)
Inventories	734	(3,324)	(576)	—	(105)	(3,271)
Trade and other receivables	(608)	(1,113)	(180)	—	(88)	(1,989)
Trade and other payables	71	63	(1,559)	—	(53)	(1,478)
Loans and borrowings	(700)	(3,811)	(36)	—	(191)	(4,738)
Provisions	—	—	(2,261)	—	(87)	(2,348)
	<u>17,898</u>	<u>(2,419)</u>	<u>9,173</u>	<u>(979)</u>	<u>1,321</u>	<u>24,994</u>

(c) **Unrecognised deferred tax liability**

A temporary difference of RUR 323,630 thousand/USD 12,291 thousand relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future. If the temporary difference were reversed in a form of distributions remitted to the Company, then an enacted tax rate of 9 per cent would apply. If the temporary difference were reversed in a disposal of the subsidiaries, then a tax rate of 24 per cent would apply.

16 Inventories

	2004 '000 RUR	2004 '000 USD
Work in progress, construction of buildings	3,911,275	140,955
Finished goods, construction of buildings	552,680	19,917
Raw materials and consumables	638,890	23,024
Finished goods and goods for resale	255,878	9,221
Work in progress	40,776	1,469
	<u>5,399,499</u>	<u>194,586</u>

Inventories with a carrying amount of RUR 84,646 thousand/USD 3,050 thousand are subject to a registered debenture to secure bank loans (see note 21). There were no write-down of inventories during year ended 31 December 2004.

17 Trade and other receivables

	2004 '000 RUR	2004 '000 USD
Prepayments for flats	229,519	8,271
Accounts receivable—trade	499,057	17,985
Prepayments	525,048	18,921
VAT receivable	348,343	12,554
Deferred expenses	61,920	2,231
Notes receivable	119,536	4,308
Amounts due from customers for contract work	18,309	660
Employee receivables	15,556	561
Other receivables	209,908	7,565
	<u>2,027,196</u>	<u>73,056</u>
Accumulated impairment loss on trade receivables	(127,935)	(4,611)
	<u>1,899,261</u>	<u>68,445</u>

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18 Cash and cash equivalents

	<u>2004</u> <u>'000 RUR</u>	<u>2004</u> <u>'000 USD</u>
Petty cash	10,143	366
Bank balances	130,937	4,718
Bank promissory notes	17,202	620
Cash and cash equivalents in the balance sheet	158,282	5,704
Bank overdrafts	(5,400)	(195)
Cash and cash equivalents in the statement of cash flows	<u>152,882</u>	<u>5,510</u>

19 Equity

(a) Share capital

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

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

As a result the share capital, retained earnings and additional paid-in capital were reclassified into equity and such reclassification has been accounted for retrospectively.

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

(b) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2004 the Company had retained earnings, including profit for the current year equal to nil.

20 Loss per share

The calculation of loss per share is based on loss attributable to the shareholders of the Company divided by the number of ordinary shares issued in July 2006 when the Company re-registered as an OAO company (see note 19(a)).

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21 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 24.

	2004 '000 RUR	2004 '000 USD
<i>Non-current</i>		
Secured bank loans	1,290,373	46,503
Unsecured other loans	55,176	1,988
Finance lease liabilities	471,680	16,998
	<u>1,817,229</u>	<u>65,489</u>
<i>Current</i>		
Secured bank loans	1,448,411	52,198
Current portion of secured bank loans	659,335	23,761
Current portion of unsecured other loans	41,628	1,500
Unsecured bank loans	207,900	7,492
Unsecured other loans	118,570	4,273
Current portion of finance lease liabilities	378,738	13,649
	<u>2,854,582</u>	<u>102,873</u>

Finance lease liabilities are payable as follows:

	Payments	2004—'000 RUR Interest	Principal
Less than one year	480,034	101,296	378,738
Between one and five years	539,175	67,495	471,680
	<u>1,019,209</u>	<u>168,791</u>	<u>850,418</u>
	Payments	2004—'000 USD Interest	Principal
Less than one year	17,299	3,650	13,649
Between one and five years	19,430	2,432	16,998
	<u>36,729</u>	<u>6,082</u>	<u>30,647</u>

Bank loans are secured by the following:

- property, plant and equipment with a carrying amount of RUR 1,972,530 thousand/USD 71,085 thousand—see note 11(b).
- inventories with a carrying amount of RUR 84,646 thousand/USD 3,050 thousand—see note 16.

The finance lease liabilities are secured by the leased assets (see note 11(c)).

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

- 100% of OAO Leningrad River Port
- 100% of OAO St. Petersburg River Port
- 25% of OOO Aerok Spb

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22 Provisions

	Site restoration	Loss-making contracts	Provision for litigation	Total
'000 RUR				
Balance at 1 January 2004	3,310	—	—	3,310
Acquired in a business combination	—	240,461	31,039	271,500
Provided during the year	137,246	—	—	137,246
Balance at 31 December 2004	<u>140,556</u>	<u>240,461</u>	<u>31,039</u>	<u>412,056</u>
'000 USD				
Balance at 1 January 2004	112	—	—	112
Acquired in a business combination	—	8,345	1,077	9,422
Provided during the year	4,763	—	—	4,763
Effect of movements in exchange rates	190	321	42	553
Balance at 31 December 2004	<u>5,065</u>	<u>8,666</u>	<u>1,119</u>	<u>14,850</u>

(a) Loss-making contracts

The provision for loss-making contracts relates mainly to a number of contracts for the construction of roads.

(b) Site restoration

The Group recognises provisions in respect of the Group's obligation to clean up the surrounding area after construction of apartment buildings. Any damage caused during construction is rectified after the construction of buildings is completed.

(c) Provision for litigation

The Group has recognised a provision for litigation with one of the suppliers of the Group (see note 26(b)).

23 Trade and other payables

	2004 '000 RUR	2004 '000 USD
Prepayments received for flats	4,351,332	156,812
Accounts payable—trade	820,567	29,571
Advances from customers	169,853	6,121
Notes payable	800,546	28,850
Employee-related liabilities	126,415	4,556
Other taxes payable	142,625	5,140
Minority interest in limited liability subsidiaries	41,289	1,488
Amounts due to customers for contract work	113,864	4,103
Interest payable	914	33
Deferred income	4,352	157
Dividends payable	76	3
Other payables	413,934	14,917
	<u>6,985,767</u>	<u>251,751</u>

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24 Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business. The Group does not hedge its exposure to such risk.

(a) Credit risk

The Group does not require collateral in respect of financial assets. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Interest rate risk

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

2004 '000 RUR	Average interest rate		0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs	Total
	Contractual	Effective								
Assets										
Originated loans—RUR*	—	—	102,220	236,691	7,915	—	—	—	—	346,826
Liabilities										
Secured bank loans:										
RUR*	12.5%-15%	11.24%	(584,350)	(355,909)	—	—	—	—	—	(940,259)
USD*	12%-14.03%	10.3%	(55,498)	(445,394)	(237,184)	(190,989)	(5,323)	(6,552)	—	(940,940)
EUR*	7.5%-12.5%	8.86%	(4,381)	(2,879)	(237,007)	(255,156)	(273,305)	(84,857)	—	(857,585)
Unsecured bank loans:										
RUR*	13.6%-16%	14.38%	(207,900)	—	—	—	—	—	—	(207,900)
Current portion of secured bank loans:										
EUR*	7.5%-8.8%	8.86%	(106,578)	(182,757)	—	—	—	—	—	(289,335)
RUR*	15.75%	11.24%	(370,000)	—	—	—	—	—	—	(370,000)
Current portion of unsecured other loans:										
RUR*	—	—	(1,797)	(39,831)	—	—	—	—	—	(41,628)
Unsecured other loans:										
RUR*	13%	—	(116,184)	(2,386)	(55,176)	—	—	—	—	(173,746)
Finance lease liabilities—										
RUR*	11%-35%	14.8%	(190,774)	(187,964)	(328,799)	(67,956)	(40,559)	(34,366)	—	(850,418)
			<u>(1,535,242)</u>	<u>(980,429)</u>	<u>(850,251)</u>	<u>(514,101)</u>	<u>(319,187)</u>	<u>(125,775)</u>	<u>—</u>	<u>(4,324,985)</u>

* Fixed rate

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2004 '000 USD*	Average interest rate		0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs	Total
	Contractual	Effective								
Assets										
Originated loans—RUR*	—	—	3,684	8,530	285	—	—	—	—	12,499
Liabilities										
Secured bank loans:										
RUR*	12.5%-15%	11.24%	(21,059)	(12,826)	—	—	—	—	—	(33,885)
USD*	12%-14.03%	10.3%	(2,000)	(16,051)	(8,548)	(6,883)	(192)	(236)	—	(33,910)
EUR*	7.5%-12.5%	8.86%	(158)	(104)	(8,541)	(9,195)	(9,849)	(3,058)	—	(30,905)
Unsecured bank loans:										
RUR*	13.6%-16%	14.38%	(7,492)	—	—	—	—	—	—	(7,492)
Current portion of secured bank loans:										
EUR*	7.5%-8.8%	8.86%	(3,841)	(6,586)	—	—	—	—	—	(10,427)
RUR*	15.75%	11.24%	(13,334)	—	—	—	—	—	—	(13,334)
Current portion of unsecured other loans:										
RUR*	—	—	(65)	(1,435)	—	—	—	—	—	(1,500)
Unsecured other loans:										
RUR*	13%	—	(4,187)	(86)	(1,988)	—	—	—	—	(6,261)
Finance lease liabilities—										
RUR*	11%-35%	14.8%	(6,875)	(6,774)	(11,849)	(2,449)	(1,462)	(1,238)	—	(30,647)
			(55,327)	(35,332)	(30,641)	(18,527)	(11,503)	(4,532)	—	(155,862)

* Fixed rate

(c) Foreign currency risk

The Group incurs foreign currency risk on borrowings that are denominated in a currency other than RUR. The currencies giving rise to this risk are primarily USD and Euro.

The following exchange rates applied:

	2004 USD	2004 Euro
RUR 1 equals	27.7487	37.8104

(d) Fair values

The fair value of unquoted equity investments is discussed in note 14. In other cases management believes that the fair value of its financial assets and liabilities approximates their carrying amounts:

In assessing fair values, management used the following major methods and assumptions:

Quoted securities. Quoted market prices at the balance sheet date without any deduction for transaction costs.

Loans and borrowings. Expected future principal and interest cash flows were discounted at rates that approximated contractual rates.

Promissory notes. Expected future principal and interest cash flows were discounted at rates that approximated contractual rates.

Trade and other receivables and payables. For receivables and payables with a maturity of less than six months fair value is not materially different from the carrying amount because the effect of the time value of money is not material.

25 Commitments

At 31 December 2004, the Group was committed to purchase property, plant and equipment for approximately RUR 49,846 thousand/USD 1,796 thousand.

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26 Contingencies

(a) Insurance

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

(b) Litigation

As at 31 December 2004 the Group was involved in a dispute relating to a promissory note of an insolvent third party which was endorsed by the Group in 2003. The holder of the promissory note successfully sued the Group on the endorsement. The Group recognised a provision for the amount of the claim of USD 1,080 thousand. During 2006, the Group sold its controlling stake in this company and derecognised the provision accordingly.

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

(c) Taxation contingencies

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

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

(d) Environmental liabilities

The Group is engaged in dredging sand from the sea bed and quarrying sand in forested areas. There is no liability to perform any restoration work in relation to the sea bed after the dredging is complete but a liability arises in relation to quarrying sand. The Group rents land from which sand is quarried from a related party which is liable for the restoration work. In 2006 the related party was acquired by the Group.

The Group is engaged in crushed stone production in three areas covered by forests. According to existing legislation and the terms of licenses obtained by the Group, there is a liability for the Group to restore these sites when quarrying is complete. The costs associated with restoration cannot be determined as, in accordance with existing licences on crushed stone production, the methods of restoration and its cost will be determined in the future based on discussions between the Group and Russian Environment Authorities after the quarrying is complete. Accordingly, no provision has been recognised in the special purpose consolidated financial statements for potential restoration costs. It is expected that quarrying will cease in the three areas currently used between 2051 and 2157.

27 Related party transactions

(a) Control relationships

The Company's ultimate controlling party is Mr. Andrey Molchanov.

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(b) Transactions with management and close family members

The Directors and their close family members control 29% of the voting shares of the Company.

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 8):

	2004 '000 RUR	2004 '000 USD
Salaries and bonuses	5,405	187

(c) Transactions with other related parties

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

(i) Revenue

	Transaction value		Outstanding balance	
	2004 '000 RUR	2004 '000 USD	2004 '000 RUR	2004 '000 USD
Sale of goods and services provided:				
Other	1,133,735	39,345	3,509	126
Companies significantly influenced by LSR management	175,070	6,076	375,040	13,516
Companies controlled by the Groups ultimate controlling party	1,524	53	647	23
	<u>1,310,329</u>	<u>45,474</u>	<u>379,196</u>	<u>13,665</u>

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

(ii) Expenses

	Transaction value		Outstanding balance	
	2004 '000 RUR	2004 '000 USD	2004 '000 RUR	2004 '000 USD
Purchase of goods and services:				
Other	607,502	21,083	58,545	2,110
Companies significantly influenced by LSR management	—	—	29,939	1,079
Companies controlled by the Groups ultimate controlling party	4,108	142	96	3
	<u>611,610</u>	<u>21,225</u>	<u>88,580</u>	<u>3,192</u>

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

(iii) Loans

	Transaction value		Outstanding balance	
	2004 '000 RUR	2004 '000 USD	2004 '000 RUR	2004 '000 USD
Loans received:				
Companies significantly influenced by LSR management	41,164	1,429	—	—
Other	185,475	6,437	77,311	2,786
Loans given:				
Companies significantly influenced by LSR management	241,040	8,365	—	—
Other	183,490	6,368	110,556	3,984
	<u>651,169</u>	<u>22,598</u>	<u>187,867</u>	<u>6,770</u>

The loans from fellow subsidiaries bear no interest and are repayable based on contractual terms. The loans to fellow subsidiaries and entities under significant influence bear no interest and are repayable based on contractual terms. Loans have not been discounted in view of their short maturity.

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28 Significant subsidiaries

	Country of incorporation	Ownership/voting 2004
ZAO Gatchinsky DSK	Russia	98.23%
OAO SKV SPb	Russia	65.47%
OOO Gatchinsky DSK	Russia	100.00%
OAO Lenstroirekonstruktsiya	Russia	82.00%
ZAO NPO Keramika	Russia	75.83%
OAO Lenstroikeramika	Russia	87.28%
OAO Granit-Kuznechnoye	Russia	68.23%
OAO Rudas	Russia	87.34%
OAO Leningradsky rechnoy port	Russia	100.00%
ZAO Skanmix SPb	Russia	100.00%
ZAO Vertikal	Russia	100.00%
ZAO PO Barrikada	Russia	88.87%
ZAO DSK Blok	Russia	18.10%
ZAO UM-260	Russia	97.11%
OAO SPb rechnoy port	Russia	100.00%
OAO Obyedineniye 45	Russia	91.85%
ZAO Mosstroirekonstruktsiya	Russia	100.00%
OAO GATP-1	Russia	87.49%
ZAO Pobeda LSR	Russia	98.93%
OOO PSF Dorstroiproekt	Russia	95.00%
OOO Aerok Sankt-Peterburg	Russia	100.00%
OOO Osobnyak	Russia	100.00%
OOO Kvartira LuxServis	Russia	100.00%
ZAO GSK Petrostroyinvest	Russia	100.00%
OOO Upravlyayushchaya kompaniya	Russia	100.00%
OOO Paradny kvartal	Russia	100.00%
OOO Novy kvartal	Russia	100.00%
OOO OP Agis	Russia	100.00%
OOO PSG LSR	Russia	90.00%
PT Aerok	Russia	100.00%
OOO Martynovka*	Russia	50.00%
ZAO Chekalovskoye	Russia	81.33%
OAO Stroydetal	Russia	85.53%
OOO Sevzapmostostroy	Russia	100.00%
ZAO Nazievsky kombinat	Russia	98.67%
OOO Vyborgstroyrekonstruktsiya*	Russia	—
OOO Yuna*	Russia	—
DNP Alakul*	Russia	—
DNP Penaty 2*	Russia	—
DNP Severnoye pomestye*	Russia	—
GDSK Invest companies*	Russia	—
MSR companies*	Russia	—

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

29 Subsequent events

In January 2006 the Group sold its entire roads construction segment; the segment was not a discontinued operation or classified as held for sale as at 31 December 2004. Management committed to a plan to sell this division early 2006 due to the strategic decision to place greater focus on the Group's key competencies, being the manufacture of building materials, development, aggregates and construction and construction services.

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OJSC LSR Group
(formerly OOO Group LSR)

Consolidated Interim Financial Statements
for the six months ended
30 June 2007

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Independent Accountants' Report

Board of Directors of OJSC LSR Group (formerly OOO Group LSR)

Report on Review of the Interim Financial Statements

Introduction

We have reviewed the accompanying consolidated interim balance sheet of OJSC LSR Group (the "Company") and its subsidiaries (the "Group") as at 30 June 2007, and the related consolidated interim statements of income, changes in equity and cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes (the consolidated interim financial statements). Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial statements do not present fairly, in all material respects, the consolidated interim financial position of the *Group* as at 30 June 2007, and its consolidated interim financial performance and its consolidated interim cash flows for the six month period then ended in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

ZAO KPMG

ZAO KPMG
4 October 2007

ZAO KPMG, a company incorporated under the Laws of the Russian Federation and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

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OJSC LSR Group
Consolidated Interim Income Statement for the six months ended 30 June 2007
(Unaudited)

For the six months ended 30 June

	Note	2007 '000 RUR	2006 '000 RUR	2007 '000 USD	2006 '000 USD
Revenue		16,062,031	9,336,450	615,812	337,301
Cost of sales		(10,257,445)	(6,152,181)	(393,266)	(222,262)
Gross profit		5,804,586	3,184,269	222,546	115,039
Distribution expenses		(815,343)	(608,228)	(31,260)	(21,974)
Administrative expenses	8	(2,013,155)	(1,459,502)	(77,183)	(52,728)
Changes in fair value of investment property		5,022,347	—	192,555	—
Other expenses	9	(142,998)	(82,346)	(5,483)	(2,975)
Results from operating activities . . .		7,855,437	1,034,193	301,175	37,362
Financial income	11	87,734	178,104	3,364	6,434
Financial expenses	11	(782,127)	(491,169)	(29,986)	(17,745)
Profit before income tax		7,161,044	721,128	274,553	26,051
Income tax expense	12	(1,702,508)	(220,802)	(65,274)	(7,976)
Profit for the period		<u>5,458,536</u>	<u>500,326</u>	<u>209,279</u>	<u>18,074</u>
Attributable to:					
Shareholders of the Company		5,400,757	454,177	207,064	16,408
Minority interest		57,779	46,149	2,215	1,666
		<u>5,458,536</u>	<u>500,326</u>	<u>209,279</u>	<u>18,075</u>
Basic and diluted earnings per share	23				
Ordinary shares		<u>63.43 RUR</u>	<u>5.33 RUR</u>	<u>2.43 USD</u>	<u>0.20 USD</u>

These consolidated interim financial statements were approved by management on 4 October 2007 and were signed on its behalf by:



I.M. Levit
Chief Executive Officer



E.V. Tumanova
Chief Financial Officer

The consolidated interim income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-100 to F-138.

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OJSC LSR GROUP
CONSOLIDATED INTERIM BALANCE SHEET
AS AT 30 JUNE 2007
(Unaudited)

	Note	30 June 2007 '000 RUR	31 December 2006 '000 RUR	30 June 2007 '000 USD	31 December 2006 '000 USD
ASSETS					
Non-current assets					
Property, plant and equipment	13	13,273,270	10,621,122	514,145	403,368
Investment property under development	15	6,121,347	496,852	237,113	18,869
Investment property	16	1,760,079	1,046,666	68,177	39,750
Goodwill	14	572,669	572,669	22,183	21,749
Other intangible assets		14,891	3,234	577	123
Other investments	17	275,151	327,088	10,658	12,422
Deferred tax assets	18	317,344	337,162	12,292	12,805
Other non-current assets		129,856	11,702	5,030	444
Total non-current assets		<u>22,464,607</u>	<u>13,416,495</u>	<u>870,175</u>	<u>509,530</u>
Current assets					
Other investments	17	973,580	800,439	37,712	30,399
Inventories	19	16,819,936	13,950,288	651,526	529,803
Income tax receivable		63,072	58,412	2,443	2,218
Trade and other receivables	20	9,530,122	8,836,540	369,153	335,593
Cash and cash equivalents	21	945,053	1,608,222	36,607	61,077
Assets classified as held for sale . . .	5	159,023	70,933	6,160	2,694
Total current assets		<u>28,490,786</u>	<u>25,324,834</u>	<u>1,103,601</u>	<u>961,784</u>
Total assets		<u><u>50,955,393</u></u>	<u><u>38,741,329</u></u>	<u><u>1,973,776</u></u>	<u><u>1,471,314</u></u>

The consolidated interim balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-100 to F-138.

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OJSC LSR GROUP
CONSOLIDATED INTERIM BALANCE SHEET
AS AT 30 JUNE 2007
(Unaudited)

	Note	30 June 2007 '000 RUR	31 December 2006 '000 RUR	30 June 2007 '000 USD	31 December 2006 '000 USD
EQUITY AND LIABILITIES					
Equity	22				
Share capital		30,106	30,106	1,078	1,078
Additional paid-in capital		3,044,529	2,145,697	111,971	77,510
Foreign currency translation reserve		—	—	15,182	8,785
Retained earnings		7,923,393	2,522,636	298,702	91,639
Total equity attributable to shareholders of the Company		10,998,028	4,698,439	426,933	179,012
Minority interest		467,612	441,248	17,193	16,182
Total equity		11,465,640	5,139,687	444,126	195,194
Non-current liabilities					
Loans and borrowings	24	12,086,497	8,721,215	468,174	331,213
Trade and other payables		84,958	12,954	3,293	492
Deferred tax liabilities	18	2,320,860	939,735	89,898	35,689
Total non-current liabilities		14,492,315	9,673,904	561,365	367,394
Current liabilities					
Bank overdraft		32,710	25,944	1,267	985
Loans and borrowings	24	5,676,617	5,730,721	219,885	217,641
Income tax payable		206,658	81,733	8,006	3,104
Trade and other payables		18,731,228	17,848,371	725,561	677,844
Provisions	25	243,190	213,040	9,420	8,091
Liabilities classified as held for sale	5	107,035	27,929	4,146	1,061
Total current liabilities		24,997,438	23,927,738	968,285	908,726
Total liabilities		39,489,753	33,601,642	1,529,650	1,276,120
Total equity and liabilities		50,955,393	38,741,329	1,973,776	1,471,314

The consolidated interim balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-100 to F-138.

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OJSC LSR GROUP
CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2007
(Unaudited)

For the six months ended 30 June	<u>2007</u> <u>'000 RUR</u>	<u>2006</u> <u>'000 RUR</u>	<u>2007</u> <u>'000 USD</u>	<u>2006</u> <u>'000 USD</u>
OPERATING ACTIVITIES				
Net profit for the period	5,458,536	500,326	209,278	18,075
Adjustments for:				
Depreciation and amortisation	623,998	564,744	23,924	20,403
Loss on disposal of property, plant and equipment	124,223	109,822	4,763	3,968
Change in fair value of investment property	(5,022,347)	—	(192,555)	—
Interest expense	727,862	442,004	27,906	15,968
Interest income	(26,828)	(14,367)	(1,029)	(519)
Dividend income	—	(69,782)	—	(2,521)
Other non-cash movements	(8,859)	3	(340)	—
Income tax expense	<u>1,702,508</u>	<u>220,802</u>	<u>65,274</u>	<u>7,977</u>
Operating profit before changes in working capital and provisions	3,579,093	1,753,552	137,221	63,351
Increase in inventories	(2,869,648)	(642,770)	(110,021)	(23,222)
Increase in trade and other receivables	(803,767)	(2,340,787)	(30,817)	(84,566)
Increase in trade and other payables	956,823	1,629,877	36,685	58,883
Increase/(decrease) in provisions	<u>30,150</u>	<u>(68,802)</u>	<u>1,156</u>	<u>(2,486)</u>
Cash flows from operations before income taxes and interest paid	892,651	331,070	34,224	11,960
Income taxes paid	(450,906)	(236,302)	(17,288)	(8,537)
Interest paid	<u>(730,276)</u>	<u>(446,334)</u>	<u>(27,998)</u>	<u>(16,125)</u>
Cash flows utilised by operating activities	<u>(288,531)</u>	<u>(351,566)</u>	<u>(11,062)</u>	<u>(12,702)</u>

The consolidated interim statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-100 to F-138.

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OJSC LSR GROUP
CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2007
(Unaudited)

For the six months ended 30 June

	<u>2007</u> <u>'000 RUR</u>	<u>2006</u> <u>'000 RUR</u>	<u>2007</u> <u>'000 USD</u>	<u>2006</u> <u>'000 USD</u>
INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment	270,638	5,698	10,376	206
Interest received	26,828	14,367	1,029	519
Dividends received	—	69,782	—	2,521
Acquisition of property, plant and equipment . . .	(1,959,552)	(539,972)	(75,129)	(19,508)
Acquisition of investment property under development	(1,315,561)	9,222	(50,438)	333
Loans given	(1,431,803)	(824,886)	(54,895)	(29,801)
Loans repaid	1,382,010	—	52,988	—
Disposal of discontinued operations net of cash disposed of	—	(14,187)	—	(513)
Disposal of subsidiaries net of cash disposed of .	—	31,955	—	1,154
Acquisition of subsidiaries, net of cash acquired .	(12,229)	(785,954)	(472)	(28,394)
Acquisition of minority interest	—	(4,996)	—	(180)
Purchase of other investments	(43,065)	(66,793)	(1,651)	(2,413)
Cash flows utilised by investing activities	<u>(3,082,734)</u>	<u>(2,105,764)</u>	<u>(118,192)</u>	<u>(76,076)</u>
FINANCING ACTIVITIES				
Proceeds from borrowings	11,036,198	8,830,463	423,123	319,021
Repayment of borrowings	(7,940,834)	(6,198,715)	(304,448)	(223,943)
Contribution from shareholder	—	226,663	—	8,189
Payment of finance lease liabilities	(394,034)	(363,818)	(15,107)	(13,144)
Cash flows from financing activities	<u>2,701,330</u>	<u>2,494,593</u>	<u>103,568</u>	<u>90,123</u>
Net (decrease)/increase in cash and cash equivalents	<u>(669,935)</u>	<u>37,263</u>	<u>(25,686)</u>	<u>1,345</u>
Cash and cash equivalents at beginning of period	<u>1,582,278</u>	<u>766,578</u>	<u>60,092</u>	<u>26,633</u>
Effect of exchange rate fluctuations on cash and cash equivalents	—	—	934	1,705
Cash and cash equivalents at end of period (note 21)	<u>912,343</u>	<u>803,841</u>	<u>35,340</u>	<u>29,683</u>

The consolidated interim statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-100 to F-138.

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OJSC LSR GROUP
CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2007
(Unaudited)

'000 RUR	Attributable to shareholders of the Company				Minority interest	Total equity
	Share capital	Additional paid-in capital	Retained earnings	Total		
Balance at 1 January 2006	30,106	990,919	1,538,122	2,559,147	455,858	3,015,005
Profit for the period	—	—	454,177	454,177	46,149	500,326
Excess of book values of net assets acquired for entities under common control over consideration paid	—	559,031	—	559,031	173,486	732,517
Excess of minority interest acquired for entities under common control over consideration paid	—	103,953	—	103,953	(260,726)	(156,773)
Excess of book values of net assets sold for entities under common control over consideration received .	—	(234,370)	—	(234,370)	(53,488)	(287,858)
Excess of consideration received for entities under common control over book values of net assets sold	—	23,735	—	23,735	—	23,735
Excess of consideration received for entities under common control over book values of net assets sold from discontinued operations	—	333,714	—	333,714	—	333,714
Shareholder contributions	—	226,663	—	226,663	—	226,663
Balance at 30 June 2006	<u>30,106</u>	<u>2,003,645</u>	<u>1,992,299</u>	<u>4,026,050</u>	<u>361,279</u>	<u>4,387,329</u>
Balance at 1 January 2007	30,106	2,145,697	2,522,636	4,698,439	441,248	5,139,687
Profit for the period	—	—	5,400,757	5,400,757	57,779	5,458,536
Excess of minority interest acquired over consideration paid	—	36,342	—	36,342	(31,415)	4,927
Excess of book values of net assets acquired for entities under common control over consideration paid	—	862,490	—	862,490	—	862,490
Balance at 30 June 2007	<u>30,106</u>	<u>3,044,529</u>	<u>7,923,393</u>	<u>10,998,028</u>	<u>467,612</u>	<u>11,465,640</u>

The consolidated interim statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-100 to F-138.

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OJSC LSR GROUP
CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2007
(Unaudited)

'000 USD	Attributable to shareholders of the Company					Minority interest	Total equity
	Share capital	Additional paid in capital	Foreign currency translation reserve	Retained earnings	Total		
Balance at 1 January 2006	1,078	35,032	(3,503)	55,424	88,031	16,721	104,752
Profit for the period	—	—	—	16,408	16,408	1,667	18,075
Foreign exchange translation differences	—	—	7,690	—	7,690	—	7,690
Excess of book values of net assets acquired for entities under common control over consideration paid	—	20,196	—	—	20,196	6,268	26,464
Excess of minority interest acquired for entities under common control over consideration paid	—	3,756	—	—	3,756	(9,419)	(5,663)
Excess of book values of net assets sold for entities under common control over consideration received	—	(8,467)	—	—	(8,467)	(1,932)	(10,399)
Excess of consideration received for entities under common control over book values of net assets sold	—	857	—	—	857	—	857
Excess of consideration received for entities under common control over book values of net assets sold from discontinued operations	—	12,056	—	—	12,056	—	12,056
Shareholder contributions	—	8,189	—	—	8,189	—	8,189
Balance at 30 June 2006	<u>1,078</u>	<u>71,619</u>	<u>4,187</u>	<u>71,832</u>	<u>148,716</u>	<u>13,305</u>	<u>162,021</u>
Balance at 1 January 2007	1,078	77,510	8,785	91,639	179,012	16,182	195,194
Profit for the period	—	—	—	207,063	207,063	2,215	209,278
Foreign exchange translation differences	—	—	6,397	—	6,397	—	6,397
Excess of minority interest acquired over consideration paid	—	1,393	—	—	1,393	(1,204)	189
Excess of book values of net assets acquired for entities under common control over consideration paid	—	33,068	—	—	33,068	—	33,068
Balance at 30 June 2007	<u>1,078</u>	<u>111,971</u>	<u>15,182</u>	<u>298,702</u>	<u>426,933</u>	<u>17,193</u>	<u>444,126</u>

The consolidated interim statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-100 to F-138.

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OJSC LSR GROUP
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007
(Unaudited)

1 Background

(a) Organisation and operations

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

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

The Group’s principal activities are the construction of buildings in St. Petersburg, Moscow and Munich, the production of construction materials at plants located in St. Petersburg, Leningradskaya Oblast, Latvia and Estonia and the extraction of materials in different areas of Leningradskaya Oblast. These products are sold mainly in the Russian Federation.

The Group is ultimately controlled (78.4%) by a single individual, Mr. Molchanov, who has the power to direct the transactions of the Group at his own discretion and for his own benefit.

(b) Russian business environment

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

2 Basis of preparation

(a) Statement of compliance

These consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 *Interim Financial Reporting*.

(b) Basis of measurement

The consolidated interim financial statements are prepared on the historical cost basis except that investment property and investments available-for-sale are stated at fair value; property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs; and the carrying amounts of assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

(c) Functional and presentation currency

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

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(d) Use of judgments, estimates and assumptions

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

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

- Note 13—deemed cost of property plant and equipment;
- Note 15, 16—valuation of investment property;
- Note 25—provision for loss making contracts;
- Note 25(a)—provision for site restoration; and
- Note 29—contingencies.

3 Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated interim financial statements are described in note 3(a) to 3(s). These accounting policies have been consistently applied.

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Special purpose entities

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

(iii) Acquisitions from entities under common control

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

(iv) Disposals to entities under common control

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

(v) Acquisitions and disposals of minority interests

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

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

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(vi) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated interim financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currencies

(i) Foreign currency transactions

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

(ii) Foreign operations

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

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

(iii) Translation to presentation currency

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

(c) Financial instruments

(i) Non-derivative financial instruments

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

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

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

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

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein,

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other than impairment losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

(d) Share capital

Ordinary shares

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

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

(e) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

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

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

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

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(f) Intangible assets

(i) Goodwill and negative goodwill

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

Acquisitions prior to 1 January 2005

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

Acquisitions on or after 1 January 2005

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

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment.

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortisation

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

(g) Leased assets

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

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(h) Investment property

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

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio periodically. The fair values are based on market values, being the estimated amount for which the property could be exchanged on the date of the valuation between a willing buyer and a willing

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seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

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

(i) Inventories

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

Amounts due from customers for contract work represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Amounts due from customers for contract work is represented as part of trade and other receivables in the balance sheet. If payments received from customers exceed the income recognised, then the difference is presented as deferred income in the balance sheet.

(j) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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

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

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

(ii) Reversal of impairment

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

(iii) Non-financial assets

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

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

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reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

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

(k) Employee benefits

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

(l) Provisions

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

(i) Site restoration

In accordance with applicable legal requirements, a provision for site restoration in respect of quarries, and the related expense, is recognised as quarrying progresses.

(ii) Onerous contracts

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

(m) Revenues

(i) Goods sold

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

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. Revenue from the sale of flats is recognised when the buyer takes occupation of the property.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

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(iii) Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably.

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract. The stage of completion is assessed as the proportion that contract costs incurred for work performed to date bear to estimated total contract costs. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recovered. An expected loss on a contract is recognised immediately in the profit or loss.

(n) Other expenses

(i) Lease payments

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

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

(ii) Social expenditure

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

(o) Financial income and expenses

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, minority interest in limited liability subsidiaries, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

(p) Income tax

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

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

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

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each

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reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(q) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(r) Segment reporting

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

(s) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 30 June 2007, and have not been applied in preparing these consolidated interim financial statements. The Group plans to adopt these pronouncements when they become effective. Of these pronouncements, potentially the following will have an impact on the Group's operations.

- IFRS 8 *Operating Segments*, which is effective for annual periods beginning on or after 1 January 2009. The Standard introduces the "management approach" to segment reporting.
- IFRIC 11 *IFRS 2—Group and Treasury Share Transactions*, which is effective for annual periods beginning on or after 1 March 2007. The Interpretation addresses the classification of the share-based payment as equity-settled or cash-settled in the financial statements of the entity receiving the services.

4 Segment reporting

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

Inter-segment pricing in case of intercompany transactions is substantially determined on an arm's length basis.

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

(a) Business segments

The Group comprises the following main business segments:

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

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

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

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

Construction. Construction companies specialise in large panel residential building developments and pile driving.

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

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Roads construction. Road construction companies provided a wide range of road development, construction and maintenance services. This segment was sold in January 2006.

(b) Geographical segments

The operations of the Group are conducted and managed in the North-West region of Russia in the cities of St. Petersburg and in Moscow where production facilities and sales offices of the Group are located. The Group also has operations in Munich, Latvia and Estonia which are not significant to total operations of the Group and, accordingly, no geographical segmental information is presented.

(i) Business segments

For the six months ended 30 June 2007 '000 RUR	Development	Commercial real estate	Building materials	Aggregates	Construction	Construction services	Other entities	Eliminations	Consolidated
Revenue from external customers	5,444,431	24,676	6,469,126	1,809,053	1,871,113	433,685	9,947	—	16,062,031
Inter-segment revenue	319,134	—	322,514	430,485	492,211	223,151	—	(1,787,495)	—
Total revenue	5,763,565	24,676	6,791,640	2,239,538	2,363,324	656,836	9,947	(1,787,495)	16,062,031
Segment result	5,026,983	1,104,932	1,136,818	596,407	(49,990)	125,684	36,350	165,245	8,142,429
Unallocated expenses									(286,992)
Financial income									87,734
Financial expenses									(782,127)
Income tax expense									(1,702,508)
Net profit for the period									5,458,536
Depreciation/amortisation	19,078	1,518	221,063	181,345	89,321	85,175	26,498	—	623,998
Capital expenditure	175,693	125,554	642,971	640,522	207,522	616,738	384,692	(172,529)	2,621,163
For the six months ended 30 June 2006 '000 RUR									
Revenue from external customers		2,231,285	3,565,887	1,331,806	1,784,229	355,421	67,822	—	9,336,450
Inter-segment revenue		16,408	183,646	383,045	102,168	158,532	102,319	(946,118)	—
Total revenue		2,247,693	3,749,533	1,714,851	1,886,397	513,953	170,141	(946,118)	9,336,450
Segment result		317,922	219,139	200,750	186,083	139,705	41,677	162,692	1,267,968
Unallocated expenses									(233,775)
Financial income									178,104
Financial expenses									(491,169)
Income tax expense									(220,802)
Net profit for the period									500,326
Depreciation/amortisation		5,033	163,247	182,136	76,242	55,892	82,194	—	564,744
Capital expenditure		10,265	1,189,959	145,979	99,298	173,992	99,636	(849,295)	869,834
For the six months ended 30 June 2007 '000 USD									
Revenue from external customers	208,738	946	248,024	69,358	71,738	16,627	381	—	615,812
Inter-segment revenue	12,235	—	12,365	16,505	18,871	8,556	—	(68,532)	—
Total revenue	220,973	946	260,389	85,863	90,609	25,183	381	(68,532)	615,812
Segment result	192,732	42,363	43,585	22,866	(1,917)	4,819	1,394	6,335	312,177
Unallocated expenses									(11,003)
Financial income									3,364
Financial expenses									(29,986)
Income tax expense									(65,273)
Net profit for the period									209,279
Depreciation/amortisation	731	58	8,475	6,953	3,425	3,266	1,016	—	23,924
Capital expenditure	6,736	4,814	24,651	24,557	7,956	23,645	14,749	(6,615)	100,493

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For the six months ended 30 June 2006	Development	Building materials	Aggregates	Construction	Construction services	Other entities	Eliminations	Consolidated	
'000 USD									
Revenue from external customers	80,611	128,826	48,115	64,459	12,840	2,450		337,301	
Inter-segment revenue	593	6,635	13,838	3,691	5,727	3,697	(34,181)	—	
Total revenue	81,204	135,461	61,953	68,150	18,567	6,147	(34,181)	337,301	
Segment result	11,486	7,917	7,253	6,723	5,047	1,506	5,878	45,808	
Unallocated expenses								(8,446)	
Financial income								6,434	
Financial expenses								(17,745)	
Income tax expense								(7,977)	
Net profit for the period								18,074	
Depreciation/amortisation	182	5,898	6,580	2,754	2,019	2,969	—	20,402	
Capital expenditure	371	42,990	5,274	3,587	6,286	3,600	(30,684)	31,424	
30 June 2007	Development	Commercial real estate	Building materials	Aggregates	Construction	Construction services	Other entities	Eliminations	Consolidated
'000 RUR									
Segment assets	30,238,896	1,771,093	9,616,809	3,228,220	4,271,515	2,045,660	575	(4,101,746)	47,071,022
Unallocated assets									3,884,371
Total assets									50,955,393
Segment liabilities	19,916,198	473,939	3,619,366	820,556	1,714,492	814,414	(1,159)	(3,783,711)	23,574,095
Unallocated liabilities									15,915,658
Total liabilities									39,489,753
31 December 2006	Development	Commercial real estate	Building materials	Aggregates	Construction	Construction services	Other entities	Eliminations	Consolidated
'000 RUR									
Segment assets	21,192,562	919,231	8,355,970	2,721,488	2,830,815	1,430,804	629	(1,559,699)	35,891,800
Unallocated assets									2,849,529
Total assets									38,741,329
Segment liabilities	15,782,512	507,723	2,410,980	513,385	717,166	296,248	1,170	(1,498,995)	18,730,189
Unallocated liabilities									14,871,453
Total liabilities									33,601,642
30 June 2007	Development	Commercial real estate	Building materials	Aggregates	Construction	Construction services	Other entities	Eliminations	Consolidated
'000 USD									
Segment assets	1,171,315	68,604	372,511	125,046	165,459	79,239	22	(158,883)	1,823,313
Unallocated assets									150,463
Total assets									1,973,776
Segment liabilities	771,461	18,358	140,197	31,785	66,411	31,547	(45)	(146,563)	913,151
Unallocated liabilities									616,499
Total liabilities									1,529,650
31 December 2006	Development	Commercial real estate	Building materials	Aggregates	Construction	Construction services	Other entities	Eliminations	Consolidated
'000 USD									
Segment assets	804,849	34,910	317,342	103,356	107,508	54,339	24	(59,234)	1,363,094
Unallocated assets									108,220
Total assets									1,471,314
Segment liabilities	599,387	19,282	91,564	19,497	27,236	11,251	44	(56,929)	711,332
Unallocated liabilities									564,788
Total liabilities									1,276,120

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5 Non-current assets held for sale

Two subsidiaries within the Group are presented as a disposal group held for sale following the commitment of the Group's management to a plan to sell these non-core subsidiaries. Efforts to sell the disposal group have commenced, and a sale is expected during 2007.

	As at 30 June 2007	
	'000 RUR	'000 USD
Assets classified as held for sale		
Property plant and equipment	132,494	5,132
Inventories	21,997	852
Receivables	3,741	145
Financial assets	791	31
	<u>159,023</u>	<u>6,160</u>
Liabilities classified as held for sale		
Trade and other payables	95,391	3,695
Deferred tax liabilities	11,644	451
	<u>107,035</u>	<u>4,146</u>

6 Acquisition and disposal of subsidiaries and minority interests

(a) Acquisition of subsidiaries

During 2007 the Group acquired a controlling interest, settled in cash, in ZAO Grad from companies controlled by the Company's ultimate controlling party. This acquisition had no impact on profit for the six months ended 30 June 2007.

It has not been practicable to determine the effects on the Group's revenue and profit for the period had the acquisition occurred on 1 January 2007.

The acquisition of the subsidiary had the following effect on the Group's assets and liabilities at the date of acquisition:

	Recognised book values on acquisition	
	'000 RUR	'000 USD
Property, plant and equipment	1,135,944	43,552
Investments	810	31
Income tax receivable	368	14
Trade and other receivables	7,976	307
Cash and cash equivalents	71	3
Deferred tax liabilities	(269,973)	(10,351)
Trade and other payables	(406)	(16)
Net identifiable assets, liabilities and contingent liabilities	874,790	33,540
Difference between net assets acquired and consideration paid recognised in equity	<u>(862,490)</u>	<u>(33,068)</u>
Consideration paid	12,300	472
Cash acquired	<u>(71)</u>	<u>(3)</u>
Net cash outflow	<u>12,229</u>	<u>469</u>

During the 6 months ended 30 June 2006 the Group acquired controlling stakes, settled in cash, in eight entities ZAO Galernaya (formerly OOO Galernaya), ZAO Severnaya Venetcia, ZAO Vsevologskoe SMP, OOO Yakornaya, OOO Baltstroikomplekt, OOO Smolnii kvartal, OOO Cement and ZAO Chifko Plus from companies controlled by the ultimate controlling party and in two entities OAO Zavod Zhelezobetonnich Izdeliy-6 and Aeroc International AS from unrelated parties. The impact of acquiring the subsidiaries was to reduce net profit for the 6 months ended 30 June 2006 by RUR 7,461 thousand/ USD 269 thousand.

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If the acquisitions had occurred on 1 January 2006, Group revenue for the period would have increased by RUR 115,298 thousand/USD 4,165 thousand and the net profit for the period would have decreased by RUR 883 thousand/USD 31 thousand. In determining these figures, it has been assumed that the fair value adjustments at 1 January 2006 would have been the same as the fair value adjustments that arose on the date of acquisition.

It has not been possible to determine the carrying amounts of the assets and liabilities of subsidiaries acquired from third parties on an IFRS basis immediately prior to the date of acquisition because the subsidiaries' financial statements were prepared in accordance with Russian accounting principles which are significantly different from IFRSs.

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

	Recognised fair/book values on acquisition	
	<u>'000 RUR</u>	<u>'000 USD</u>
Non-current assets		
Property, plant and equipment	853,866	30,850
Investment property under development	100,444	3,629
Investment property	1,038,834	37,530
Long-term investments	9,927	359
Intangible assets	63	2
Deferred income tax assets, net	6,322	228
Other non-current assets	133,057	4,807
Current assets		
Investments	90,510	3,270
Inventories	291,422	10,528
Income tax receivable	5,702	206
Trade and other receivables	1,642,840	59,351
Cash and cash equivalents	48,771	1,762
Due from affiliates	127,974	4,623
Non-current liabilities		
Deferred tax liability	(168,957)	(6,104)
Current liabilities		
Loans and borrowings	(546,768)	(19,753)
Income tax payable	(3,810)	(138)
Provisions	(23,683)	(856)
Trade and other payables	(1,365,172)	(49,320)
Due to affiliates	(1,160,471)	(41,925)
Net identifiable assets, liabilities and contingent liabilities	<u>1,080,871</u>	<u>39,049</u>
Minority interest	(173,486)	(6,268)
Net identifiable assets, liabilities and contingent liabilities acquired	907,385	32,781
Goodwill on acquisition	486,371	17,571
Difference between net assets acquired and consideration paid recognised in equity	<u>(559,031)</u>	<u>(20,196)</u>
Consideration paid	834,725	30,156
Cash acquired	(48,771)	(1,762)
Net cash outflow	<u>785,954</u>	<u>28,394</u>

(b) Acquisition of minority interests

During 6 months ended 30 June 2007 the Group acquired an additional minority interest in a number of subsidiaries. The Group recognised a decrease in minority interest of RUR 31,415 thousand/USD 1,204 thousand, contribution from shareholders of RUR 36,342 thousand/USD 1,393 thousand was recognised directly in equity.

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(c) **Disposal of subsidiaries**

During 6 months ended 30 June 2006 the Group disposed of eight subsidiaries to companies controlled by the ultimate controlling party. The subsidiaries reduced the net profit for the 6 months ended 30 June 2006 by RUR 59,241 thousand/USD 2,188 thousand. The net loss on disposal of RUR 210,635 thousand/USD 7,748 thousand was recognised in net assets attributable to shareholders. The Group also recognised income from disposal of discontinued operations in amount of RUR 333,714 thousand/USD 12,056 thousand (see note 7).

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

	Carrying amount at date of disposal	
	'000 RUR	'000 USD
Non-current assets		
Property, plant and equipment	213,945	7,729
Intangible assets	52	2
Investments	200	7
Long-term investments	56,857	2,054
Current assets		
Investments	835	30
Inventories	66,614	2,407
Income tax receivable	434	16
Trade and other receivables	290,616	10,499
Due from affiliates	3,018	109
Cash and cash equivalents	24,389	881
Non-current liabilities		
Deferred tax liability	(30,017)	(1,084)
Other non-current liabilities	(194)	(7)
Current liabilities		
Loans and borrowings	(22,849)	(825)
Bank overdrafts	(260)	(9)
Trade and other payables	(282,116)	(10,194)
Provisions	(55)	(2)
Income tax payable	(1,002)	(36)
Net identifiable assets and liabilities	320,467	11,577
Minority interest	(53,488)	(1,932)
Net identifiable assets, liabilities and contingent liabilities disposed	266,979	9,645
Excess of consideration received for entities under common control over book values of net assets sold	23,735	857
Excess of book values of net assets sold for entities under common control over consideration received	(234,370)	(8,467)
Consideration received	56,344	2,035
Cash disposed of	(24,389)	(881)
Net cash inflow	<u>31,955</u>	<u>1,154</u>

7 **Discontinued operation**

In January 2006 the Group sold its entire roads construction segment; the segment was not a discontinued operation or classified as held for sale as at 1 January 2006. Management committed to a plan to sell this division early 2006 due to the strategic decision to place greater focus on the Group's key competencies, being the manufacture of building materials, development, aggregates and construction and construction services.

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

	As at 1 January 2006	
	'000 RUR	'000 USD
Effect of disposal on the financial position of the Group		
Property, plant and equipment	480,164	17,347
Deferred tax asset	157,682	5,697
Inventories	487,951	17,628
Trade and other receivables	876,411	31,662
Cash and cash equivalents	48,254	1,743
Trade and other payables	(1,132,791)	(40,925)
Other liabilities	(1,217,318)	(43,978)
Net identifiable assets and liabilities	<u>(299,647)</u>	<u>(10,826)</u>
Difference between net assets disposed and consideration received recognised in equity	333,714	12,056
Consideration received, satisfied in cash	34,067	1,230
Cash disposed of	(48,254)	(1,743)
Net cash outflow	<u>(14,187)</u>	<u>(513)</u>

8 Administrative expenses

	2007 '000 RUR	Six months ended 30 June 2006		2006 '000 USD
		'000 RUR	2007 '000 USD	
Wages and salaries	818,814	726,461	31,393	26,245
Services	558,146	191,665	21,399	6,924
Materials	224,903	200,345	8,623	7,238
Depreciation and amortisation	20,852	41,647	799	1,505
Taxes other than taxes on income	143,852	43,724	5,515	1,580
Social expenditure	38,420	16,699	1,473	603
Insurance	22,231	5,313	852	192
Other administrative expenses	185,937	233,648	7,129	8,441
	<u>2,013,155</u>	<u>1,459,502</u>	<u>77,183</u>	<u>52,728</u>

9 Other expenses

	2007 '000 RUR	Six months ended 30 June 2006		2006 '000 USD
		'000 RUR	2007 '000 USD	
Loss on disposal of property, plant and equipment	(124,223)	(109,822)	(4,763)	(3,968)
(Loss)/gain on disposal of other assets	(18,775)	27,476	(720)	993
	<u>(142,998)</u>	<u>(82,346)</u>	<u>(5,483)</u>	<u>(2,975)</u>

10 Total personnel costs

	2007 '000 RUR	Six months ended 30 June 2006		2006 '000 USD
		'000 RUR	2007 '000 USD	
Wages and salaries:				
Cost of sales	1,735,227	1,082,214	66,528	39,097
Administrative expenses	818,814	726,461	31,393	26,245
Distribution expenses	92,375	59,255	3,542	2,141
	<u>2,646,416</u>	<u>1,867,930</u>	<u>101,463</u>	<u>67,483</u>

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11 Financial income and expenses

	2007 '000 RUR	Six months ended 30 June 2006 '000 RUR	2007 '000 USD	2006 '000 USD
Financial income				
Foreign exchange gain	31,180	93,955	1,195	3,394
Interest income	26,828	14,367	1,029	519
Profit from sale of available-for-sale investments .	29,726	—	1,140	—
Dividend income	—	69,782	—	2,521
	<u>87,734</u>	<u>178,104</u>	<u>3,364</u>	<u>6,434</u>
Financial expenses				
Interest expense	(727,862)	(442,004)	(27,906)	(15,968)
Loss from sale of available-for-sale investments .	—	(18,370)	—	(664)
Minority interest in limited liability subsidiaries .	(54,265)	(30,795)	(2,080)	(1,113)
	<u>(782,127)</u>	<u>(491,169)</u>	<u>(29,986)</u>	<u>(17,745)</u>

12 Income tax expense

	2007 '000 RUR	Six months ended 30 June 2006 '000 RUR	2007 '000 USD	2006 '000 USD
Current tax expense				
Current year	553,367	271,000	21,216	9,790
Deferred tax expense				
Origination and reversal of temporary differences	1,149,141	(50,198)	44,058	(1,814)
	<u>1,702,508</u>	<u>220,802</u>	<u>65,274</u>	<u>7,976</u>

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

Reconciliation of effective tax rate:

	2007 '000 RUR	%	2006 '000 RUR	%	Six months ended 30 June 2007 '000 USD	%	2006 '000 USD	%
Profit before income tax	7,161,044	100	721,128	100	274,553	100	26,051	100
Income tax at applicable tax rate	1,718,651	24	173,071	24	65,892	24	6,253	24
Non-deductible and non-taxable items	(16,143)	—	47,731	7	(618)	—	1,723	7
	<u>1,702,508</u>	<u>24</u>	<u>220,802</u>	<u>31</u>	<u>65,274</u>	<u>24</u>	<u>7,976</u>	<u>31</u>

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13 Property, plant and equipment

'000 RUR	Land and buildings	Machinery and equipment	Transportation equipment	Other fixed assets	Assets under construction	Total
Cost/Deemed cost						
At 1 January 2006	3,373,713	2,759,520	1,398,398	1,038,329	531,180	9,101,140
Acquisitions through business combinations	367,394	312,030	123,087	11,514	39,841	853,866
Additions	33,794	90,957	104,201	27,622	533,970	790,544
Disposals	(23,414)	(378)	(39,891)	(46,272)	(30,235)	(140,190)
Business disposals	(265,396)	(168,187)	(376,984)	(39,214)	(25,675)	(875,456)
Transfers	301,884	400,412	36,181	(510,734)	(271,815)	(44,072)
At 30 June 2006	<u>3,787,975</u>	<u>3,394,354</u>	<u>1,244,992</u>	<u>481,245</u>	<u>777,266</u>	<u>9,685,832</u>
At 1 January 2007	5,072,585	4,264,142	1,732,384	517,796	935,800	12,522,707
Acquisitions through business combinations	1,135,944	—	—	—	—	1,135,944
Additions	267,741	1,015,254	405,260	35,885	897,023	2,621,163
Disposals	—	(336,960)	(150,206)	(4,830)	—	(491,996)
Transfers	63,823	124,345	104,477	47,866	(427,000)	(86,489)
Effect of movements in exchange rates	(251)	(405)	(25)	—	6	(675)
At 30 June 2007	<u>6,539,842</u>	<u>5,066,376</u>	<u>2,091,890</u>	<u>596,717</u>	<u>1,405,829</u>	<u>15,700,654</u>
Depreciation and impairment losses						
At 1 January 2006	(234,495)	(294,589)	(295,366)	(155,224)	—	(979,674)
Depreciation charge	(130,863)	(228,638)	(157,594)	(50,230)	—	(567,325)
Disposals	1,408	—	18,946	10,229	—	30,583
Business disposals	45,049	29,686	101,650	6,665	—	183,050
Transfers	(9,072)	(58,911)	(8,107)	76,322	—	232
At 30 June 2006	<u>(327,973)</u>	<u>(552,452)</u>	<u>(340,471)</u>	<u>(112,238)</u>	<u>—</u>	<u>(1,333,134)</u>
At 1 January 2007	(471,417)	(852,556)	(418,571)	(159,041)	—	(1,901,585)
Depreciation charge	(129,088)	(345,672)	(133,431)	(15,807)	—	(623,998)
Disposals	4,784	60,796	25,654	5,922	—	97,156
Transfers	127	389	(164)	664	—	1,016
Effect of movements in exchange rates	5	19	5	(2)	—	27
At 30 June 2007	<u>(595,589)</u>	<u>(1,137,024)</u>	<u>(526,507)</u>	<u>(168,264)</u>	<u>—</u>	<u>(2,427,384)</u>
Net book value						
At 1 January 2006	<u>3,139,218</u>	<u>2,464,931</u>	<u>1,103,032</u>	<u>883,105</u>	<u>531,180</u>	<u>8,121,466</u>
At 30 June 2006	<u>3,460,002</u>	<u>2,841,902</u>	<u>904,521</u>	<u>369,007</u>	<u>777,266</u>	<u>8,352,698</u>
At 31 December 2006	<u>4,601,168</u>	<u>3,411,586</u>	<u>1,313,813</u>	<u>358,755</u>	<u>935,800</u>	<u>10,621,122</u>
At 30 June 2007	<u>5,944,253</u>	<u>3,929,352</u>	<u>1,565,383</u>	<u>428,453</u>	<u>1,405,829</u>	<u>13,273,270</u>
'000 USD	Land and buildings	Machinery and equipment	Transportation equipment	Other fixed assets	Assets under construction	Total
Cost/Deemed cost						
At 1 January 2006	117,214	95,875	48,585	36,075	18,455	316,204
Acquisitions through business combinations	13,273	11,273	4,447	416	1,439	30,848
Additions	1,221	3,286	3,765	998	19,291	28,561
Disposals	(846)	(14)	(1,441)	(1,672)	(1,092)	(5,065)
Business disposals	(9,588)	(6,076)	(13,619)	(1,417)	(928)	(31,628)
Transfers	10,906	14,466	1,307	(18,451)	(9,820)	(1,592)
Effect of movements in exchange rates	7,706	6,541	2,934	1,823	1,358	20,362
At 30 June 2006	<u>139,886</u>	<u>125,351</u>	<u>45,978</u>	<u>17,772</u>	<u>28,703</u>	<u>357,690</u>

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'000 USD	Land and buildings	Machinery and equipment	Transportation equipment	Other fixed assets	Assets under construction	Total
At 1 January 2007 . . .	192,646	161,944	65,795	19,664	35,540	475,589
Acquisitions through business combinations	43,552	—	—	—	—	43,552
Additions	10,265	38,924	15,538	1,376	34,391	100,494
Disposals	—	(12,919)	(5,759)	(185)	—	(18,863)
Transfers	2,447	4,767	4,006	1,835	(16,371)	(3,316)
Effect of movements in exchange rates	4,413	3,532	1,454	423	896	10,718
At 30 June 2007	<u>253,323</u>	<u>196,248</u>	<u>81,034</u>	<u>23,113</u>	<u>54,456</u>	<u>608,174</u>
Depreciation and impairment losses						
At 1 January 2006 . . .	(8,147)	(10,235)	(10,262)	(5,393)	—	(34,037)
Depreciation charge . .	(4,728)	(8,260)	(5,693)	(1,815)	—	(20,496)
Disposals	51	—	684	370	—	1,105
Business disposals . . .	1,627	1,072	3,672	241	—	6,612
Transfers	(328)	(2,128)	(293)	2,757	—	8
Effect of movements in exchange rates	(588)	(851)	(682)	(305)	—	(2,426)
At 30 June 2006	<u>(12,113)</u>	<u>(20,402)</u>	<u>(12,574)</u>	<u>(4,145)</u>	<u>—</u>	<u>(49,234)</u>
At 1 January 2007 . . .	(17,903)	(32,379)	(15,899)	(6,040)	—	(72,221)
Depreciation charge . .	(4,949)	(13,253)	(5,116)	(606)	—	(23,924)
Disposals	183	2,331	984	227	—	3,725
Transfers	5	15	(6)	25	—	39
Effect of movements in exchange rates	(406)	(758)	(360)	(124)	—	(1,648)
At 30 June 2007	<u>(23,070)</u>	<u>(44,044)</u>	<u>(20,397)</u>	<u>(6,518)</u>	<u>—</u>	<u>(94,029)</u>
Net book value						
At 1 January 2006 . . .	<u>109,067</u>	<u>85,640</u>	<u>38,323</u>	<u>30,682</u>	<u>18,455</u>	<u>282,167</u>
At 30 June 2006	<u>127,773</u>	<u>104,949</u>	<u>33,404</u>	<u>13,627</u>	<u>28,703</u>	<u>308,456</u>
At 31 December 2006 . .	<u>174,743</u>	<u>129,565</u>	<u>49,896</u>	<u>13,624</u>	<u>35,540</u>	<u>403,368</u>
At 30 June 2007	<u>230,253</u>	<u>152,204</u>	<u>60,637</u>	<u>16,595</u>	<u>54,456</u>	<u>514,145</u>

Depreciation expense of RUR 529,588 thousand/USD 20,304 thousand has been charged in cost of goods sold, RUR 10,689 thousand/USD 409 thousand in distribution expenses and RUR 20,721 thousand/USD 794 thousand in administrative expense.

(a) Security

Properties with a carrying amount of RUR 1,773,447 thousand/USD 68,695 thousand are subject to a registered debenture to secure bank loans (2006: RUR 2,352,472 thousand/USD 89,346 thousand) (see note 24).

(b) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 30 June 2007 the net book value of leased plant and machinery was RUR 1,523,460 thousand/USD 59,011 thousand (2006: RUR 1,699,923 thousand/USD 64,560 thousand). The leased equipment secures the lease obligations.

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14 Goodwill

'000 RUR	Goodwill
<i>Cost</i>	
Balance at 1 January 2006	22,451
Additions	486,371
Balance at 30 June 2006	<u>508,822</u>
Balance at 1 January 2007	<u>572,669</u>
Balance at 30 June 2007	<u><u>572,669</u></u>
'000 USD	Goodwill
<i>Cost</i>	
Balance at 1 January 2006	780
Additions	17,571
Effect of movements in exchange rates	439
Balance at 30 June 2006	<u>18,790</u>
Balance at 1 January 2007	<u>21,749</u>
Effect of movements in exchange rates	434
Balance at 30 June 2007	<u><u>22,183</u></u>

(a) Impairment testing of goodwill

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

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

	Allocated goodwill	
	'000 RUR	'000 USD
Zavod Zhelezobetonich Izdeliy-6	254,173	9,655
Aeroc International AS	245,952	9,340
LSR Europe GmbH	50,093	1,902
OAO Construction corporation Revival of Saint-Petersburg (formerly SKV SPb)	<u>22,451</u>	<u>852</u>
	<u><u>572,669</u></u>	<u><u>21,749</u></u>

No impairment losses were recognised in the period.

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

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

- Cash flows were projected based on actual operating results and the five-year business plan.
- Total production at the entities for 2006 was approximately 98,643 m3 of reinforced concrete products at Zavod Zhelezobetonich Izdeliy-6, 519,665 m3 of lightweighted concrete blocks at Aeroc International AS, 3,300 m2 of real estate development at LSR Europe GmbH and 42,827 m2 of real estate development at OAO Construction corporation Revival of Saint-Petersburg. The anticipated annual production growth included in the cash flow projections was up to 37% for the years 2007 to 2011.
- Cash flows for a further five years were extrapolated assuming no further growth in production, and revenue and expenses increasing in line with inflation.
- Discount rates from 12.0% to 19.8% were applied in determining the recoverable amount of the entities. The discount rates were estimated based on an industry average weighted average cost of

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capital, which was based on a possible debt leveraging of 4.0% at market interest rates from 5.8% to 14.0%.

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

Although no impairment loss was recognised in respect of goodwill allocated to the entities, the determination of recoverable amount is sensitive to the rate at which the plant achieves its planned growth in production. If actual production were to be below estimated production by 28% for Zavod Zhelezobetonich Izdeliy-6, by 25% for Aeroc International AS, by 51% for LSR Europe GmbH and by 89% for OAO Construction corporation Revival of Saint-Petersburg in 2007 and subsequent years, the value in use would approximate the carrying amount of the entities.

15 Investment property under development

'000 RUR	2007	2006
<i>Cost/fair value</i>		
At 1 January	496,852	178,040
Change in fair value	3,928,466	—
Transfer from investment property	504,182	—
Transfer from lease incentives	1,139,388	—
Costs capitalised	52,459	91,222
At 30 June	<u>6,121,347</u>	<u>269,262</u>
'000 USD	2007	2006
<i>Cost/fair value</i>		
At 1 January	18,869	6,186
Change in fair value	150,616	—
Transfer from investment property	19,330	—
Transfer from lease incentives	43,684	—
Costs capitalised	2,011	3,296
Effect of movements in exchange rates	2,603	462
At 30 June	<u>237,113</u>	<u>9,944</u>

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

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

The fair value of the land component is based on valuations by independent valuers who hold recognised and relevant professional qualifications and who have recent experience in the location and category of the investment property being valued. The valuations are based on a Residual Site Appraisal, undertaken according to the requirements of RICS Appraisal and Valuation Standards ("Red Book").

The annual rental rates used to determine the fair values are within the range \$650 to \$1,000 per square meter.

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One of the plots of land that was acquired with the purchase of 30% of OAO Zavod Elektrik (Project Electric City, Medikov, 10) in December 2006 was initially recorded at cost as lease incentives. The final decision on construction of investment property (business centres) on this plot of land was made early 2007 and it has been transferred from lease incentives to investment property under development. At the date of transfer the plot of land was recorded at a fair value with RUR 3,207,763 thousand/USD 122,984 thousand recorded in profit and loss, RUR 1,685,258 thousand/USD 64,612 thousand of which represents increase in fair value since acquisition date in December 2006 and the rest is an effect of change of intentions to use this plot for an investment property in 2007 rather than inventory.

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

Investment property under development with a carrying amount of RUR 565,264 thousand/USD 21,896 thousand are subject to a registered debenture to secure bank loans (2006: RUR 504,182 thousand /USD 19,149 thousand)—see note 24.

16 Investment property

'000 RUR	2007	2006
<i>Fair value</i>		
At 1 January	1,046,666	—
Acquisitions through business combinations	—	1,038,834
Transfer to investment property under development	(504,182)	—
Change in fair value	1,093,881	—
Costs capitalised	123,714	—
At 30 June	1,760,079	1,038,834
'000 USD	2007	2006
<i>Fair value</i>		
At 1 January	39,750	—
Acquisitions through business combinations	—	37,530
Transfer to investment property under development	(19,330)	—
Change in fair value	41,939	—
Costs capitalised	4,743	—
Effect of movements in exchange rates	1,075	833
At 30 June	68,177	38,363

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

Independent valuers revalue the Group's investment property portfolio on a regular basis. The used in valuation expected rate to be derived from letting these premises after the construction is completed ranges from \$500 to \$750 per m² a year.

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17 Other investments

	30 June 2007 '000 RUR	31 December 2006 '000 RUR	30 June 2007 '000 USD	31 December 2006 '000 USD
<i>Non-current</i>				
Available-for-sale investments:				
Stated at cost	228,477	166,481	8,850	6,322
Originated loans	46,674	160,607	1,808	6,100
	<u>275,151</u>	<u>327,088</u>	<u>10,658</u>	<u>12,422</u>
<i>Current</i>				
Available-for-sale investments:				
Stated at fair value	56,673	47,259	2,196	1,795
Originated loans	916,907	753,180	35,516	28,604
	<u>973,580</u>	<u>800,439</u>	<u>37,712</u>	<u>30,399</u>

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

18 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

'000 RUR	Assets		Liabilities	
	30 June 2007	31 December 2006	30 June 2007	31 December 2006
Property, plant and equipment	(418,028)	(63,093)	1,432,808	1,138,508
Investment property under development	—	—	969,327	(79)
Investment property	—	—	557,120	251,120
Investments	(33,121)	(22,203)	—	—
Inventories	(329,856)	(291,301)	354,612	30,386
Trade and other receivables	(133,929)	(122,914)	6,555	13,008
Loans and borrowings	(282,555)	(237,823)	29,736	553
Provisions	(2,518)	(2,738)	—	—
Trade and other payables	(91,632)	(60,535)	10,466	19,669
Tax loss carry-forwards	(65,469)	(49,985)	—	—
Tax (assets)/liabilities	(1,357,108)	(850,592)	3,360,624	1,453,165
Set off of tax	1,039,764	513,430	(1,039,764)	(513,430)
Net tax (assets)/liabilities	<u>(317,344)</u>	<u>(337,162)</u>	<u>2,320,860</u>	<u>939,735</u>

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'000 USD	Assets		Liabilities	
	30 June 2007	31 December 2006	30 June 2007	31 December 2006
Property, plant and equipment	(16,192)	(2,396)	55,500	43,238
Investment property under development	—	—	37,547	(3)
Investment property	—	—	21,580	9,537
Investments	(1,283)	(843)	—	—
Inventories	(12,777)	(11,063)	13,736	1,154
Trade and other receivables	(5,188)	(4,668)	254	494
Loans and borrowings	(10,945)	(9,033)	1,152	21
Provisions	(98)	(104)	—	—
Trade and other payables	(3,549)	(2,299)	405	747
Tax loss carry-forwards	(2,536)	(1,898)	—	—
Tax (assets)/liabilities	(52,568)	(32,304)	130,174	55,188
Set off of tax	40,276	19,499	(40,276)	(19,499)
Net tax (assets)/liabilities	(12,292)	(12,805)	89,898	35,689

(b) Movement in temporary differences during the period

'000 RUR	1 January 2007	Recognised in income	Acquired	30 June 2007
Property, plant and equipment	1,075,415	(330,606)	269,973	1,014,780
Investment property under development	(79)	969,406	—	969,327
Investment property	251,120	306,000	—	557,120
Investments	(22,203)	(10,918)	—	(33,121)
Inventories	(260,915)	285,670	—	24,756
Trade and other receivables	(109,906)	(17,468)	—	(127,374)
Trade and other payables	(40,866)	(40,300)	—	(81,166)
Loans and borrowings	(237,270)	(15,550)	—	(252,819)
Provisions	(2,738)	220	—	(2,518)
Tax loss carry-forwards	(49,985)	(15,484)	—	(65,469)
	602,573	1,130,970	269,973	2,003,516

'000 USD	1 January 2007	Recognised in income	Acquired	Effect of movements in exchange rate	30 June 2007
Property, plant and equipment	40,842	(12,676)	10,351	792	39,308
Investment property under development	(3)	37,167	—	384	37,547
Investment property	9,537	11,732	—	311	21,580
Investments	(843)	(419)	—	(21)	(1,283)
Inventories	(9,909)	10,952	—	(85)	959
Trade and other receivables	(4,174)	(670)	—	(90)	(4,934)
Trade and other payables	(1,552)	(1,545)	—	(47)	(3,144)
Loans and borrowings	(9,012)	(596)	—	(186)	(9,793)
Provisions	(104)	8	—	(2)	(98)
Tax loss carry-forwards	(1,898)	(594)	—	(44)	(2,536)
	22,884	43,359	10,351	1,012	77,606

During six months ended 30 June 2006 RUR 28,099 thousand/USD 1,015 thousand of the movement in the deferred tax asset and liability was recognised in the income statement.

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(c) **Unrecognised deferred tax liability**

A temporary difference of RUR 9,288,646 thousand/USD 359,799 thousand relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future. If the temporary difference were reversed in a form of distributions remitted to the Company, then an enacted tax rate of 9 per cent would apply. If the temporary difference were reversed in a disposal of the subsidiaries, then a tax rate of 24 per cent would apply.

19 Inventories

	30 June 2007 '000 RUR	31 December 2006 '000 RUR	30 June 2007 '000 USD	31 December 2006 '000 USD
Work in progress, construction of buildings	12,681,986	9,623,210	491,240	365,469
Finished goods, construction of buildings	1,358,082	2,482,720	52,606	94,289
Raw materials and consumables	1,126,356	971,205	43,630	36,884
Finished goods and goods for resale	1,092,792	541,644	42,330	20,571
Work in progress	560,720	331,509	21,720	12,590
	<u>16,819,936</u>	<u>13,950,288</u>	<u>651,526</u>	<u>529,803</u>

Inventories with a carrying amount of RUR 939,174 thousand/USD 36,379 thousand are subject to a registered debenture to secure bank loans (2006: RUR 777,855 thousand/USD 29,543 thousand) (see note 24). There were no write-down of inventories during six months ended 30 June 2007 and 30 June 2006.

20 Trade and other receivables

	30 June 2007 '000 RUR	31 December 2006 '000 RUR	30 June 2007 '000 USD	31 December 2006 '000 USD
Prepayments for flats	1,469,089	1,432,103	56,906	54,388
Accounts receivable—trade	1,912,449	1,196,759	74,079	45,450
Prepayments	2,800,735	1,899,955	108,488	72,156
Lease incentives	1,284,955	2,404,477	49,773	91,317
VAT receivable	344,159	349,778	13,331	13,284
Deferred expenses	215,143	172,015	8,334	6,533
Notes receivable	283,161	325,630	10,968	12,367
Amounts due from customers for contract work .	1,075	89,791	42	3,410
Employee receivables	70,196	69,269	2,719	2,631
Finance lease receivable	345,520	204,392	13,384	7,762
Other receivables	977,578	838,558	37,867	31,847
	9,704,060	8,982,727	375,891	341,145
Accumulated impairment loss on trade receivables	(173,938)	(146,187)	(6,738)	(5,552)
	<u>9,530,122</u>	<u>8,836,540</u>	<u>369,153</u>	<u>335,593</u>

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21 Cash and cash equivalents

	30 June 2007 '000 RUR	31 December 2006 '000 RUR	30 June 2007 '000 USD	31 December 2006 '000 USD
Petty cash	85,948	19,659	3,329	747
Bank balances	859,105	1,587,580	33,278	60,293
Bank promissory notes	—	983	—	37
Cash and cash equivalents in the balance sheet . .	945,053	1,608,222	36,607	61,077
Bank overdrafts	(32,710)	(25,944)	(1,267)	(985)
Cash and cash equivalents in the statement of cash flows	<u>912,343</u>	<u>1,582,278</u>	<u>35,340</u>	<u>60,092</u>

22 Equity

(a) Share capital

<u>Number of shares unless otherwise stated</u>	<u>Ordinary shares 2007</u>
Authorised shares	
Par value	RUR 0.25
On issue at beginning of year	—
Converted into ordinary shares	<u>85,148,936</u>
On issue at end of year, fully paid	<u>85,148,936</u>

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

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

As a result the share capital, retained earnings and additional paid-in capital were reclassified into equity and such reclassification has been accounted for retrospectively.

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

(b) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 30 June 2007 the Company had retained earnings, including profit for the current year, of RUR 430,639 thousand/USD 16,681 thousand (2006: RUR 85,763/USD 3,257 thousand).

23 Earnings per share

The calculation of earnings per share is based on profit attributable to the shareholders of the Company divided by the number of ordinary shares issued in July 2006 (85,148,936 shares) when the Company re-registered as an OAO company (see note 22(a)).

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24 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 27.

	30 June 2007 '000 RUR	31 December 2006 '000 RUR	30 June 2007 '000 USD	31 December 2006 '000 USD
<i>Non-current</i>				
Secured bank loans	4,441,534	4,314,320	172,044	163,848
Unsecured other loans	4,492,710	1,628,146	174,027	61,834
Unsecured bond issues	2,277,720	2,000,000	88,228	75,956
Finance lease liabilities	874,533	778,749	33,875	29,575
	<u>12,086,497</u>	<u>8,721,215</u>	<u>468,174</u>	<u>331,213</u>
<i>Current</i>				
Secured bank loans	451,289	736,330	17,481	27,964
Current portion of secured bank loans	312,801	199,099	12,116	7,561
Current portion of unsecured other loans	—	—	—	—
Unsecured other loans	3,576,735	3,500,936	138,546	132,959
Unsecured bond issue	758,044	836,638	29,363	31,774
Current portion of finance lease liabilities	577,748	457,718	22,379	17,383
	<u>5,676,617</u>	<u>5,730,721</u>	<u>219,885</u>	<u>217,641</u>

Finance lease liabilities are payable as follows:

	30 June 2007—'000 RUR			31 December 2006—'000 RUR		
	Payments	Interest	Principal	Payments	Interest	Principal
Less than one year	723,658	(145,910)	577,748	586,159	128,441	457,718
Between one and five years	962,012	(87,479)	874,533	913,388	134,639	778,749
	<u>1,685,670</u>	<u>(233,389)</u>	<u>1,452,281</u>	<u>1,499,547</u>	<u>263,080</u>	<u>1,236,467</u>
	30 June 2007—'000 USD			31 December 2006—'000 USD		
	Payments	Interest	Principal	Payments	Interest	Principal
Less than one year	28,031	(5,652)	22,379	22,261	4,878	17,383
Between one and five years	37,263	(3,388)	33,875	34,688	5,113	29,575
	<u>65,294</u>	<u>(9,040)</u>	<u>56,254</u>	<u>56,949</u>	<u>9,991</u>	<u>46,958</u>

Bank loans are secured by the following:

- Property, plant and equipment with a carrying amount of RUR 1,773,447 thousand/USD 68,695 thousand (2006: RUR 2,352,472 thousand/USD 89,346 thousand)—see note 13(a).
- Investment property under development with a carrying amount of RUR 565,264 thousand/USD 21,896 thousand are subject to a registered debenture to secure bank loans (2006: RUR 504,182 thousand/USD 19,149 thousand)—see note 15
- Inventories with a carrying amount of RUR 939,174 thousand/USD 36,379 thousand (2006: RUR 777,855 thousand/USD 29,543 thousand)—see note 19.

The finance lease liabilities are secured by the leased assets (see note 13(b)).

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

- 100% of OAO Leningrad River Port;
- 90.16% of OAO Granit-Kuznechnoe;
- 89.89% of OAO GATP-1;
- 89.92% of OAO MTO Arkhproekt;
- 26% of OOO Osobnyak;
- 100% of Aeroc AS;
- 100% of SIA Aeroc Poribet.

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 RUR	Average interest rate		Year of maturity	30 June 2007	31 December 2006
	Contractual	Effective		Carrying amount	Carrying amount
Secured bank loans:					
RUR	9.14% – 12.05%	10.28%	2007 – 2011	1,460,000	1,465,968
USD	9.38% – 11.00%	9.58%	2009 – 2011	881,209	789,932
USD	Libor+3.9% – Libor+4.1%	9.28%	2009 – 2011	1,252,331	842,596
EUR	6.00% – 8.80%	8.76%	2007 – 2014	312,350	1,329,850
EUR	Eonia+2%, Euribor+0.99%, Euribor+4.5%	5.86%	2007 – 2014	986,933	617,869
EEK	3.80% – 6.00%	4.90%		—	4,435
Current portion of secured bank loans:					
EUR	Eurolibor+0.99% – Eurolibor+4.5%	5.52%	2007 – 2008	48,073	176,088
EUR	6.00% – 8.8%	8.8%	2007 – 2008	191,874	—
RUR	10.00% – 10.25%	10.13%	2007 – 2008	72,854	23,011
Unsecured other loans:					
RUR	Mostrime+3%	7.06%	2008	340,000	—
RUR	8.50 – 12.00%	9.44%	2007 – 2015	7,729,445	3,436,406
USD				—	871,923
EUR	Libor+1.5% – Libor+7.5%	10.33%		—	820,753
Unsecured bond issues:					
RUR	10.7% – 14.0%	10.51%	2008 – 2009	2,758,044	2,836,638
EUR	Euribor+0.99% – Euribor+4.5%	8.82%	2009	277,720	—
Finance lease liabilities—RUR	11% – 29%	14.8%		1,452,281	1,236,467
				<u>17,763,114</u>	<u>14,451,936</u>

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'000 USD	Average interest rate		Year of maturity	30 June 2007	31 December 2006
	Contractual	Effective		Carrying amount	Carrying amount
Secured bank loans:					
RUR	9.14% – 12.05%	10.28%	2007 – 2011	56,553	55,674
USD	9.38% – 11.00%	9.58%	2009 – 2011	34,134	30,000
USD	Libor+3.9% – Libor+4.1%	9.28%	2009 – 2011	48,510	32,000
EUR	6.00% – 8.80%	8.76%	2007 – 2014	12,099	50,504
EUR	Eonia+2%, Euribor+0.99%, Euribor+4.5%	5.86%	2007 – 2014	38,229	23,466
EEK	3.80% – 6.00%	4.90%		—	168
Current portion of secured bank loans:					
EUR	Eurolibor+0.99% – Eurolibor+4.5%	5.52%	2007 – 2008	1,862	6,688
EUR	6.00% – 8.8%	8.8%	2007 – 2008	7,432	—
RUR	10.00% – 10.25%	10.13%	2007 – 2008	2,822	873
Unsecured other loans:					
RUR	Mostrime+3%	7.06%	2008	13,170	—
RUR	8.50 – 12.00%	9.44%	2007 – 2015	299,403	130,508
USD				—	33,115
EUR	Libor+1.5% – Libor+7.5%	10.33%		—	31,170
Unsecured bond issues:					
RUR	10.7% – 14.0%	10.51%	2008 – 2009	106,833	107,730
EUR	Euribor+0.99% – Euribor+4.5%	8.82%	2009	10,758	—
Finance lease liabilities—RUR				56,254	46,958
				<u>688,059</u>	<u>548,854</u>

25 Provisions

'000 RUR	Site restoration	Environment restoration	Total
Balance at 1 January 2007	185,329	27,711	213,040
Provisions made during the period	232,668	—	232,668
Provisions used during the period	(185,329)	(17,189)	(202,518)
Balance at 30 June 2007	<u>232,668</u>	<u>10,522</u>	<u>243,190</u>
'000 USD	Site restoration	Environment restoration	Total
Balance at 1 January 2007	7,039	1,052	8,091
Provisions made during the period	8,920	—	8,920
Provisions used during the period	(7,105)	(659)	(7,764)
Effect of movements in exchange rates	158	15	173
Balance at 30 June 2007	<u>9,012</u>	<u>408</u>	<u>9,420</u>

(a) Site restoration

The Group recognises provisions in respect of the Group's obligation to clean up the surrounding area after construction of apartment buildings. Any damage caused during construction is rectified after the construction of buildings is completed.

(b) Environment restoration

The Group recognises provisions in respect of the Group's obligation to clean up the surrounding area after quarrying sand in forested areas. The damage caused during quarrying is cleaned up after quarrying is completed.

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26 Trade and other payables

	30 June 2007 '000 RUR	31 December 2006 '000 RUR	30 June 2007 '000 USD	31 December 2006 '000 USD
Prepayments received for flats	12,245,439	13,518,896	474,331	513,420
Accounts payable—trade	3,041,631	1,690,383	117,819	64,197
Advances from customers	1,648,855	1,113,356	63,869	42,283
Notes payable	149,406	316,780	5,787	12,031
Employee-related liabilities	416,229	275,196	16,123	10,451
Other taxes payable	450,683	306,763	17,457	11,650
Minority interest in limited liability subsidiaries	143,107	90,095	5,543	3,422
Accounts due to customers for contract work	159,208	175,344	6,167	6,659
Interest payable	58,326	60,740	2,259	2,307
Deferred income	98,247	3,373	3,806	128
Dividends payable	93	93	4	4
Other payables	320,004	297,352	12,396	11,292
	<u>18,731,228</u>	<u>17,848,371</u>	<u>725,561</u>	<u>677,844</u>

27 Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business. The Group does not hedge its exposure for such risk.

(a) Credit risk

The Group does not require collateral in respect of financial assets. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Interest rate risk

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

(c) Foreign currency risk

The Group incurs foreign currency risk on borrowings that are denominated in a currency other than RUR. The currencies giving rise to this risk are primarily USD and Euro.

The following exchange rates applied:

	USD 30 June 2007	Euro 30 June 2007	USD 31 December 2006	Euro 31 December 2006
RUR 1 equals	<u>25.8162</u>	<u>34.7150</u>	<u>26.3311</u>	<u>34.6965</u>

(d) Fair values

The fair value of unquoted equity investments is discussed in note 17. In other cases management believes that the fair value of its financial assets and liabilities approximates their carrying amounts:

In assessing fair values, management used the following major methods and assumptions:

- (i) *Quoted securities.* Quoted market prices at the balance sheet date without any deduction for transaction costs.

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- (ii) **Loans and borrowings.** Expected future principal and interest cash flows were discounted at rates that approximated contractual rates.
- (iii) **Promissory notes.** Expected future principal and interest cash flows were discounted at rates that approximated contractual rates.
- (iv) **Trade and other receivables and payables.** For receivables and payables with a maturity of less than six months fair value is not materially different from the carrying amount because the effect of the time value of money is not material.

28 Commitments

At 30 June 2007, the Group was committed to purchase property, plant and equipment for approximately RUR 1,689,816 thousand/USD 65,456 thousand (31 December 2006: RUR 325,541 thousand/USD 12,363 thousand)

29 Contingencies

(a) Insurance

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

(b) Litigation

As at 31 December 2005 the Group was involved in a dispute relating to a promissory note of an insolvent third party which was endorsed by the Group in 2003. The holder of the promissory note successfully sued the Group on the endorsement. The Group recognised a provision for the amount of the claim of RUR 37,222 thousand/USD 1,080 thousand. During 2006, the Group sold its controlling stake in this company and derecognised the provision accordingly.

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

(c) Taxation contingencies

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

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

(d) Environmental liabilities

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

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The Group is engaged in crushed stone production in three areas covered by forests. According to existing legislation and the terms of licenses obtained by the Group there is a liability for the Group to restore these sites when quarrying is complete. The costs associated with restoration cannot be determined as, in accordance with existing licences on crushed stone production, the methods of restoration and its cost will be determined in the future based on discussions between the Group and Russian Environment Authorities after the quarrying is complete. Accordingly, no provision has been recognised in the consolidated interim financial statements for potential restoration costs. It is expected that quarrying will cease in the three areas currently used between 2051 and 2157.

30 Related party transactions

(a) Control relationships

The Company's ultimate controlling party is Mr. Andrey Molchanov.

(b) Transactions with management and close family members

The Directors and their close family members control 15.8% of the voting shares of the Company.

(i) Management remuneration

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

	2007 '000 RUR	Six months ended 30 June 2006 '000 RUR	2007 '000 USD	2006 '000 USD
Salaries and bonuses	143,439	99,755	5,499	3,603

(ii) Other transactions

There were no loans to executive directors as at 30 June 2007 (31 December 2006: RUR 4,876 thousand/ USD 185 thousand). No interest is payable on these loans.

(c) Transactions with other related parties

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

(i) Revenue

	Transaction value six months ended		Outstanding balance		Transaction value six months ended		Outstanding balance	
	30 June 2007 '000 RUR	30 June 2006 '000 RUR	30 June 2007 '000 RUR	31 December 2006 '000 RUR	30 June 2007 '000 USD	30 June 2006 '000 USD	30 June 2007 '000 USD	31 December 2006 '000 USD
Sale of goods and services provided:								
Companies significantly influenced by LSR management . . .	199,360	157,277	159,793	2,168	7,643	5,682	6,190	82
Companies controlled or significantly influenced by or on behalf of, the Group's ultimate beneficial owners	87	115,157	379,423	21,806	3	4,160	14,697	828
	199,447	272,434	539,216	23,974	7,646	9,842	20,887	910

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

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(ii) Expenses

	Transaction value six months ended		Outstanding balance		Transaction value six months ended		Outstanding balance	
	30 June 2007 '000 RUR	30 June 2006 '000 RUR	30 June 2007 '000 RUR	31 December 2006 '000 RUR	30 June 2007 '000 USD	30 June 2006 '000 USD	30 June 2007 '000 USD	31 December 2006 '000 USD
Purchase of goods and services:								
Companies significantly influenced by LSR management . . .	184,910	86,199	144,463	7,136	7,089	3,114	5,596	271
Companies controlled or significantly influenced by or on behalf of, the Group's ultimate beneficial owners	8,023	694,303	2,735	66,256	308	25,083	106	2,516
	<u>192,933</u>	<u>780,502</u>	<u>147,198</u>	<u>73,392</u>	<u>7,397</u>	<u>28,197</u>	<u>5,702</u>	<u>2,787</u>

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

(iii) Loans

	Transaction value six months ended		Outstanding balance		Transaction value six months ended		Outstanding balance	
	30 June 2007 '000 RUR	30 June 2006 '000 RUR	30 June 2007 '000 RUR	31 December 2006 '000 RUR	30 June 2007 '000 USD	30 June 2006 '000 USD	30 June 2007 '000 USD	31 December 2006 '000 USD
Loans received:								
Companies controlled or significantly influenced by or on behalf of, the Group's ultimate beneficial owners	(232,809)	(297,272)	(192,207)	(320,462)	(8,926)	(10,740)	(7,445)	(12,170)
Companies significantly influenced by LSR management . . .	(11,800)	(275,851)	(45,261)	(176,922)	(452)	(9,966)	(1,753)	(6,719)
Loans given:								
Companies controlled or significantly influenced by or on behalf of, the Group's ultimate beneficial owners	232,744	371,028	395,075	158,115	8,923	13,404	15,303	6,005
Companies significantly influenced by LSR management . . .	182,258	565,661	249,101	—	6,988	20,436	9,649	—
	<u>170,393</u>	<u>363,566</u>	<u>406,708</u>	<u>(339,269)</u>	<u>6,533</u>	<u>13,134</u>	<u>15,754</u>	<u>(12,884)</u>

The loans from fellow subsidiaries bear no interest and are repayable based on contractual terms.

The loans to fellow subsidiaries and entities under significant influence bear no interest and are repayable based on contractual terms. Loans given and received have not been discounted in view of their short maturity.

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31 Significant subsidiaries

	Country of incorporation	Ownership/voting 30 June 2007	Ownership/voting 31 December 2006
ZAO Gatchinsky DSK	Russia	98.23%	98.23%
OAo Construction corporation Revival of Saint-Petersburg (formerly OAo SKV SPb)	Russia	95.53%	95.53%
OOO Gorodskoi DSK (formerly OOO Gatchinsky DSK)	Russia	100.00%	100.00%
OAo Lenstroirekonstruktsiya	Russia	99.99%	99.99%
OAo Granit-Kuznechnoye	Russia	90.16%	95.09%
OAo Rudas	Russia	99.90%	86.55%
OAo Leningrad River Port	Russia	100.00%	100.00%
ZAO Skanex (formerly ZAO Skanmix SPb)	Russia	100.00%	100.00%
ZAO Vertikal	Russia	100.00%	100.00%
OAo PO Barrikada (formerly ZAO PO Barrkkada)	Russia	90.70%	95.35%
ZAO DSK Blok	Russia	100.00%	100.00%
OAo UM-260 (formerly ZAO UM-260)	Russia	87.10%	97.11%
OAo St. Petersburg River Port	Russia	100.00%	100.00%
OAo Obyedineniye 45	Russia	97.10%	93.83%
ZAO Mosstroyrekonstruktsiya	Russia	100.00%	100.00%
OAo GATP-1	Russia	89.89%	74.62%
OAo Pobeda LSR (formerly ZAO Pobeda LSR)	Russia	99.87%	99.87%
OOO Aerok SPb	Russia	100.00%	100.00%
OOO Osobnyak	Russia	100.00%	100.00%
OOO Kvartira LuxServis	Russia	100.00%	100.00%
ZAO Stroitrest 28	Russia	79.17%	89.63%
OOO Stroitrest 28	Russia	50.00%	50.00%
OOO TD Granit-Kuznechnoye	Russia	100.00%	100.00%
ZAO Paradny kvartal (Naberezhnaya Evropy)	Russia	100.00%	100.00%
OOO Nevsky portal	Russia	100.00%	100.00%
OOO Novy kvartal	Russia	100.00%	100.00%
OOO Nisk	Russia	—	74.00%
OOO LSK-ecologiya	Russia	—	50.00%
OOO Promichlenno Stroitel'naya Gruppya LSR	Russia	100.00%	100.00%
ZAO Promyshlenny leasing (formerly OOO Promyshlenny leasing)	Russia	100.00%	100.00%
OOO Martynovka	Russia	100.00%	100.00%
ZAO Chekalovskoye	Russia	—	100.00%
OAo NKSM	Russia	96.90%	96.90%
ZAO Vyborgstroyrekonstruktsiya	Russia	80.00%	80.00%
OOO Yuna	Russia	100.00%	100.00%
DNP Alakul*	Russia	—	—
DNP Penaty 2*	Russia	—	—
DNP Severnoye pomestye*	Russia	—	—
GDSK Invest companies*	Russia	—	—
MSR companies*	Russia	24.00%	24.00%
OAo Zavod Zhelezobetonnich Izdeliy-6	Russia	57.70%	57.70%
ZAO Galernaya (formerly OOO Galernaya)	Russia	—	100.00%
OOO GDSK Yugo-Zapad (formerly OOO GDSK-invest-35)	Russia	100.00%	100.00%
OOO GDSK-invest Primorsky (formerly OOO GDSK-invest-49)	Russia	100.00%	100.00%
OOO Zarechye	Russia	100.00%	100.00%
OOO LSSMO Promstroyontazh	Russia	100.00%	100.00%
OOO Smolny kvartal	Russia	100.00%	100.00%
ZAO Severnaya Venecia	Russia	100.00%	100.00%
ZAO Vsevolozhskoye SMP	Russia	100.00%	100.00%

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	Country of incorporation	Ownership/voting 30 June 2007	Ownership/voting 31 December 2006
OOO Yakornaya	Russia	100.00%	100.00%
OOO BaltStroyKomplekt	Russia	100.00%	100.00%
Aeroc International AS	Estonia	90.00%	90.00%
Aeroc SIA	Latvia	100.00%	100.00%
Aeroc AS	Estonia	100.00%	100.00%
Aeroc Ukrain	Ukraine	100.00%	100.00%
Obyedineniye 45M	Russia	100.00%	100.00%
ZAO Petrobeton	Russia	90.00%	90.00%
Aeroc UAB	Lithuania	100.00%	100.00%
SKV-invests*	Russia	—	—
OOO LSR-invest	Russia	100.00%	100.00%
ZAO Chifko Plus	Russia	100.00%	100.00%
LSR Europe GmbH	Germany	100.00%	100.00%
Saargemunder Strabe Wohnbau GmbH & Co. KG	Germany	70.00%	70.00%
Saargemunder Strabe Wohnbau Beteiligungs-GmbH	Germany	70.00%	70.00%
Max-Josephs-Hohe Immobilien und Projektentwicklungs GmbH	Germany	94.80%	94.80%
ZAO A Plus Estate	Russia	100.00%	100.00%
ZAO Ingeokom	Russia	100.00%	100.00%
ZAO Electron	Russia	100.00%	100.00%
ZAO Stroitel	Russia	100.00%	100.00%
OAO Stroicorporatciya	Russia	84.44%	84.44%
ZAO Petropolis	Russia	—	100.00%
ZAO Baltiyskaya panorama	Russia	—	100.00%
OOO Gidrotehnik	Russia	100.00%	100.00%
ZAO Zolotaya Kazanskaya (formerly OOO Zolotaya Kazanskaya)	Russia	100.00%	—
OAO MTO Arhproekt	Russia	89.92%	89.92%
OOO LSR Ukraina	Ukraine	100.00%	100.00%
OAO Berezanskoye proektno-promishlennoe domostroitelnoye objedinenie	Ukraine	99.99%	99.99%
ZAO Gvardeiskoe	Russia	—	100.00%
ZAO Parnas	Russia	—	100.00%
OOO Velikan XXI	Russia	100.00%	100.00%
OAO Zavod Elektrik*	Russia	29.99%	29.99%
ZAO Kikerino Elektrik*	Russia	100.00%	100.00%
ZAO Zavod Stroifarfor*	Russia	20.02%	19.97%
OOO BSK Invest*	Russia	20.00%	20.00%

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

32 Events subsequent to the balance sheet date

Subsequent to 30 June 2007 the Group has entered into agreements to acquire the following equities and options over equities for the planned consideration as follows:

- On 4 September 2007 the Group entered into an agreement to acquire 100% of the equity of OOO Investicionnaya Stroitel'naya Kompaniya Argus (Project Tsvetnoy Gorod, Ruch'i) from an unrelated party for RUR 3,278,657 thousand/USD 127,000 thousand. The consideration is to be paid in cash before 10 November 2007. Control passed to the Group on 27 September 2007.
- On 6 September 2007 the Group entered into an agreement to acquire 100% of the equity in ZAO Oblstroj (Project Tsvetnoy Gorod, Ruch'i) from an unrelated party for RUR 1,648,962 thousand/USD 63,873 thousand. The consideration was paid in cash in full. Control passed to the Group on 17 September 2007.

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- On 22 August 2007 the Group entered into an agreement to acquire 27%, of the equity of NPO Keramika (Project Sophia, Uzhnoe shosse, 55) for RUR 250,000 thousand/USD 9,684 thousand from a related party. The consideration was paid in cash in full. Control passed to the Group on 19 September 2007.
- On 14 September 2007 the Group entered into an agreement to acquire an option to purchase a further 13%, of the equity of NPO Keramika (Project Sophia, Uzhnoe shosse, 55) for RUR 200,000 thousand/USD 7,747 thousand from a related party. The option expires on 13 September 2008. The consideration is to be paid either in cash or in kind. Control passed to the Group on 1 October 2007.
- On 22 August 2007 the Group entered into an agreement to acquire 24%, of the equity of NPO Keramika (Project Sophia, Uzhnoe shosse, 55) for RUR 200,000 thousand/USD 7,747 thousand from a related party. The consideration is to be paid either in cash or in kind, RUR 60,000 thousand/USD 2,324 thousand before 27 August 2007 and RUR 140,000 thousand/USD 5,423 thousand by monthly installments. By 27 September 2007 the amount of RUR 63,500/USD 2,460 thousand was paid in cash. Control passed to the Group on 19 September 2007.
- On 22 August 2007 the Group entered into an agreement to acquire 24%, of the equity of NPO Keramika (Project Sophia, Uzhnoe shosse, 55) for RUR 200,000 thousand/USD 7,747 thousand from a related party. The consideration was paid in cash in full. Control passed to the Group on 19 September 2007.
- On 19 July 2007 the Group entered into an agreement to acquire 43%, of the equity of ZAO Zavod Stroifarfor (Project Sophia, Uzhnoe shosse, 49) for RUR 200,000 thousand/USD 7,747 thousand from a related party. The Group already holds 20% of the equity of ZAO Zavod Stroifarfor. The consideration for the share purchase is to be paid either in cash or in kind before 31 December 2007. Part of the consideration, amounting to RUR 28,000 thousand/USD 1,085 thousand was paid by 20 September. Control passed to the Group on 19 September 2007.
- On 28 August 2007 the Group entered into an agreement to acquire an option to purchase a further 33%, of the equity of ZAO Zavod Stroifarfor (Project Sophia, Uzhnoe shosse, 49) for RUR 250,000 thousand/USD 9,684 thousand from a related party. The consideration is to be paid either in cash or in kind, within 1 year from 28 August 2007. Control passed to the Group on 1 October 2007.
- On 28 September 2007 the Group entered into an agreement to acquire 67% of the equity of OAO Zavod Elektrik (Project Electric City, Medikov, 10) for RUR 117,997 thousand/USD 4,570 thousand from a related party. The Group already holds 30% of the equity of OAO Zavod Elektrik. The consideration is to be settled before 31 December 2007. Part of the consideration, amounting to RUR 96,788/USD 3,749 thousand was settled by promissory notes by 28 September 2007. Control passed to the Group on 28 September 2007.

The above entities own land that the Group will use for construction of residential and commercial property.

On 3 September 2007 the Group acquired 100% of the equity in OOO Cement for RUR 607,512 thousand/USD 23,532 thousand settled in cash at the date of sign off of agreement.

On 3 September 2007 the Group paid at an auction RUR 1,288,538 thousand/USD 49,911 thousand in cash to acquire the right to conclude a lease agreement for a plot of land that the Group plans to use for construction of residential properties (Project Yugnaya Aquatoria, Doblesti Street).

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33 Supplementary disclosures

For the six months ended
30 June 2007

	Brick	Reinforced Concrete	Ready-mix Concrete	Aerated Concrete	Other	Eliminations	Building Materials	Construction
'000 RUR								
Revenue from external customers	1,010,587	2,029,839	1,763,299	770,187	895,214	0	6,469,126	1,871,113
Inter-group revenue	51,110	224,181	123,946	16,611	406,628	(499,962)	322,514	492,211
Total revenue	1,061,697	2,254,020	1,887,245	786,798	1,301,842	(499,962)	6,791,640	2,363,324
Operating profit	255,709	443,481	117,160	189,994	131,058	(584)	1,136,818	(49,990)
Depreciation/Amortisation	26,212	63,349	72,795	53,685	5,165	0	221,206	89,322
Fair value adjustment of investment property	0	0	0	0	0	0	0	0
EBITDA*	281,921	506,830	189,955	243,679	136,223	(584)	1,358,024	39,332

For the six months ended
30 June 2007

	Sand	Crushed Granite	Eliminations	Aggregates	Tower Cranes	Transportation	Eliminations	Construction Services
'000 RUR								
Revenue from external customers	1,080,363	728,690	0	1,809,053	357,861	75,824	0	433,685
Inter-group revenue	104,452	333,868	(7,835)	430,485	51,768	171,383	0	223,151
Total revenue	1,184,815	1,062,558	(7,835)	2,239,538	409,629	247,207	0	656,836
Operating profit	414,271	193,502	(11,366)	596,407	128,733	(3,048)	0	125,685
Depreciation/Amortisation	121,588	59,759	0	181,347	50,481	34,694	0	85,175
Fair value adjustment of investment property	0	0	0	0	0	0	0	0
EBITDA*	535,859	253,261	(11,366)	777,754	179,214	31,646	0	210,860

For the six months ended
30 June 2007

	Elite Real Estate	Business Class and Mass Market Real Estate	Gated Communities	Real Estate in Moscow	Real Estate in Western Europe	Eliminations	Development	Commercial Real Estate
'000 RUR								
Revenue from external customers	1,581,109	2,230,357	9,714	1,506,886	116,365	0	5,444,431	24,676
Inter-group revenue	322,579	11,222	1,800	331	0	(16,798)	319,134	0
Total revenue	1,903,688	2,241,579	11,514	1,507,217	116,365	(16,798)	5,763,565	24,676
Operating profit	4,368,679	346,593	6,464	351,119	(11,560)	(34,312)	5,026,983	1,104,932
Depreciation/Amortisation	7,487	9,034	148	2,340	69	0	19,078	1,518
Fair value adjustment of investment property	3,928,466	0	0	0	0	0	3,928,466	1,093,881
EBITDA*	447,700	355,627	6,612	353,459	(11,491)	(34,312)	1,117,595	12,569

For the six months ended 30 June 2007

	Other entities	Eliminations	Unallocated Expenses	Consolidated
'000 RUR				
Revenue from external customers	9,947			16,062,031
Inter-group revenue	0	(1,787,495)		0
Total revenue	9,947	(1,787,495)		16,062,031
Operating profit	36,350	165,242	(286,994)	7,855,437
Depreciation/Amortisation	26,502	0		624,148
Fair value adjustment of investment property	0	0		5,022,347
EBITDA*	62,852	165,242	(286,994)	3,457,238

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

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For the six months ended
30 June 2006

	Brick	Reinforced Concrete	Ready-mix Concrete	Aerated Concrete	Other	Eliminations	Building Materials	Construction
'000 RUR								
Revenue from external customers	758,396	1,210,170	955,396	513,244	128,681	0	3,565,887	1,784,229
Inter-group revenue	2,490	92,849	490,909	531	439,401	(842,534)	183,646	102,168
Total revenue	760,886	1,303,019	1,446,305	513,775	568,082	(842,534)	3,749,533	1,886,397
Operating profit	127,464	(23,290)	40,205	67,304	9,259	(1,803)	219,139	186,083
Depreciation/Amortisation	39,488	53,000	26,619	40,573	3,567	0	163,247	76,242
Fair value adjustment of investment property	0	0	0	0	0	0	0	0
EBITDA*	166,952	29,710	66,824	107,878	12,826	(1,803)	382,386	262,325

For the six months ended
30 June 2006

	Sand	Crushed Granite	Eliminations	Aggregates	Tower Cranes	Transportation	Eliminations	Construction Services
'000 RUR								
Revenue from external customers	849,205	482,601	0	1,331,806	244,923	110,498	0	355,421
Inter-group revenue	98,191	298,404	(13,550)	383,045	42,155	116,377	0	158,532
Total revenue	947,396	781,005	(13,550)	1,714,851	287,078	226,875	0	513,953
Operating profit	64,165	123,198	13,387	200,750	107,031	32,674	0	139,705
Depreciation/Amortisation	131,975	50,161	0	182,136	35,092	20,800	0	55,892
Fair value adjustment of investment property	0	0	0	0	0	0	0	0
EBITDA*	196,140	173,359	13,387	382,886	142,123	53,474	0	195,597

For the six months ended
30 June 2006

	Elite Real Estate	Business Class and Mass Market Real Estate	Gated Communities	Real Estate in Moscow	Real Estate in Western Europe	Eliminations	Development	Commercial Real Estate
'000 RUR								
Revenue from external customers	1,364,169	866,575	210	331	0	0	2,231,285	0
Inter-group revenue	13,836	10,260	1,800	0	0	(9,488)	16,408	0
Total revenue	1,378,005	876,835	2,010	331	0	(9,488)	2,247,693	0
Operating profit	258,997	91,314	(5,152)	(29,981)	0	2,744	317,922	0
Depreciation/Amortisation	3,834	511	46	642	0	0	5,033	0
Fair value adjustment of investment property	0	0	0	0	0	0	0	0
EBITDA*	262,831	91,825	(5,106)	(29,339)	0	2,744	322,955	0

For the six months ended 30 June 2006

	Other entities	Eliminations	Unallocated Expenses	Consolidated
'000 RUR				
Revenue from external customers	67,822			9,336,450
Inter-group revenue	102,319	(946,118)		0
Total revenue	170,141	(946,118)		9,336,450
Operating profit	41,677	162,692	(233,773)	1,034,195
Depreciation/Amortisation	82,194			564,744
Fair value adjustment of investment property	0	0		0
EBITDA*	123,871	162,692	(233,773)	1,598,939

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

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For the six months ended
30 June 2007

	Brick	Reinforced Concrete	Ready-mix Concrete	Aerated Concrete	Other	Eliminations	Building Materials	Construction
'000 USD								
Revenue from external customers	38,745	77,823	67,604	29,529	34,322	0	248,023	71,738
Inter-group revenue	1,960	8,595	4,752	637	15,590	(19,168)	12,365	18,871
Total revenue	40,705	86,418	72,356	30,166	49,912	(19,168)	260,389	90,609
Operating profit	9,804	17,003	4,492	7,284	5,025	(22)	43,585	(1,917)
Depreciation/Amortisation	1,005	2,429	2,791	2,058	198	0	8,481	3,425
Fair value adjustment of investment property	0	0	0	0	0	0	0	0
EBITDA	10,809	19,432	7,283	9,342	5,223	(22)	52,066	1,508

For the six months ended
30 June 2007

	Sand	Crushed Granite	Eliminations	Aggregates	Tower Cranes	Transportation	Eliminations	Construction Services
'000 USD								
Revenue from external customers	41,421	27,938	0	69,359	13,720	2,907	0	16,627
Inter-group revenue	4,005	12,800	(300)	16,505	1,985	6,571	0	8,556
Total revenue	45,426	40,738	(300)	85,863	15,705	9,478	0	25,183
Operating profit	15,883	7,419	(436)	22,866	4,936	(117)	0	4,819
Depreciation/Amortisation	4,662	2,291	0	6,953	1,935	1,330	0	3,265
Fair value adjustment of investment property	0	0	0	0	0	0	0	0
EBITDA	20,545	9,710	(436)	29,819	6,871	1,213	0	8,084

For the six months ended
30 June 2007

	Elite Real Estate	Business Class and Mass Market Real Estate	Gated Communities	Real Estate in Moscow	Real Estate in Western Europe	Eliminations	Development	Commercial Real Estate
'000 USD								
Revenue from external customers	60,619	85,511	372	57,773	4,461	0	208,737	946
Inter-group revenue	12,368	430	69	13	0	(644)	12,236	0
Total revenue	72,987	85,941	441	57,786	4,461	(644)	220,972	946
Operating profit	167,493	13,288	248	13,462	(443)	(1,316)	192,732	42,363
Depreciation/Amortisation	287	346	6	90	3	0	732	58
Fair value adjustment of investment property	150,616	0	0	0	0	0	150,616	41,939
EBITDA	17,164	13,634	254	13,552	(441)	(1,316)	42,846	482

For the six months ended 30 June 2007

	Other entities	Eliminations	Unallocated Expenses	Consolidated
'000 USD				
Revenue from external customers	381			615,812
Inter-group revenue	0	(68,532)		0
Total revenue	381	(68,532)		615,812
Operating profit	1,394	6,335	(11,003)	301,175
Depreciation/Amortisation	1,016	0	0	23,930
Fair value adjustment of investment property	0	0	0	192,555
EBITDA	2,410	6,335	(11,003)	132,550

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

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For the six months ended
30 June 2006

	Brick	Reinforced Concrete	Ready-mix Concrete	Aerated Concrete	Other	Eliminations	Building Materials	Construction
'000 USD								
Revenue from external customers	27,399	43,720	34,516	18,542	4,649	0	128,826	64,459
Inter-group revenue	90	3,354	17,735	19	15,874	(30,438)	6,634	3,691
Total revenue	27,489	47,075	52,251	18,561	20,523	(30,438)	135,461	68,150
Operating profit	4,605	(841)	1,452	2,432	335	(65)	7,918	6,723
Depreciation/Amortisation	1,427	1,915	962	1,466	129	0	5,899	2,754
Fair value adjustment of investment property	0	0	0	0	0	0	0	0
EBITDA	6,032	1,074	2,414	3,898	464	(65)	13,814	9,477

For the six months ended
30 June 2006

	Sand	Crushed Granite	Eliminations	Aggregates	Tower Cranes	Transportation	Eliminations	Construction Services
'000 USD								
Revenue from external customers	30,679	17,435	0	48,114	8,848	3,992	0	12,840
Inter-group revenue	3,547	10,781	(490)	13,838	1,523	4,204	0	5,727
Total revenue	34,226	28,216	(490)	61,953	10,371	8,196	0	18,567
Operating profit	2,318	4,451	484	7,253	3,867	1,180	0	5,047
Depreciation/Amortisation	4,768	1,812	0	6,580	1,268	751	0	2,019
Fair value adjustment of investment property	0	0	0	0	0	0	0	0
EBITDA	7,086	6,263	484	13,833	5,135	1,931	0	7,066

For the six months ended
30 June 2006

	Elite Real Estate	Business Class and Mass Market Real Estate	Gated Communities	Real Estate in Moscow	Real Estate in Western Europe	Eliminations	Development	Commercial Real Estate
'000 USD								
Revenue from external customers	49,284	31,307	8	12	0	0	80,611	0
Inter-group revenue	500	371	65	0	0	(343)	593	0
Total revenue	49,784	31,678	73	12	0	(343)	81,204	0
Operating profit	9,357	3,299	(186)	(1,083)	0	99	11,486	0
Depreciation/Amortisation	139	18	2	23	0	0	182	0
Fair value adjustment of investment property	0	0	0	0	0	0	0	0
EBITDA	9,496	3,317	(184)	(1,060)	0	99	11,668	0

For the six months ended 30 June 2006

	Other entities	Eliminations	Unallocated Expenses	Consolidated
'000 USD				
Revenue from external customers	2,450			337,300
Inter-group revenue	3,697	(34,181)		0
Total revenue	6,147	(34,181)		337,300
Operating profit	1,506	5,878	(8,446)	37,363
Depreciation/Amortisation	2,969	0		20,403
Fair value adjustment of investment property	0	0		0
EBITDA	4,475	5,878	(8,446)	57,765

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

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ANNEX A
VALUATION REPORT

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