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NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A “QIB”), OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

Confirmation of your representation: In order to be eligible to view this document or make an investment decision with respect to the securities, you must be (1) a person that is outside the United States or (2) a QIB that is acquiring the securities for its own account or for the account of another QIB. By accepting the e-mail and accessing this document, you shall be deemed to have represented to us that you are outside the United States or that you are a QIB and that you consent to delivery of such document by electronic transmission. You are reminded that this document has been delivered to you on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this document to any other person. The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the managers or any affiliate of the managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the managers or such affiliate on behalf of PIK Group in such jurisdiction. Under no circumstances shall this document constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this document who intend to subscribe for or purchase the securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the document. The information contained in the document is directed solely at persons (1) outside the United Kingdom, (2) within the United Kingdom having professional experience in matters relating to investments or to persons of a kind described in Article 49(2) (a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as relevant persons”) or (3) in member states of the European Economic Area who are qualified investors” within the meaning of Article 2(1)(e) of the Prospectus Directive. Persons who are not relevant persons must not rely on or act upon the information contained in the document.

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74,000,000 Shares

**Offering of Shares and Global Depositary Receipts
Offer Price: \$25.00 per Share
and \$25.00 per Global Depositary Receipt**

This prospectus relates to an offering (the "Offering") by PIK Group, an open joint stock company organized under the laws of Russia (the "Company"), of 37,000,000 global depositary receipts ("GDRs") representing interests in ordinary shares of the Company with a nominal value of 62.5 rubles each ("Ordinary Shares"), with one GDR representing an interest in one Ordinary Share, and by FMC Realtors Holding Inc. and IBG Development Group Inc. (together, the "Selling Shareholders") of 23,900,000 Ordinary Shares and 13,100,000 GDRs. Ordinary Shares being offered pursuant to the Offering are referred to herein as "Shares."

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 being offered in the Russian Federation, in the United States to QIBs in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S. A significant portion of Shares and GDRs is being offered in the Offering to certain institutions in the Russian Federation and elsewhere. See "Subscription and Sale."

The Selling Shareholders have granted to the Joint Global Coordinators an option (the "Over-allotment Option"), exercisable within 30 days after the announcement of the offer price, to purchase up to an additional 7,515,000 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."

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

This document, upon approval by the UK Financial Services Authority (the "FSA"), comprises a prospectus relating to the Company prepared in accordance with the Prospectus Rules of the FSA made under section 73A of the Financial Services and Markets Act 2000 ("FSMA"). Application has been made (1) to the FSA, in its capacity as competent authority under the FSMA for a listing of 172,641,134 GDRs, consisting of up to 50,100,000 GDRs to be issued on or about June 6, 2007 (the "Closing Date"), and up to 122,541,134 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 on the London Stock Exchange's regulated market for listed securities. Conditional trading in the GDRs on the London Stock Exchange is expected to commence on an if-and-when-issued basis on or about June 1, 2007. Admission to the Official List and to trading on the regulated market is expected to take place on or about June 6, 2007. **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 Rule 144A GDRs designated eligible for The PORTAL Market of the Nasdaq Stock Market, Inc. ("PORTAL"). Trading in the GDRs on PORTAL is expected to commence on or about June 1, 2007.

Trading on the London Stock Exchange in the GDRs representing newly issued Ordinary Shares will be subject to cancellation until the placement report for the newly issued Shares being offered by us is registered by the Russian Federal Service for the Financial Markets (the "FSFM"). The Company has undertaken that if the placement report is not registered within 60 days after the Closing Date (or such later date as the Company and the Selling Shareholders agree with the Joint Global Coordinators), the Company will deliver to the Depositary the proceeds of the GDRs sold by the Company and the Joint Global Coordinators have agreed to deliver to the Depositary the underwriting commissions related to the GDRs sold by the Company. The Depositary will then distribute the funds thus received by it to the then holders of the GDRs, and cancel a corresponding number of GDRs *pro rata* or on such other basis as it deems practicable, subject to the terms of the Deposit Agreements (as defined in "The Offering") relating to GDRs. The amount per GDR ultimately returned to such holders of GDRs may be less than the offer price per GDR, and may be subject to withholding taxes and delays. See "Registration of Placement Report."

See "Risk Factors" beginning on page 7 to read about factors you should consider before buying the Shares and 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 "Subscription and Sale."

The Shares and the GDRs are offered by the Joint Global Coordinators when, as and if delivered to and accepted by the Joint Global Coordinators and subject to their right to reject orders in whole or in part. The GDRs will be evidenced by a Master Rule 144A GDR Certificate registered in the name of Cede & Co., as nominee for The Depositary Trust Company ("DTC"), and a Master Regulation S GDR Certificate registered in the name of BT Globenet Nominees Limited, a nominee for Deutsche Bank AG, London Branch, as common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear"), and Clearstream Banking, société anonyme ("Clearstream"). It is expected that delivery of the GDRs will be made against payment therefore in US dollars in same day funds through the facilities of DTC, Euroclear and Clearstream on or about June 6, 2007. See "Settlement and Delivery."

Joint Global Coordinators and Joint Bookrunners

Deutsche Bank

Morgan Stanley

Nomura International

Joint Lead Manager

Merrill Lynch International

Prospectus dated June 1, 2007

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.

None of the Managers makes any representation, express or implied, or accepts 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 or the Managers 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 Shares or 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 Shares and 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.

In making an investment decision regarding the Shares and GDRs, you must rely on your own examination of PIK Group 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 or the Managers 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. PIK Group’s business, financial condition, results of operations, prospects and the information set forth in this prospectus may have changed since the date of this prospectus.

PIK Group has included its 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 PIK Group believes that its 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 it operates, there is no assurance that PIK Group’s 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 or the Managers 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 Managers 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 Managers 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 Joint Global Coordinators or any of them and any of their affiliates acting as an investor for its or their own account(s). The Joint Global Coordinators 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 Joint Global Coordinators 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 Joint Global Coordinators and certain related entities may acquire a portion of the Shares and GDRs for their own accounts.

The distribution of this prospectus and the offer and sale of the Shares and 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 or the Managers 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.

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 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.

STABILIZATION

IN CONNECTION WITH THE OFFERING, MORGAN STANLEY & CO. INTERNATIONAL PLC (OR ANY AGENT OR OTHER PERSON ACTING FOR MORGAN STANLEY & CO. INTERNATIONAL PLC), 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 AFTER THE ANNOUNCEMENT OF THE OFFER PRICE. 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, MORGAN STANLEY & CO. INTERNATIONAL PLC DOES NOT INTEND TO DISCLOSE THE EXTENT OF ALLOTMENTS AND/OR STABILIZATION TRANSACTIONS UNDER THE OFFERING.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The Company's audited consolidated financial statements as of and for the years ended December 31, 2004, 2005 and 2006 included in this prospectus have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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."

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.

Unless the context otherwise requires, all references in the prospectus to the "Company" are to PIK Group and all references in the prospectus to "we," "our," "us" and the "group" refer collectively to the Company and its consolidated subsidiaries.

In this prospectus, all references to:

- "**100 KGI**" are to Open Joint Stock Company "100 Kombinat Zhelezobetonnykh Izdeliy";
- "**160 DSK**" are to Open Joint Stock Company "160 Domostroitelny Kombinat";
- "**DSK-2**" are to Open Joint Stock Company "Domostroitelny Kombinat No. 2";
- "**DSK-3**" are to Open Joint Stock Company "Domostroitelny Kombinat No. 3";
- "**MFS-PIK**" are to Limited Liability Company "MFS-PIK";
- "**PIK Avtotrans**" are to Limited Liability Company "PIK-Avtotrans";
- "**PIK Comfort**" are to Limited Liability Company "PIK-Komfort";
- "**PIK Design**" are to Limited Liability Company "PIK-Dizayn";
- "**PIK Development**" are to Limited Liability Company "PIK-Development";
- "**PIK Interior**" are to Limited Liability Company "PIK Interyer";
- "**PIK Invest**" are to Limited Liability Company "PIK-Invest";
- "**PIK LLC**" are to Limited Liability Company "Pervaya Ipotechnaya Kompaniya";
- "**PIK Nerud**" are to Limited Liability Company "PIK Nerud";
- "**PIK Podyom**" are to Limited Liability Company "PIK-PODYOM";
- "**PIK Profile**" are to Limited Liability Company "PIK-Profile";

- “**PIK Project**” are to Closed Joint Stock Company “Proektno-Arkhitekturnaya Masterskaya ‘PIK’”;
- “**PIK Region**” are to Closed Joint Stock Company “First Mortgage Company—Region”;
- “**PIK Technology**” are to Limited Liability Company “PIK Tekhnolodzhi”;
- “**Stroyinvestregion**” are to Closed Joint Stock Company “STROYINVESTREGION”; and
- “**Trading House Osnova**” are to Limited Liability Company Torgovy Dom “Osnova”.

PRESENTATION OF INDUSTRY AND MARKET DATA

Market data used in this prospectus, including without limitation under the caption “Industry,” have been extracted from official and industry sources and other sources we believe to be reliable, and we have relied on the accuracy of this information without independent verification. Throughout this prospectus, we have also set forth certain statistics, including statistics in respect of sales volumes and market share, from industry sources and other sources we believe to be reliable. We accept responsibility for accurately reproducing such information, data and statistics. Such information, data and statistics may be approximations or estimates or use rounded numbers.

In particular, we have cited as sources in this prospectus under the caption “Industry” Blackwood Real Estate (“Blackwood”), Central Bank of the Russian Federation (“CBR”), CB Richard Ellis (“CBRE”), Economist Intelligence Unit, Expert RA, Indikatory rynka nedvizhimosti (“IRN”), Miel Real Estate Company (“MIEL”), the Moscow Regional Construction Ministry, the Federal State Statistics Service (“Rosstat”), the Federal agency for construction and residential and utilities services (“Rosstroy”) and the United Nations Economic Commission for Europe (“UNECE”), and under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” Rosstat and CBR, 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 must, therefore, be 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.

PRESENTATION OF MARKET VALUES

All real estate market values presented herein are from the report of CBRE, an independent appraiser, dated March 30, 2007. A summary of this report is included as Annex A to this prospectus as Annex A and referred to herein as the “Valuation Report.” CBRE appraised 413 properties at various stages of development. Our portfolio of properties and our development projects are generally referred to herein as “properties.” The valuations and a discussion of the valuation methodology and other assumptions and methodologies are contained in the Valuation Report. The properties have been valued as of January 1, 2007. Each property has been valued on the basis of “Market Value” in accordance with the Practice Statement contained in the RICS Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors, or the Red Book. In the Red Book, “Market Value” 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.” See “Business—Real Estate Development Activities—Valuation of our Properties.”

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” 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 CBR. These rates may differ from the actual rates used in the preparation of our financial statements and other financial information appearing in this prospectus.

<u>Years ended December 31,</u>	<u>Rubles per US dollar</u>			
	<u>High</u>	<u>Low</u>	<u>Average⁽¹⁾</u>	<u>Period end</u>
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

<u>Months</u>	<u>Rubles per US dollar</u>	
	<u>High</u>	<u>Low</u>
January 2007	26.58	26.33
February 2007	26.55	26.16
March 2007.....	26.24	25.97
April 2007.....	26.01	25.69
May 2007.....	25.92	25.69

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

The exchange rate between the ruble and the US dollar quoted by the CBR on May 31, 2007 was 25.90 rubles per \$1.00.

Solely for the convenience of the reader, certain information derived from the audited consolidated financial statements and other financial information included in this prospectus has been translated into US dollars. 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, RUB 28.29 = \$1.00 for the year ended December 31, 2005 and RUB 28.82 = \$1.00 for the year ended December 31, 2004. The US dollar amounts representing balance sheet data as of December 31, 2006 have been translated from the ruble amounts at the 2006 year-end rate of RUB 26.33 = \$1.00. 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 and each of the Selling Shareholders is organized under the laws of the British Virgin Islands. Almost all our directors and executive officers named in this prospectus reside outside the United States and the United Kingdom, principally in the Russian Federation. Almost all our assets and 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 GDRs. 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 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 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 Moscow city government;
- increased interest rates and operating costs, including the supply of, and the price for, construction 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;
- 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 (as defined in “Description of the Global Depositary Receipts”) 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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The Company was incorporated as an open joint stock company under the laws of the Russian Federation on September 20, 1994. The Company was registered with the Ministry of Taxes and Duties of the Russian Federation under the principal state registration number (OGRN) 1027739137084 on August 30, 2002. The Company's main executive offices are located at 24/27 Sadovaya-Kudrinskaya Street, Building 1, 123001 Moscow, Russian Federation. The Company's telephone number is +7 (495) 505-9733. The Company's Internet address is www.pik.ru. Information posted on the Company's websites and on those of its affiliates is not a part of this prospectus.

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-1 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.

Overview

We are one of the leading residential developers in Russia, with a concentration in Moscow and the Moscow region and an increasing presence in many of Russia's other regions. During 2006, we constructed over 1.2 million square meters of residential housing consisting of over 17,300 residential units, including housing constructed for the Moscow city government. We are one of the few vertically integrated developers in Russia, which allows us to manage and control many of the most important steps in the development and sale of our projects. Our principal activity is the development, construction and sale of residential properties targeted primarily at the middle income housing market in Russia. For the years ended December 31, 2004, 2005 and 2006, we had revenues of \$440.5 million, \$782.5 million and \$1.5 billion, respectively, and as of December 31, 2006 we had total assets of \$2.5 billion. As of December 31, 2006, we had over 14,000 employees.

We focus our operations on developing large residential developments, some of which are large townships integrated with social infrastructure (e.g., kindergartens, schools and sports centers). As of December 31, 2006, we owned or leased (i) undeveloped land relating to approximately 222 hectares of buildable area for which no construction permits had yet been obtained, (ii) undeveloped land relating to approximately 460 hectares of buildable area for which we had received initial construction permits but had not yet begun construction, and (iii) land relating to approximately 430 hectares of buildable area for which all construction permits had been obtained and construction had begun. According to CBRE, as of January 1, 2007 the combined market value of our projects is \$8.8 billion.

While our operations have historically been concentrated in Moscow and the Moscow region, over the past several years we have expanded our activities into many other regions and we believe we are now one of the few nationwide developers in Russia. Since the beginning of 2004, we have developed approximately 2.0 million square meters of housing in Moscow (including housing constructed for the Moscow city government), approximately 420,000 square meters of housing in the Moscow region and approximately 163,000 square meters of housing in other regions in Russia. As of March 31, 2007, we were developing 65 properties in Moscow, 212 properties in 13 cities in the Moscow region and 136 properties in eight other regions in Russia. We plan to continue our expansion in these regions and into other regions in Russia.

We believe that our vertically integrated real estate development process gives us an important advantage in our industry as compared to our competitors. Our operations include the production of raw materials for our business such as gravel, sand and crushed rock. We own several plants that produce prefabricated concrete panels, window frames and aluminum facades that are used in the construction of our projects, and in Moscow and the Moscow region we assemble and construct all concrete panel housing for our developments. We also provide servicing and maintenance for a substantial number of our developed properties. We have strong relationships with several credit and mortgage institutions that provide mortgage

financing to our clients, including CJSC “Housing Finance Bank” (“Housing Finance Bank”) which is controlled by our shareholders. We believe we have a well-recognized brand in the Russian real estate market, particularly in Moscow and the Moscow region.

Our core activities consist of: (1) development of residential real estate projects and sales of completed units, including service and maintenance of residential real estate developed by us and by other developers; (2) production and assembly of concrete panel housing in Moscow and the Moscow region; and (3) production and sales of raw materials and construction materials.

Competitive Strengths

We believe that our main competitive strengths are the following:

- a large and diversified land bank;
- a vertically integrated business model that allows us to manage and control the most important stages of the development process;
- the capability and capacity to produce residential developments on a large scale;
- a leading market position in Moscow and the Moscow region, and a significant and growing presence in other regions of Russia;
- a largely self-funding business model driven by pre-sales of residences;
- strong brand recognition, a well-established reputation and long-standing relationships with governmental authorities; and
- an experienced and dedicated management team enhanced by a strong board of directors.

Strategy

Our primary strategic objective is to maximize shareholder value by continually strengthening our position as one of the leading residential developers in Russia. As part of our strategy, we intend to:

- maintain our focus on the Russian middle-income residential real estate market;
- continue our track record of successfully acquiring and integrating businesses that will strengthen our position in the Russian real estate market;
- increase the size of our land bank;
- strengthen our position in Russia’s western, central and southern regions;
- improve cost efficiencies of our integrated operations, with a focus on cost reduction, product modernization and the continued improvement of the construction process; and
- expand our operations into other profitable segments of the Russian real estate market.

Risk Factors

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

- risks relating to a reduction in the rate of growth of the real estate market in Moscow and the other regions of Russia in which we operate or other adverse fluctuations in these markets;
- risks inherent to real estate development and the real estate industry in Russia;
- delay, non-completion and financial loss to which our projects, a number of which are currently in early stages of development, may be subject;
- risks relating to the concentration of our real estate properties in Moscow and the Moscow region;
- our ability to finance construction projects may be materially adversely affected by Russian Federal Law No. 214-FZ “On Participation in Cost Sharing Construction of Apartment Houses and Other Real Estate”;

- cyclical nature of the Russian real estate market;
- our potential inability to locate and acquire land suitable for development at attractive prices and upon favorable terms and conditions;
- risk that the real estate appraisals with respect to the properties and projects included in this prospectus may not reflect their actual market values because determining such values is an inherently subjective process;
- risks typical for activities involving construction projects for Russian federal, regional and local governments;
- we may be subject to liability for back taxes and related interest and penalties;
- our lack of a fully integrated information system for the preparation of IFRS financial statements, which may adversely impact our ability to prepare accurate financial information;
- we have engaged in transactions and made certain payments that could be challenged on the basis of non-compliance with applicable legal requirements;
- competition from real estate companies and developers for properties, development projects, contractors and customers;
- limitations of voting rights with respect to the Shares represented by the GDRs by the terms of the Deposit Agreements for the GDRs and relevant requirements of Russian law;
- absence of a prior active public trading market for the Shares or GDRs, as a result of which the Offering may not result in an active or liquid market for the Shares and GDRs, and so their price may be highly volatile; and
- potential inability of holders of Shares to deposit such Shares in the GDR program in order to receive GDRs.

The foregoing is not a comprehensive list of the risks and uncertainties to which the Company is 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 and GDRs.

Summary Consolidated Financial and Operating Information

The summary consolidated financial information set forth below shows the Company’s historical consolidated financial information and other operating information as of and for the years ended December 31, 2004, 2005 and 2006.

The financial information set forth below as of and for the years ended December 31, 2004, 2005 and 2006 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 financial statements included elsewhere in this prospectus. US dollar amounts were not derived from audited financial statements and were calculated as described under “Currencies and Exchange Rates.”

The information presented below under the caption “Selected Operating Data” is not derived from the audited financial statements. EBITDA and EBITDA margin are non-IFRS measures and were calculated by us based on data derived from our audited financial statements.

The summary consolidated financial and operating information 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,			
	2004	2005	2006	2006
	<i>(in RUB thousands)</i>			<i>(in \$ thousands)</i>
Consolidated Income Statement Data				
Revenues	12,694,939	22,138,665	42,045,707	1,546,366
Cost of sales	<u>(11,514,441)</u>	<u>(19,518,550)</u>	<u>(32,265,506)</u>	<u>(1,186,668)</u>
Gross profit	1,180,498	2,620,115	9,780,201	359,698
Income from disposals of development rights	—	—	2,851,215	104,863
Distribution expenses	(272,135)	(322,119)	(467,535)	(17,195)
Administrative expenses	(420,302)	(530,578)	(1,511,484)	(55,590)
Other income	358,337	—	1,552,573	57,101
Financial income	413,388	148,396	570,812	20,993
Financial expenses	(555,079)	(735,978)	(1,361,349)	(50,068)
Loss from associates	<u>(7,725)</u>	<u>(8,300)</u>	<u>(9,688)</u>	<u>(356)</u>
Profit before income tax	696,982	1,171,536	11,404,745	419,446
Income tax expense	<u>(193,072)</u>	<u>(607,069)</u>	<u>(3,304,951)</u>	<u>(121,550)</u>
Net profit for the year	<u>503,910</u>	<u>564,467</u>	<u>8,099,794</u>	<u>297,896</u>
Attributable to:				
Shareholders of the Company	509,002	556,340	8,105,086	298,091
Minority interest	<u>(5,092)</u>	<u>8,127</u>	<u>(5,292)</u>	<u>(195)</u>
	<u>503,910</u>	<u>564,467</u>	<u>8,099,794</u>	<u>297,896</u>

	As of December 31,			
	2004	2005	2006	2006
	<i>(in RUB thousands)</i>			<i>(in \$ thousands)</i>
Consolidated Balance Sheet Data				
Cash and cash equivalents	565,597	700,580	1,134,068	43,071
Total assets	20,188,890	44,267,562	65,653,951	2,493,504
Loans and borrowings, non-current	3,299,821	9,199,822	10,040,180	381,321
Loans and borrowings, current	3,993,526	9,065,976	13,983,348	531,080
Total equity	979,124	1,877,126	9,930,918	377,171

	Years ended December 31,			
	2004	2005	2006	2006
	<i>(in RUB thousands)</i>			<i>(in \$ thousands)</i>
Consolidated Statement of Cash Flows Data				
Cash flows from/(utilized by) operating activities	244,016	(4,744,749)	3,220,399	118,441
Cash flows utilized by investing activities	(1,129,171)	(4,281,497)	(7,856,680)	(288,955)
Cash flows from financing activities	930,361	9,010,399	5,084,052	186,982

Non-IFRS Measures	Years ended December 31,			
	2004	2005	2006	2006
	<i>(in RUB thousands, except percentages)</i>			<i>(in \$ thousands, except percentages)</i>
EBITDA ⁽¹⁾	1,410,946	1,987,242	13,217,489	486,116
EBITDA margin ⁽²⁾	11%	9%	31%	31%

(1) EBITDA represents net profit for the year attributable to shareholders of the Company before income tax expense, interest income, interest expense and depreciation and amortization. EBITDA is not a measure of financial performance under IFRS. You should not consider it an alternative to net profit for the year as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of EBITDA may be different from the calculation used by other companies and therefore comparability may be limited. We believe that EBITDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of subsidiaries and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under IFRS, these expenses primarily represent non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods.

Reconciliation of EBITDA to net profit for the year attributable to shareholders of the Company is as follows for the periods indicated:

	Years ended December 31,		
	2004	2005	2006
	<i>(in RUB thousands)</i>		
Net profit for the year attributable to shareholders of the Company	509,002	556,340	8,105,086
Depreciation and amortization	299,423	411,227	676,367
Interest expense	555,079	553,661	1,361,349
Interest income	(145,630)	(141,055)	(230,264)
Income tax expense	193,072	607,069	3,304,951
EBITDA	1,410,946	1,987,242	13,217,489

(2) Margins are calculated as a percentage of revenues.

Selected Operating Data	Years ended December 31,		
	2004	2005	2006
Total square meters completed (thousands) ⁽¹⁾ , including:	497	827	1,244
Residential housing	495	816	1,190
Other	2	11	54
Total number of residential units completed ⁽¹⁾	6,608	12,238	17,314

(1) Includes housing constructed for the Moscow city government by our Construction Services segment.

Securities Offered

The Company is offering 37,000,000 of its newly issued Ordinary Shares in the form of GDRs, with one GDR representing one Share. The Selling Shareholders are offering 37,000,000 Ordinary Shares of the Company in the form of Shares and GDRs. 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 being offered in the Russian Federation, in the United States to QIBs in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S.

Use of Proceeds

The net proceeds that the Company will receive from the Offering, after deducting underwriting commissions, fees and expenses incurred in connection with the Offering, will be approximately \$895,000,000. We expect to use these proceeds to fund acquisitions of new land plots, potential strategic acquisitions of developers across the Russian Federation, as well as potentially to repay some of our more expensive debt. Depending on future events and other changes in the business climate, we may determine at a later time to use the net proceeds for different purposes.

Registration of Placement Report

Trading on the London Stock Exchange in the GDRs representing newly issued Shares will be subject to cancellation until the placement report for the newly issued Ordinary Shares being offered by us is registered by the FSFM. We have undertaken that if the placement report is not registered within 60 days after the Closing Date (or such later date as the Company and the Selling Shareholders agree with the Joint Global Coordinators), we will deliver to the Depositary the proceeds of the GDRs sold by us and the Joint Global Coordinators have agreed to deliver to the Depositary the underwriting commissions related to the GDRs sold by us. The Depositary will then distribute the funds thus received by it to the then holders of the GDRs, and cancel a corresponding number of GDRs *pro rata*, or on such other basis as it deems practicable, subject to the terms of the Deposit Agreements. The amount per GDR ultimately returned to such holders of GDRs may be less than the offer price per GDR, and may be subject to withholding taxes and delays. See “Registration of Placement Report.” Thereafter, the market for our Ordinary Shares and any GDRs that remain outstanding is likely to be highly illiquid.

Until the registration of the placement report, all GDRs will be issued on a provisional basis, GDR holders will not be entitled to instruct the Depositary to exercise any voting rights as a shareholder, and neither the Depositary nor the Custodian will exercise any voting rights as a shareholder. GDR holders may not withdraw the Shares or other property on deposit with the Depositary in respect of the GDRs sold in the Offering prior to the registration of the placement report. Such limitations on withdrawal and voting of the underlying Shares apply with equal force to all Shares deposited with the Depositary against the provisional issuance of GDRs prior to the registration of the placement report, whether deposited by us or by the Selling Shareholders with the Depositary at closing against the issuance of GDRs in connection with the Offering, or otherwise. The foregoing will not, however, prohibit trading in the GDRs.

See “Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—GDR holders will not be able to withdraw the Shares underlying the GDRs or instruct the Depositary to vote the Ordinary Shares evidenced by their GDRs prior to the registration of a placement report for the newly issued Ordinary Shares, and the failure to register this placement report could result in the newly issued Ordinary Shares underlying the GDRs being cancelled, reliance by GDR holders on us and the Underwriters to return the offering proceeds and a small public float based solely on the Shares sold by the Selling Shareholders and any GDRs represented thereby.”

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.

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 deem immaterial may also have an adverse effect on our business, financial condition and results of operations.

Risks Relating to Our Business

Our business depends on the sale of residential real estate properties in Moscow and certain other regions of Russia and our results of operations depend on the conditions of the residential real estate markets in Moscow and the other regions of Russia in which we operate. Any reduction in the rate of growth of these markets or other adverse fluctuations in these markets would adversely affect our business, financial condition, results of operations and prospects.

We derive substantially all of our revenue from the sale of real estate properties. Our returns on these sales depend, in large part, on the selling prices that we are able to achieve, expenses incurred in the development and management of our properties and overall levels of supply and demand in the marketplace. These factors may fluctuate in response to a number of considerations, including the following:

- regional and local economic conditions;
- supply of comparable housing in the market;
- changes in customer preferences;
- availability and cost of rental housing;
- 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 housing that we construct;
- unanticipated development and other costs, including the costs of obtaining financing;
- the supply of, and the price for, construction materials, energy and other utilities in Russia;
- the bankruptcy or insolvency of contractors and other counterparties;
- the periodic need to renovate and repair space;
- the quality and proximity of competition presented by other residential properties;
- 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 residential real estate market, and any such fluctuations could materially adversely affect our business, financial condition and results of operations.

We are subject to numerous risks inherent to real estate development.

Our principal activity is the development of properties for sale. The development of properties involves general investment risks, including the risks that the assumptions, estimates and valuations related to the land we acquire and projects 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 various government authorities made more land available for development. In such case, the sale price of property scheduled for development using currently owned land 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 we intend to acquire, we can give no assurance that properties we have acquired will not be subject to material risks that were not apparent at the time of acquisition, including, without limitation, environmental risks and legal restrictions. Further, we cannot give any assurance that the assumptions on which the valuations are based were accurate at the time they were made or will continue to be accurate. 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 the developments on such properties, any of which could have a material adverse effect on our business, financial condition and results of operations.

Our projects may be subject to delay, non-completion and financial loss.

Our projects are at various stages of development. 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 diminish our opportunities for acquiring a desired property or site on favorable terms or at all. Even if we enter into agreements for the acquisition of properties, these agreements are subject to customary conditions to closing, including completion of due diligence investigations to our satisfaction;
- budget overruns and completion delays with respect to real estate development projects;
- potential inability to obtain financing on favorable terms or at all for individual projects or in the context of multiple projects being developed at the same time;
- potential inability to identify and participate in development projects with or obtain or renew land lease rights from governmental authorities;
- potential 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;
- potential title or other defects in acquired and developed properties, including latent defects that may not reveal themselves until many years after we develop a property;
- potential 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;
- potential 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, generally for a period after the transfer of up to three years for construction works;
- availability of energy and other utilities and adequate transportation infrastructure;
- potential 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; 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, etc.) and other laws.

The occurrence of one or more of these factors could materially adversely affect our business, financial condition and results of operations. Construction and development activities are time consuming, require significant financial investments, and involve establishing and maintaining important business relationships with various parties, including suppliers, subcontractors, utility service providers and potential purchasers.

The majority of our real estate properties and projects are located in Moscow and the Moscow region.

The majority of our real estate properties and projects are located in Moscow and the Moscow region. As a result of this geographic concentration, any change in the local political or regulatory environment, including at the level of the Moscow city government, decline in economic activity or weakness in the local real estate market could materially adversely affect our business, financial condition or results of operations. Furthermore, we cannot assure you that we will have the opportunity to diversify significantly our real estate portfolio to include properties and projects in additional regions of Russia or, even if we do, that we will be able to benefit from such opportunities in a manner similar to our current and past projects. See also “—Any deterioration of our relationships with governmental authorities may have a material adverse effect on our business.”

A number of our projects are in early stages of development, and we may not be able to complete these projects successfully. In addition, we have included in our business plan certain projects that are subject to formal agreements, such as investment contracts and/or land lease agreements, that have not yet been entered into or registered with appropriate authorities. Any failure to enter into and/or register (as applicable) such contracts or agreements or to complete our projects could have a material adverse effect on our business, financial condition and results of operations.

Many of our projects are in early stages of development. As of January 1, 2007, we had not commenced construction on certain of our projects, including 201 projects which, according to CBRE, represented 64.7% of the total market value of our developments at such date.

In addition, we have not yet entered into or registered with appropriate authorities all the investment contracts and/or land lease agreements for our projects and we have not yet received all required permits and approvals necessary to commence or complete the construction of our projects. There can be no assurance that we will be able to enter into or register such contracts or agreements or receive such permits or approvals in a timely manner or at all. Also we have entered into an investment agreement for development of the “English Town” investment project. The tenant of the land plot for development, CJSC “Avtokombinat No. 32,” has not registered so far its land lease rights under the lease agreement (as required by Russian law with respect to lease contracts). In the absence of such registration the agreement may be found to have not been concluded by the counterparties. As a result, we may not be able to develop the land plot and sell the property. In addition, with respect to the Kommunarika Village project, we have not yet formalized our rights to the land plot planned for development. If our development rights are successfully challenged, we will not be able to complete the development. See also “—The development and construction of our properties and projects require that we obtain a number of permits and administrative approvals and comply with existing laws and regulations, and the failure to comply with these requirements, the terms and conditions of our licenses and permits or the findings of governmental agencies or increased governmental regulation of our operations could materially adversely affect our business, financial condition and results of operations.” Furthermore, we may not be able to complete such projects in accordance with the initially planned timetable and other parameters, including the terms and conditions of the permits and approvals we received, the contracts we entered into and the total and net areas of buildings set out in those contracts. Any failure to comply with certain material encumbrances and restrictions with respect to, or properly document our title to, our projects and fulfill investment terms thereunder may result in our inability to complete such projects.

Any actions of governmental and local authorities resulting in unforeseen changes in urban planning, zoning and architectural requirements, as well as other unforeseeable circumstances, resulting in the imposition of requirements to preserve buildings or other structures of Russian historic and cultural heritage, could significantly delay or hinder the completion of our key projects.

Our inability to complete projects due to the factors set forth above could have a material adverse effect on our business, financial condition and results of operations, as well as on the price of the Shares and GDRs.

Our ability to finance construction projects may be materially adversely affected by the Cost Sharing Law.

We finance a significant portion of our construction projects by receiving funds from potential 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 “Cost Sharing Law”), prohibits 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. See “Regulation—Residential Construction—Financing and Sale.” Nevertheless, we make use of certain financial arrangements according to which we receive funds from potential purchasers of our residences at various early stages of the construction process. While we believe that such arrangements are in compliance with applicable Russian law, these arrangements could be challenged and found to be in violation of the Cost Sharing Law. In addition to being required to return funds in connection with arrangements that were found to have been entered into in contravention of the Cost Sharing Law (together with interest), we would likely be required to discontinue the use of such arrangements. If such financing arrangements are found to be in violation of the Cost Sharing Law or we are otherwise unable to continue to make use of such arrangements, our business, financial condition, results of operations and prospects could be materially adversely affected.

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

The Russian real estate market experienced difficulties in the late 1990s primarily as a result of the Russian financial crisis of 1998. Since 2001, however, the demand for residential and commercial real estate has grown significantly. There can be no assurance that the recent performance of the real estate market in Russia will continue in the future. 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 where we operate could materially adversely affect our business, financial condition and results of operations.

As a result, the sales value of the different types of properties related to our business activities may be materially adversely affected by the cyclical nature of the real estate market. Property sales values are affected by, among other factors, supply and demand for comparable properties, interest rates, inflation, the rate of economic growth, tax laws, political and economic developments and demographic and social factors.

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 and future profitability depends upon our continued ability to do so. In the past we have also been able to acquire land suitable for different types of developments, but there can be no assurance that we will continue to be able to acquire land suitable for development in the future at attractive prices or on favorable terms and conditions. In addition, we also face the risk that competitors may anticipate certain potential investment opportunities ahead of us, which could adversely affect our business, financial condition and results of operations.

Limited availability, quality and reliability of market data create uncertainty as to property values and market conditions.

The real estate market in Russia is characterized by a limited amount of publicly available 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 such data has been collected and published, the scope of such data is significantly less broad and tends to be less consistent than the data relating to certain other industrialized countries, and it may be difficult to analyze market trends and conditions over time or at all. The relative lack of such data makes it more difficult to assess the market values of real estate in Russia than in, for example, Western Europe.

We may not accurately forecast market prices and property values.

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

Real estate appraisals with respect to the properties and projects included in this prospectus may not reflect their actual market values because determining such values is an inherently subjective process.

CBRE, an independent real estate appraiser, has valued certain of our real estate properties and projects. Details of the valuation methodologies used and the assumptions made by CBRE are described in its Valuation Report attached as Annex A. See also “Business—Real Estate Development Activities—Valuation of our Properties” for a summary description of these matters.

A number of factors could result in the values that CBRE has ascribed to these properties and projects differing materially from the actual market value of such projects. The valuations are stated as of January 1, 2007, and there can be no assurance that these figures accurately reflect the market value of our properties as of any other date. In addition, the values ascribed by CBRE 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. Furthermore, the Valuation Report does not consider any effect of multiple properties being developed concurrently or released to the market together, which may tend to reduce the realizable value of a particular project.

In addition, the use of different valuation methodologies and assumptions would likely produce different valuation results. In particular, CBRE used net selling area for the properties in the Valuation Report based on data provided by us, which in some cases differed from the net selling areas in the investment contracts in respect of those properties. See “—The final building areas for projects in development may differ materially from the gross building areas and net selling areas set out in the Valuation Report.”

In addition, CBRE’s valuation reflects its opinion of an appropriate development that could reasonably be expected to form the basis of a bid for a property by a third party, i.e., the “Highest and Best Use” for each property. As a result, CBRE’s valuations do not necessarily reflect our intended investment/development program.

Moreover, there are difficulties in applying the sales comparison approach and the income approach, two valuation methodologies used in the valuation of our properties. A lack of transparency and a relatively low volume of recorded transactions make it difficult to assess market values. These factors and the wide variation in returns required in Russia on projects from different investors also make it difficult to correctly assess market derived discount rates. Deal information, even if reported, is rarely reported accurately and is often manipulated in a manner so as to benefit the parties to the transaction.

Further, there can be no assurance that the size of our economic interest in various projects and properties assumed by CBRE for the purposes of the Valuation Report will conform to the actual economic interest acquired or maintained by us in such projects and properties or documented in related formal contractual documentation.

We urge you 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. Moreover, certain valuations have been provided with respect to our real estate properties and projects in the past, which may not be indicative of the actual values of such properties and projects and you should not rely on them.

The final building areas for projects in development may differ materially from the gross building areas and net selling areas set out in the Valuation Report.

For projects that are in the development stage, gross building areas and net selling areas are not fixed until the authorities have granted final construction permits, which specify the areas that we are entitled to construct. Where the gross building area for a property was not fixed at the date of the Valuation Report, CBRE relied on information provided by us in relation to gross building area. In cases where gross building area was not provided to CBRE, CBRE calculated such areas by adding 20% to the net selling area of the property. Net selling areas for the properties in the Valuation Report were based on information provided by us. In some cases, such net selling areas differed from the documentation that CBRE reviewed. However, in the majority of these cases, the differences in area were under 10%, which we believe is common practice in the local market and often occurs at early development stages, as investment contracts are stated in approximate areas.

The gross building areas and net selling areas in the Valuation Report for certain development projects therefore are only an estimate of the area that we are able to construct, and we can give no assurance that we will construct all such amounts of building area and selling area. For purposes of the valuation, CBRE assumed that we will be able to obtain all permissions required to complete construction of our projects in accordance with the business plans provided to CBRE and that there will be no additional costs or delay associated with this construction. However, the final gross building area and net selling area for a development project as set out in the relevant permit may differ materially from the gross building areas and net selling areas used in the Valuation Report. To the extent that final net selling areas, or the measurements calculated by the Bureau of Technical Inventory, are lower than information we have provided to CBRE, the valuations assigned to our properties in the Valuation Report may be too high.

If our construction 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 productive availability of 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, competitive manner, which could have a material adverse effect on our business, financial condition and results of operations.

Delays in commencement or completion of construction may affect our rights under land leases or investment contracts entered into with local and regional authorities.

Local and regional authorities may refuse to renew an expired land lease if construction is not completed by the expiration date required in the relevant land lease, on the ground that the tenant did not comply with the substantial requirements of the lease. If a land lease is terminated and construction has not been completed, we retain our rights to the structure and are allowed to apply for a lease extension. While non-compliance with such term generally does not lead to unilateral termination of the land lease agreement, we face the risk that a building which has not been completed upon expiration of the term may be considered an unauthorized structure. In order to reduce such risk, the term permitting construction is required to be extended. Local and regional authorities have the ability to refuse to grant such extensions, and there is no assurance that such extension will be granted. In some cases, rights acquired under leases may provide specific terms for unilateral termination of the land lease, such as completion of construction.

Termination of any of our land leases due to failure to initiate or complete construction during the time period specified in the relevant lease agreement may have an adverse effect on our business, financial condition and results of operations.

Shortages of components and materials may delay our projects or reduce our sales and increase our costs, and our financial results are in part dependent on volatile prices for these components and materials.

Our construction projects require supplies of components and raw materials, including cement and metal, and any inability to obtain sufficient quantities of raw materials necessary for our projects at acceptable prices or at all could result in delayed completion times and/or increased costs. We may be faced with increased costs, supply interruptions, and difficulties in obtaining certain materials. Materials for some of our major projects may not be available in sufficient quantities to satisfy our needs because of shortages of these materials and components. Any supply interruption or shortages could harm our reputation with our customers and may result in lost sales opportunities.

In addition, the prices of the raw materials we use in our construction process, such as cement and metal, are difficult to forecast over the long term. We do not control a number of factors affecting prices, which include, but are not limited to, regional supply and demand and expectations of future supply and demand. We provide gravel, sand and crushed rock to our cement suppliers, which we believe allows us to enter into longer-term contracts for cement used in our operations than other real estate developers in Russia. However, our financial results may be adversely affected by significant sustained increases in the prices of raw materials, and in particular cement and metal.

We are involved in construction projects for Russian federal, regional and local governments and are required to complete such projects according to demanding specifications and often restrictive budgets.

We provide construction services for Russian federal, regional and local governments, particularly in Moscow and the Moscow region. In 2006, DSK-2 and DSK-3 produced approximately 940,000 square meters of residential housing and approximately 375,000 square meters of such housing was provided to the Moscow city government as part of its residential building program. The success and sustainability of our involvement in construction projects for Russian federal, regional and local governments depends on establishing and maintaining relationships with various governmental authorities, as well as completing projects according to specifications and meeting agreed budgeted costs. Each procurement contract is subject to our winning a competitive tender, the terms and conditions of which are typically complicated and demanding in terms of cost constraints, timing and complexity of the work involved. Furthermore, in the event that government representatives become dissatisfied with our efforts, seek to reduce costs further or choose to diversify third-party providers of such construction works or decide to discontinue our existing relationships for any reason, we risk losing a substantial portion of our revenues. Although we have successfully completed many construction projects in the past, we cannot assure you that we will be able to maintain our relationships with governmental authorities in the future and secure a continuous flow of new projects. The failure to procure new construction projects or maintain our existing relationships with governmental authorities could materially adversely affect our business, financial condition and results of operations.

In the event that the Russian government or the Moscow city government reduces the expected budget disbursements or chooses to use other construction companies or no longer has the need for these construction projects, there could be a significant reduction in our revenues, which may in turn have a material adverse effect on our profitability.

Russian federal, regional and local government authorities have broad discretion over the issuance of development rights and any deterioration of our relationships with governmental authorities may have a material adverse effect on our business.

Historically, the Russian government retained all title to land in the Russian Federation and, in most regions, including the city of Moscow and the Moscow region, local governments still maintain significant influence over the privatization and leasing of land. In particular, until recently, the Moscow city government generally did not transfer title to land to non-state entities and, instead, offered lease arrangements for real estate developments, thus retaining a key long-term role in the local Moscow real estate market. Decisions on the allocation of land plots for development and on the issuance of permits and approvals necessary for construction remain subject to the broad discretion of governmental authorities and, therefore, our business depends

on maintaining positive working relationships with such authorities. In addition, we generally seek to purchase any government entity's share in our development projects prior to, or upon completion of, construction, and implementing this strategy successfully and on financially acceptable terms depends on our maintaining good working relationships with government authorities.

Although we believe that we have constructive working relationships with Russian federal, regional and local governmental authorities, including the Moscow city government, our business, financial condition and results of operations could be materially adversely affected if these relationships substantially deteriorated or ceased to exist altogether in the future. For example, the Moscow city government's residential building programs require the participation in tenders by us and other developers. If we produce a level of residential housing that is lower than what we have agreed with the Moscow city government or if our business plans do not match the expectations of the Moscow city government, our relationship with the Moscow city government could deteriorate.

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

We have in the past engaged in certain transactions which might be challenged by the Russian tax authorities as having the effect of lowering our tax obligations. If the Russian tax authorities successfully challenge these transactions, this will result in additional taxes, interest and penalties. In connection with certain of these transactions we have recognized a tax provision at December 31, 2006 in the aggregate amount of approximately RUB 876 million for profit and other taxes, including interest and penalties. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Provisions and Contingencies."

Any attempt by Russian authorities to pursue any 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 do not have a fully integrated information system for the preparation of IFRS financial statements, which may adversely impact our ability to prepare accurate financial information, and we have material weaknesses in our internal controls.

We do not have a fully integrated information system for the preparation of IFRS financial statements. Each of our subsidiaries prepares separate financial statements under Russian accounting standards 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 IFRS financial statements through accounting adjustments and, second, the consolidation of these financial statements. This process is complicated and time-consuming, and requires significant attention from our senior accounting personnel. We have also not yet completed the project of implementing unified accounting systems and internal controls for all our group companies. As a result, we do not have accounting systems and internal controls that are commonplace in companies that have 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.

We have several material weaknesses in our internal controls. A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of annual or interim financial statements will not be prevented or detected. Examples of these deficiencies include: the lack of a comprehensive project-by-project budgeting process and detailed documented analysis of our financial position and operational results, limited documentation to support asset purchases, the systems for accounting in accordance with Russian accounting systems of separate legal entities of the Group are not unified, and limited procedures to ensure the reliability of our suppliers and other counterparties.

We did not perform an audit of our internal controls or any other procedures specifically designed to evaluate or test the operating effectiveness of our internal controls. Accordingly, we can provide no assurance either that all material weaknesses have been identified or that all other areas of our internal control system are operating effectively.

We have taken, and plan to continue to take, steps to further improve our accounting systems and internal controls. Notwithstanding the steps we are taking to address these issues, we may not be successful in remedying these deficiencies or preventing future deficiencies. 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. Notwithstanding the above, we believe that our financial systems are sufficient for ensuring compliance with the UKLA's Disclosure Rules and Transparency Rules.

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, valuation or 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. 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 any other interested party, it could result in the invalidation of such transactions, loss of property or the imposition of other liabilities.

Various third parties have entered into certain transactions with us involving payments to and certain financial instruments with such third parties. Some of these transactions were structured in a manner so as to maximize the tax efficiency for such third parties. If either the payments to or the tax treatment by the third parties were to be the subject of a challenge by the relevant authorities, it could lead to further actions by relevant authorities that could result in the imposition of liabilities on the members of our group including fines or penalties, criminal prosecution or other sanctions.

Any successful challenge by relevant authorities to the above transactions or payments could have a material adverse effect on our business, financial condition, results of operations or prospects and the price of the Shares and GDRs.

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 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 Moscow, the Moscow region and other parts of Russia that 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 impossible 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 cancelled.

Our business may also be harmed if we are unable to renew our land leases designating development rights on commercially acceptable terms or at all. In the event of termination of a land lease (whether during the term, generally for breach, or at the expiry of the term) under the Civil Code of the Russian Federation, there is a risk that the landowner will acquire the right to buy the building in question on that land, from us, for an unspecified price, but to be determined by a court. Due to a lack of court practice or precedent on how these provisions will actually operate, our position, and the ongoing status of our investment, will be unclear upon

termination of any land lease rights. If we are unable to renew our land leases as they expire, or if our existing leases are terminated for any reason, or if their terms are revised to our detriment, our business, financial condition and results of operations could be materially adversely affected.

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 Unified State Register of Rights to and Transactions with Real Property (the "Register"). As a result, defects in any of our previous real estate transactions may lead to the invalidation of such transactions, which may affect our title or lease rights to such real estate. Further, under Russian law, 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) do not need 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 of which we had no prior knowledge over real estate owned or leased by us.

The process of acquiring legal title to our assets is time-consuming and cumbersome.

In accordance with the Federal Law on State Land Register dated January 2, 2000, the State Land Cadastre (the "Land Cadastre"), administered by the Federal Agency, was established. The Land Cadastre discloses certain key information in respect of land such as its location, designated use, ownership title and cadastre value. The Register also contains key information in respect of land and buildings, similar to the Land Cadastre. However, the quality and reliability of the official information both in the Register and the Land Cadastre is generally not equivalent to that of more developed Western countries. Further, although the state is expected to give clear guarantees relating to the accuracy and completeness of the information contained in these registers, there are occasions in which this is not done. Thus, although we may be forced to rely upon the information contained in either register, we may not have effective redress against the state if the information upon which we relied, in deciding whether or not to make an investment, was inaccurate, misleading or incomplete. The information in either register may also be subject to a 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.

Acquisition of Russian real estate properties or development projects may not be successful.

We may acquire properties or projects for development from third parties. Acquisitions involve a number of risks inherent in assessing the values, strengths, weaknesses and profitability of properties, as well as the potential improvements needed to increase financial returns. In particular, there can be no assurance that unanticipated problems (such as changes in laws, or the interpretation or application thereof, relating to the ownership or use of real estate, defects in title to such real estate acquired by us, as well as limited ability to insure against such events in Russia) and undisclosed liabilities or contingencies (such as the existence of hazardous substances or other environmental liabilities) will not arise with respect to the acquired properties or that the acquired properties will achieve, upon completion of the relevant development project, the anticipated sales or rental rates or occupancy levels factored into the pricing of such acquisitions.

Our interest in a development may be reduced by local or regional authorities or we may spend more than expected in carrying out certain urban development projects required by such authorities under our investment contracts, which could have a material adverse effect on our business, financial condition and results of operations.

Where we acquire development rights under an "investment contract" with local or regional authorities, such authorities generally retain an interest in the developments. This interest is

determined on a case-by-case basis and generally does not exceed 30% of the completed development. In some cases we agree to incur additional expenditure in relation to the development (relating to, for example, enhancements in a city's infrastructure) in order to reduce the government's share, where such expenditure is reflected in the relevant investment contract. The government entity generally agrees to our buying out its share of the development prior to, or upon, completion of construction.

Accordingly, 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 financially acceptable terms. Under certain circumstances, the government entity may try to increase its percentage ownership of a project or seek to increase the payment required to transfer ownership to us.

Where we agree to incur additional expenditure for infrastructure enhancements or the construction of other special projects, the amount of such expenditure is usually estimated in the investment contract. In the past, actual expenditures for such projects have often been significantly higher than estimated, thus reducing the overall profitability of certain of our developments.

We may develop or purchase properties through joint ventures or other similar arrangements whereby we may not have full control over such purchased properties.

Although we have formed joint ventures in the past in which we have had less than 50% equity ownership, we currently seek to enter into new joint ventures and co-ownership arrangements with other parties only on the condition that we will own at least 50% of the equity in, and will exercise control over the management of, each such venture. However, in the future, we may choose, for commercial reasons or otherwise, to enter into business relationships whereby we may not have full control over such projects. In such situations, our partners or co-owners may have different business objectives from us, which could materially adversely impact the management over such property and our business and reputation.

In addition, we may not be able to maintain ongoing business relationships with our current co-investors. Any failures in this regard could have a material adverse effect on our business, financial condition and results of operations.

We may be subject to unexpected fluctuations in the rents we pay in respect of land leases.

We have entered, and expect to enter into in the future, lease agreements in respect of properties being developed, or to be developed, by us with local and regional authorities. Once the initial annual rental amount is set, the local or regional authorities can, without our consent, change the amount of the rent payable if legislation establishing the rates of lease rental for the use of state-owned land is changed. Any such action may increase the rent payable by all tenants of the applicable government entity within that category of tenants to which the increase applies. Furthermore, the right of the particular government entity to increase rents is commonly provided for in the terms of the relevant lease. Rental rates are established from time to time by the respective local and regional authorities. As such, relevant lease agreements must comply with such resolutions of these authorities.

Zoning restrictions and local opposition can delay or preclude construction.

In order to develop a property on a particular site, the zoning of such site must permit the development of residential, office and/or retail activities of the type intended for development by us. In instances where the existing zoning is not suitable or in which the zoning has yet to be determined, we will be required to apply for the required zoning classifications. This procedure may be protracted, particularly where the bureaucracy is cumbersome and inefficient, and we cannot be certain that the process of obtaining proper zoning will be completed with sufficient speed to enable the office, retail and/or residential developments to be completed ahead of any competitor development, or at all. Opposition by local residents to zoning and/or building permit applications may also cause considerable delays. In addition, arbitrary changes to applicable zoning by the relevant authorities may jeopardize projects that have already commenced. Therefore, if we do not receive zoning approvals or if the procedures for the

receipt of such zoning approvals are delayed, our costs will increase, which could have a material adverse effect on our business, financial condition and results of operations.

We must obtain a number of permits and administrative approvals and comply with existing laws and regulations in order to develop and construct our properties and projects, and any failure to comply with these requirements, the terms and conditions of our licenses and permits or the findings of governmental agencies or increased governmental regulation of our operations could materially adversely affect our business, financial condition and results of operations.

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, as well as land lease rights, are necessary in order to receive permission to use a land plot. For any project being developed in Russia, the architectural design 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 the fire, health and safety, environmental protection and sanitary departments, as well as technical approvals from various utility providers, including electricity, gas and sewage services. These requirements may hinder, delay or significantly increase the costs of our development activities. We have commenced construction on a number of our projects without obtaining the necessary construction permits. We are currently in the process of obtaining the necessary permits for these projects, and we do not expect our technical non-compliance in this regard to materially adversely affect our business, financial condition or results of operations. Nonetheless, we cannot assure you that the relevant authorities will not take action against us for non-compliance with applicable laws, regulations and requirements in the future.

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.

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 the terms thereof. Russian authorities have the right to, and frequently do, conduct inspections of our operations and properties. Any such future inspections may determine that we have violated laws, decrees or regulations, and we may be unable to refute such determination or 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 increase in governmental regulation of our operations, could increase our costs and materially adversely affect our business, financial condition and results of operations.

Any failure adequately to protect our intellectual property rights could result in the loss of these rights or the imposition of significant costs.

Russia generally offers less intellectual property protection than countries in Western Europe or North America. Any inability to protect our proprietary rights against infringement or misappropriation could materially harm our future financial results and our ability to develop our business. In addition, we may need to engage in litigation in order to enforce our intellectual property rights in the future or to determine the validity and scope of our rights and the rights of others. Any litigation could result in substantial costs and diversion of management and other

resources, either of which could adversely affect our business, financial condition, results of operations and prospects. If we fail to adequately protect our intellectual property rights, we could lose such rights or be liable for significant costs, any of which could adversely affect our business, financial condition and results of operations.

We may be prevented from continuing to use the series 111 and series 222 concrete panels or forced to make obligatory payments to third parties for such use.

100 KGI, which we acquired in 2005, has been producing series 111 concrete panels since 1999. This series of concrete panel housing was first developed by the Russian Ministry of Defense and was widely used to construct buildings to house military personnel, but then was modernized and is now used to construct private residential housing.

While we currently use series 111 concrete panels, as well as a recent update of such panels called series 222, in the construction of our panel housing, we do not hold the patents for such series, which are held by Closed Joint Stock Company Corporation S.Holding (“S.Holding”). We believe that we have the right to use series 111 by prior use, and by extension, to series 222, and have filed claims with Russian courts seeking to have those rights recognized and to have S.Holding’s patents invalidated. See “Business—Legal Matters.” Should we be unsuccessful, we may be forced to make payments to S.Holding for such use. Should this occur, or if we are otherwise prevented from continuing to use series 111 or series 222 concrete panels or protect our intellectual property rights generally, our business, financial condition and results of operations could be materially adversely affected.

Should the state authorities approve only series 222 panels for use in the construction of residential housing, or if we are by other means prevented from continuing to use series 111 or forced to make obligatory payments to third parties for such use, or if we are unable to otherwise protect our proprietary rights to our intellectual property, our business, results of operations and financial condition could be materially adversely affected.

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

Utility costs, particularly the cost of electricity, comprise a significant portion of our cost of sales. Any discontinuation of access to low cost electricity could increase our production costs. 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 developments and any such delay may adversely affect our business, financial condition and results of operations.

The implementation by the Russian government of a law requiring companies to purchase or lease the land on which they operate may have a material adverse effect on our business, financial condition and results of operations.

Much of the land occupied by privatized Russian companies, including 100 KGI, was not included in the privatizations of these companies and is still owned by federal, regional or local governments. The companies use the land pursuant to a special title of perpetual use whereby they have the right to use the land but do not have the right to dispose of such land.

Under the Russian Land Code, legal entities generally have: (1) ownership; (2) right of free use for a fixed term; or (3) lease over land plots. Legal entities may also have a right of perpetual use of land that was obtained prior to the enactment of the Russian Land Code; however, the Federal Law on the Introduction of the Land Code requires legal entities using land pursuant to rights of perpetual use (excluding certain state-owned enterprises and state and local authorities) either to purchase the land from, or to enter into a lease agreement relating to the land with, the relevant government or locality which owns the land by January 1, 2008. If this requirement is not amended prior to implementation, we will be required to make significant expenditures that may have a material adverse effect on our business, financial condition and results of operations.

We may incur additional costs and liabilities associated with existing lease obligations that we acquire.

We may acquire for development existing residential, office or retail buildings that have existing tenants. In so doing, we may acquire lease liabilities and obligations in connection with such acquisitions. As a consequence, our earnings may be adversely affected to the extent that we are obliged to give continued occupation to tenants with lease payments below the then market rate for such development. In addition, we may incur costs in obtaining vacant possession of a site where there are existing tenants who have occupation rights that are protected by state regulations and we are required to pay compensation to such tenants. Alternatively, we may be obliged to relocate such tenants, which could delay the development of the site and add to the cost of development.

Where a residential building intended for development contains existing owners or occupiers of premises within that building, the owners or occupiers of such residential premises must be provided with either monetary compensation or new apartments.

The development and sale of residential properties may result in legal proceedings being brought against us.

The development and sale of residential 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. Although we believe that the materials we use and have used in the construction of our developments comply and have complied with all applicable laws and regulations in force at the time of their use, these laws and regulations are subject to change. Some of the materials that we and other companies in the real estate development industry in Russia have used in the past, including asbestos, are no longer legally permitted to be used and have been the subject of claims by individuals who have handled or been exposed to such materials. In certain other countries, some of these materials have been the subject of a significant number of claims against the manufacturers and users thereof. As of the date of this prospectus, we have not been subject to any claim relating to asbestos, including any claim with respect to our use of, or our employees' handling of or exposure to, asbestos. Any claims brought against us relating to such matters could entail investigation and defense costs, as well as liability for damages. Damages could include, among other things, the costs of remediation, loss of property and costs of health-related bodily injury. The costs of insuring against construction defects and building material products claims and health-related bodily injury are high and the amount of coverage offered by insurance companies is also currently limited. As a consequence, some or all of the financial risk associated with building material products and construction defects may be our sole obligation, and we may be liable in amounts that exceed available limits on our comprehensive general liability policies or that are excluded from coverage.

We do not carry the types of insurance coverage customary in more economically developed countries for a business of our size and nature, and a significant event could result in substantial property loss and an inability to rebuild in a timely manner or at all.

The insurance industry is not yet well developed in Russia, and many forms of insurance protection common in more economically developed countries are not yet available in Russia on comparable terms, including coverage for business interruption. We maintain insurance against some, but not all, potential risks and losses affecting our operations, and we cannot assure you that our insurance will be adequate to cover all of our losses or liabilities. We also cannot assure you that insurance will continue to be available to us on commercially reasonable terms.

At present, we have no coverage for business interruption, third party liability in respect of property or environmental damage arising from accidents on our property or relating to our operations, or for loss of key management personnel. If a significant event were to affect one of our facilities, we could experience substantial property loss and significant disruptions in our production for which we would not be compensated. 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 and results of operations.

We have engaged and may continue to engage in transactions with related parties that may present conflicts of interest, potentially resulting in the conclusion of transactions on less favorable terms than could be obtained in arm's-length transactions.

We have engaged in transactions with related parties and may continue to do so. For example, we have engaged in transactions with certain of our shareholders, directors and executive officers and companies controlled by them, including equity purchases and sales and loan arrangements. Conflicts of interest may arise between our affiliates and us, potentially resulting in the conclusion of transactions on terms not determined by market forces.

Further, we have engaged in various transactions with companies that are controlled by our beneficial owners, Mr. Kirill Pisarev and Mr. Yury Zhukov, who are our President and Chairman of the Board, respectively. In particular, we entered into a co-investment agreement in June 2005 with respect to a property located in south-central Moscow with an independent real estate developer beneficially owned by Mr. Pisarev and Mr. Zhukov that holds the development rights to this project. As of December 31, 2006, we had advanced RUB 280 million to a co-investor for funding of the early stages of construction. We also engage in various transactions with Housing Finance Bank, which is controlled by our shareholders. We have currently, and had in the past, a number of promissory notes and loans outstanding to Housing Finance Bank, and we may borrow additional funds from Housing Finance Bank in the future.

Because Mr. Pisarev and Mr. Zhukov hold interests in and/or manage other companies that may from time to time do business with us or whose operations may compete with us directly or compete for their attention with those of our group, we cannot ensure that potential conflicts of interest between the duties owed to us by Mr. Pisarev and Mr. Zhukov will not otherwise arise and, if such conflicts do arise, that they will be adequately detected and resolved.

We are controlled by two ultimate shareholders, who may take actions that conflict with the interests of other holders of our Shares and GDRs.

Mr. Pisarev and Mr. Zhukov, who are our President and Chairman of our Board of Directors, respectively, each currently controls 50% of our Ordinary Shares. Following the Offering, Mr. Pisarev and Mr. Zhukov will each beneficially own approximately 42.5% of our issued Ordinary Shares assuming no exercise of the Over-allotment Option, or 41.7% assuming that the Over-allotment Option is exercised in full. Accordingly, each of Mr. Pisarev and Mr. Zhukov may exert significant influence over matters relating to us, including, but not limited to appointments to our Board of Directors, any proposed amendment to our charter, reorganization, proposed substantial sale of assets or other major corporate transactions. Their continued significant shareholdings in us may have the effect of making certain transactions more difficult without their support and may have the effect of delaying or preventing an acquisition or other change in control of us. The interests of the controlling beneficial owners may also differ from the interests of other shareholders.

More stringent environmental laws and regulations or more stringent enforcement of existing environmental laws and regulations in the jurisdictions where we operate may have a significant negative effect on our results of operations and we may be subject to environmental liabilities in connection with properties owned and/or leased by us.

Construction and development companies in Russia, including us, are subject to various federal, regional and local environmental laws, ordinances and regulations which establish (1) requirements for obtaining specific permits and administrative approvals, (2) certain restrictions and encumbrances on the properties held and/or developed, and (3) liabilities for violations of environmental legislation, as well as for damage caused to the environment, including site contamination.

In connection with our development projects, we are required to obtain numerous permits and approvals from various environmental protection authorities, including an assessment of the environmental impact of the project by the government's environmental experts. These requirements may hinder, delay or increase the costs of our projects.

Furthermore, environmental laws and regulations impose certain restrictions and encumbrances on the properties that we hold and/or develop. For example, some of our land plots under development are located in areas that have special environmental protection, such as prohibitions against cutting down trees, rules regulating the storage of construction waste and, in certain circumstances, the outright prohibition of any construction activities (e.g., territories bordering a waterline). In addition, the development of a project may be subject to certain obligations, including, among other things, planting of greenery and clean-up measures. These requirements may be costly and time consuming and may result in delays in the commencement or continuation of development of our projects. See also “—We are subject to numerous risks inherent to real estate development” and “—Our projects may be subject to delay, non-completion and financial loss.”

We believe that our current legal and regulatory compliance programs adequately address these concerns and that we are in substantial compliance with applicable laws and regulations. However, if our compliance with current and future environmental laws and regulations is challenged or we are deemed to have violated these requirements, remedying these violations could require material expenditures by us, which could materially adversely affect our business, financial condition and results of operations.

In addition, we may be liable for the costs of removal, investigation or remediation of hazardous or toxic substances located on or in a property owned or leased by us. In addition to these costs, which may be substantial, our ability to sell or lease the contaminated property or to borrow using such property as security may be substantially hindered. According to Russian law, we may be obligated to pay a government entity or third party for property damage and for the investigation and clean-up costs incurred by such parties in connection with the contamination. In addition, third parties may sue the owner or operator of a site for damages and costs resulting from environmental contamination emanating from that site. We generally commission environmental assessments of properties that we acquire in order to identify and minimize potential environmental liabilities. However, such assessments may not reveal all environmental liabilities at, or potentially affecting, these properties.

Any of these requirements, restrictions or liabilities could materially adversely affect our business, financial condition and results of operations.

Our success depends on our senior management team and other key personnel, as well as on highly skilled employees that may be difficult to hire and retain.

Our ability to maintain our competitive position and to implement our business strategy is dependent on the services of our senior management team and other key personnel. Competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals. As a result, we may not be able to retain and attract qualified personnel to fill key positions. The loss or decline in the services of members of our senior management team or an inability to attract, retain and motivate qualified key personnel could have a material adverse effect on our business, financial condition and results of operations.

Our success also depends in large part on our ability to attract, train, motivate and retain highly skilled real estate professionals. We may be unable to continue to attract and retain the skilled employees we require and any inability to do so could adversely impact our ability to manage and complete our existing projects. In addition, the resources required to attract and retain such personnel may adversely affect our operating margins. The failure to attract and retain qualified personnel may have a material adverse effect on our business, financial condition and results of operations.

We operate in a highly competitive industry.

The real estate industry in Russia is highly competitive and fragmented, particularly in the residential sector. It is estimated that there are over 420 developers in the Moscow region and approximately 3,000 construction companies throughout Russia. We face strong competition in Moscow and the Moscow region, where the market is highly concentrated. We also face competition from local developers in the other regions where we operate. Some of our competitors may be larger or have greater financial, technical and marketing resources than we do. Competition in the real estate market may lead to a decline in the sale price of our

developed properties. Competition may also lead to a significant increase in prices for 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.

Existing and potential competitors have established, and may establish in the future, cooperative relationships among themselves or with third parties to enhance their ability to address the needs of our prospective customers. 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 requirements, and may be able to devote greater resources to the promotion and sale of their projects.

Any inability to compete successfully 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.

We compete with other real estate companies and developers for properties, development projects, contractors and customers.

We compete with a number of real estate companies and developers for properties, development projects, contractors and customers. Such competition may affect our ability to sell or acquire real properties. Our projects upon completion will compete with an increasing supply of similar properties in prime locations in order to attract purchasers. Furthermore, our competitors may have greater financial resources and a more experienced management team than we do. We regularly review a number of specific targets for acquisition, but we do not expect to compete for or successfully complete all acquisition opportunities we evaluate. No assurance can be given that we will be able to compete successfully in the future and, as a result, our business, financial condition and results of operations may be materially adversely affected.

We depend on contractors and subcontractors to construct our projects.

We rely on subcontractors for much of our construction and development activities, particularly outside of Moscow and the Moscow region. If we cannot enter into subcontracting arrangements on acceptable terms (or at all) we will incur additional costs which may have an adverse effect on our business. The competition for the services of quality contractors and subcontractors may cause delays in construction, exposing us to a loss of competitive advantage. Subcontracting arrangements may be on less favorable terms than would otherwise be available, which may result in increased development and construction costs. By relying on subcontractors, we become subject to a number of risks relating to these entities, such as quality of performance, varied work ethics, performance delays, construction defects and the financial stability of the subcontractors. A shortage of workers would also have a detrimental effect on us and our subcontractors and, as a result, on our ability to conclude the construction phase of our projects on time and within budget.

Our ability to achieve our expansion strategy outside of Moscow and the Moscow region depends in part on our ability to expand our capacity to produce concrete panels.

As part of our growth strategy, we intend to expand our operations outside of Moscow and the Moscow region. The success of our strategy depends in part on our ability to produce the concrete panels used in our real estate development projects. DSK-2, DSK-3 and 100 KGI are together capable of producing approximately 1.1 million square meters of housing per year, and in 2006 we used approximately 90% of this capacity. We estimate that it could take up to four years to build a manufacturing facility such as DSK-2 or DSK-3 and that the costs of building such a facility would be significant. Further, obtaining the necessary permits from government authorities to construct such a facility could take many years. In order to expand our development operations successfully outside of Moscow and the Moscow region, we must expand our production capacity in those regions due to the high cost and logistical difficulties in transporting concrete panels over long distances. We intend to do this by acquiring new industrial facilities and/or acquiring smaller developers with existing production capacity. There can be no assurance, however, that we will be able to acquire such facilities or developers on commercially reasonable terms or at all, and if we fail to do so, our expansion strategy and prospects could be adversely affected.

Our inability to manage successfully our growth could have a material adverse effect on our business, financial condition and results of operations.

We intend to expand our operations and develop a significant number of projects simultaneously in a relatively short period of time. We expect that the operational complexity of our business, as well as the responsibilities of management, will increase as a result of this growth, placing significant strain on our management and other key personnel. We will need to continue to improve our operational and managerial controls and procedures to keep pace with our expected growth, and maintain close coordination among the employees in each of our operating divisions, as well as accounting, finance and marketing departments. Our inability to manage successfully our growth could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to achieve our production plan or our sales targets.

We have made certain forward-looking statements in this prospectus relating to our planned completion of the development projects. We may not achieve this production plan as a result of a number of factors, including the risks described in this prospectus. In particular, our plans for 2008 and beyond are especially susceptible to uncertainty and change, as compared to our plans for 2007. Furthermore, the periods in which we complete our projects may not coincide with the actual recognition of revenues related to the projects in our financial statements. In addition, some of our developments include a large number of residential buildings that are concentrated in certain neighborhoods in Moscow and the Moscow region. There can be no guarantee that we will be able to sell all of the residences in a particular development or neighborhood, particularly if market conditions deteriorate.

Our results of operations may be highly variable, which may adversely affect our ability to plan our budget or business activities.

We have in the past experienced and may continue to experience significant variations in revenues and profits from period to period. These variations can generally be attributed to the fact that, at times, our revenues and profits are earned upon the completion of a project. For example, we may have periods in which we complete and sell a large number of projects, which could generate high levels of revenues for that period, but we may have fewer projects in development, which could negatively affect revenues in future periods. In contrast, we may have periods in which we complete and sell only a small number of projects, which could generate lower revenues, but we may have a large number of projects in development, which could generate higher revenues in future periods. Accordingly, the types and amount of properties that we have sold in any particular period will have a significant effect on our results of operations and the sources and amount of our cash from operations, but may not be indicative of the relative medium-term contribution of each of our business segments to our business or of our overall financial condition or prospects. Our earnings also can be adversely affected if any particular project is not completed or significantly delayed.

As a result, it may be difficult for us to report steady earnings growth and plan our budget and business activities on a period-to-period basis. Failure to achieve expected revenue in any fiscal period or unanticipated variations in the timing of recognition of specific revenues can cause significant variations in our results of operations from period-to-period and may in some future period result in losses or have a material adverse effect on our business, financial condition and results of operations and the price of our Shares and 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 Russian accounting standards 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 Russian companies have negative net assets due to very low historical asset values reflected on their Russian accounting standards 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. As these subsidiaries continue to meet all of their obligations to creditors, we believe that the risk of their liquidation is limited. 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.

Technical deficiencies in legal contracts which document certain of our projects may result in recognition of such contracts as not having been concluded which may consequently have an adverse effect on our operations.

Certain contracts entered into by us or our subsidiaries may not fully comply with some express provisions of current legislation. For example, a number of construction contracts concluded by our subsidiary, MFS-PIK, do not contain price and other material terms as required under Russian law. If successfully challenged, these contracts may be found voidable and thus not binding on the counterparties, which may have an adverse effect on our operations and disrupt our business.

In the event that deficiencies or ambiguities in privatization legislation are exploited to challenge our ownership in our privatized subsidiaries, land and other assets and we are unable to defeat these challenges, we risk losing our ownership interests in our subsidiaries or these assets, which could materially adversely affect our business, financial condition and results of operations.

Our business includes a number of privatized companies, including DSK-2, DSK-3 and 100 KGI. Further, our business strategy may involve the acquisition of additional privatized companies, land and other assets. To the extent that privatization legislation is vague, inconsistent or in conflict with other legislation, including conflicts between federal and local privatization legislation, many privatizations are vulnerable to challenge, including selective challenges. For instance, a series of presidential decrees issued in 1991 and 1992 that granted to the Moscow city government the right to adopt its own privatization procedures were subsequently held to be invalid by the Constitutional Court of the Russian Federation, which ruled, in part, that the presidential decrees addressed issues that were the subject of federal law. While this court ruling, in theory, did not require any implementing actions, the presidential decrees were not officially annulled by another presidential decree until 2000.

The statute of limitations currently in effect for substantive challenges to most privatization transactions is three years and we believe the statute of limitations has expired in respect of each of DSK-2, DSK-3 and 100 KGI. However, the Russian government or any other interested party may try to challenge a privatization at any time on the grounds of technical or other violations. Any such challenges, if successful, could materially adversely affect our production capacity or market share.

In addition, under Russian law, any corporate restructurings, reorganizations or any transfers of shares and other ownership interests may be invalidated on various grounds, including, among others, that a transferor does not have the right to dispose of such shares or interests or that the

transfer violates rules governing interested-party or other transactions. As a result, actual or alleged defects in prior transfers of interests in our subsidiaries, including PIK Region, DSK-2, DSK-3 and 100 KGI, could affect our title to such interests. In the event that any transactions underlying the ownership of our subsidiaries are successfully challenged, we could lose all or part of our ownership interest in these companies, which would materially adversely affect our business, financial condition and results of operations.

Although no actions seeking to invalidate our subsidiaries' corporate status, alleging non-compliance with applicable laws and regulations relating to the formation of our subsidiaries or challenging subsequent share transfers in our subsidiaries have been brought, there can be no assurance that such actions may not be brought in the future or that a statute of limitations longer than the current three years will not be retroactively implemented.

We may be adversely affected if our ownership structure is challenged on the grounds of violation of certain formal requirements of Russian corporate legislation.

A number of our subsidiaries are 100% owned by us indirectly through other wholly owned subsidiaries. Such ownership structure may be deemed to violate certain formal requirements of Russian corporate legislation, such as on the basis that a company may not have an entity owned by one person as its sole shareholder. In the event of a successful challenge of this ownership structure, some of our subsidiaries may be subsequently liquidated and, as a result, our business, financial condition and results of operations may be adversely affected.

Moreover, some of our subsidiaries have no legal title to or other right to occupy premises in which they are registered. Although this is not itself a legal ground for liquidation of such companies or imposition of any material sanctions on them, authorities may consider such lack of title to be an indication that such subsidiaries engage in illegal activities and could initiate formal investigations that could affect our reputation and disrupt the activities of such subsidiaries.

In the event that the minority shareholders of our subsidiaries were to challenge successfully 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 and our results of operations could be materially adversely affected.

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 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, repurchase 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 shareholder 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.

Risks Relating to our Financial Condition

If we are unable to obtain adequate capital, we may have to limit our operations substantially, which could have a material adverse effect on our business, financial condition and results of operations.

We will need to make significant capital expenditures in our business, including purchasing land and acquiring or upgrading production facilities or equipment. Our capital expenditure (consisting of cash flows utilized by acquisition of property, plant and equipment and intangible assets) amounted to RUB 1.6 billion in 2005 and RUB 8.8 billion in 2006. We expect to spend approximately RUB 21.1 billion, including for acquisitions, in 2007 for the fulfillment of our capital spending plans. Our ability to fund planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. To meet our requirements, we may need to attract equity or debt financing, especially in international capital markets or from international lenders. It is possible that these foreign sources of financing may not be available or may be available only at an unacceptable cost.

Among other things, increased levels of indebtedness, and particularly increases in the level of secured indebtedness, could potentially: (1) limit our ability to obtain additional financing; (2) limit our flexibility in planning for, or reacting to, changes in the markets in which we compete; (3) place us at a competitive disadvantage relative to our competitors with superior financial resources; (4) lead to a partial or complete loss of control over our key subsidiaries or properties; (5) render us more vulnerable to general adverse economic and industry conditions, (6) require us to dedicate all or a substantial part of our cash flow to service our debt; and (7) limit or eliminate our ability to pay dividends.

As of December 31, 2006, our non-current and current loans and borrowings were approximately \$912.4 million. Our ability to service, repay and refinance our indebtedness and to fund planned investments will depend on our ability to generate cash in the future. If we are unable to generate sufficient cash flow or access international capital markets or incur additional indebtedness, we may take certain actions, including delaying or reducing real estate investments, restructuring or refinancing our indebtedness, selling our investment properties or other assets or seeking additional equity capital. We may be unable to take any of these actions on acceptable terms or in a timely manner. Furthermore, such actions may not be sufficient to allow us to service our debt obligations in full and, in any event, may have a material adverse effect on our business. Alternatively, we may default under the terms of our indebtedness, and the holders of our indebtedness would be able to accelerate the maturity of such indebtedness, which could cause defaults under, and potential acceleration of, our other indebtedness. Furthermore, our inability to service our debt through internally generated cash flows or other sources of liquidity may put us in default of our obligations to our creditors, which could result in the loss of your entire investment in our Shares and GDRs.

In addition, we finance a significant portion of our housing constructions by receiving advance payments from potential purchasers. See “—Our ability to finance construction projects may be materially adversely affected by the Cost Sharing Law.”

Any of the foregoing factors may limit the amount of capital available to meet our operating requirements. If we cannot obtain adequate funds to satisfy our capital requirements, we may need to limit our operations significantly, which could have a material adverse effect on our business, financial condition and results of operations.

From time to time, we may merge certain subsidiaries for operational reasons. Under Russian law, such mergers would be considered a reorganization and the merged subsidiaries would be required to notify their creditors of this reorganization. Russian law also provides that, for a period of 30 days after notice, these creditors would have a right to accelerate the merged subsidiaries' indebtedness and demand reimbursement for applicable losses. In the event that we decide to undertake any such merger and all or part of certain of our subsidiaries' indebtedness is accelerated, we and such subsidiaries may not have the ability to raise the funds necessary for repayment and our business and financial condition could be materially adversely affected.

Our loan agreements contain restrictive covenants.

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 interest expense, as well as maximum ratios of total debt to the market value of our real estate assets. These covenants limit our operational flexibility. In addition, failure to comply with these covenants could cause a default and result in the debt becoming immediately due and payable, which would materially adversely affect our business, financial condition and results of operations. See “Description of Certain Indebtedness” for a more detailed description of some of these provisions.

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 and 10.9% in 2005, according to Rosstat, and 9.0% in 2006 (based on preliminary data published by the Russian government). As we tend to experience inflation driven increases in certain of our costs, including salaries, rents and energy costs, which are sensitive to rises in the general price level in Russia, our costs generally will 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 sufficiently to offset such increases and thereby to preserve our operating margins. Accordingly, high rates of inflation in Russia could adversely affect our financial condition and results of operations.

Risks Relating to the Russian Federation

Economic Risks

Emerging markets such as Russia are subject to greater risks than more developed markets, including significant legal, economic and political risks.

Investors in emerging markets such as Russia should be aware that these markets are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies such as the economy of Russia are subject to rapid change and that the information set out herein may become outdated relatively quickly. Accordingly, you should exercise particular care in evaluating the risks involved and must decide for yourself whether, in light of those risks, your investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and you are urged to consult with your own legal and financial advisors before making an investment in our Shares and GDRs.

Economic instability in Russia could adversely affect our business.

Since the dissolution of the Soviet Union in the early 1990s, the Russian economy has experienced at various times:

- significant declines in GDP;
- hyperinflation;
- an unstable currency;
- high government debt relative to GDP;
- a weak banking system providing limited liquidity to domestic enterprises;
- high levels of loss making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of a black and gray market economy;
- pervasive capital flight;

- high levels of corruption and the penetration of organized crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the population.

In addition, the Russian economy has been subject to abrupt downturns in the past. In particular, in August 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its ruble denominated securities, the CBR stopped its support of the ruble and a temporary moratorium was imposed on certain foreign currency payments. These actions resulted in an immediate and severe devaluation of the ruble and a sharp increase in the rate of inflation; a substantial decline in the prices of Russian debt and equity securities; and an inability of Russian issuers to raise funds in the international capital markets.

These problems were aggravated by the near collapse of the Russian banking sector after the events of August 1998, as evidenced by the termination of the banking licenses of a number of major Russian banks. This further impaired the ability of the banking sector to act as a consistent source of liquidity to Russian companies and resulted in the losses of bank deposits in some cases.

Recently, the Russian economy has experienced positive trends, such as the increase in the GDP relatively stable national currencies, strong domestic demand, rising real wages and a reduced rate of inflation. However, these trends may not continue or may be abruptly reversed.

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

Russia's banking and other financial systems are less developed or regulated in comparison with other countries, 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. In addition, in 2004, the CBR revoked the licenses of some Russian banks, which resulted in market rumors about additional bank closures and many depositors withdrawing their savings. Several privately owned Russian banks collapsed or ceased or severely limited their operations, although Russian banks owned or controlled by the government or the CBR and foreign-owned banks generally were not adversely affected by the turmoil. Many Russian banks currently do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags far behind internationally accepted norms. Aided by inadequate supervision by the regulators, certain banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. Furthermore, in Russia, bank deposits made by corporate entities generally are not insured.

In recent years, Russian banks have significantly increased their lending operations, which many believe has been accompanied by a 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 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. 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.

There is currently a limited number of sufficiently creditworthy Russian banks. We hold the bulk of our excess ruble and foreign currency cash in Russian banks, including subsidiaries of foreign banks. Another banking crisis or the bankruptcy or insolvency of the banks from which we receive or with which we hold our funds could result in the loss of our deposits or affect our ability to complete banking transactions in Russia, which could have a material adverse effect on our business, financial condition and results of operations.

The infrastructure in Russia is inadequate, which could disrupt our business operations.

The infrastructure in Russia largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Particularly affected are the rail and road

networks; power generation and transmission systems; communication systems; and building stock. For instance, in May 2005, a fire and explosion in one of the Moscow power substations built in 1963 caused a major power outage in a large section of Moscow and some surrounding regions. The blackout disrupted the ground electric transport, including the metro system, led to road traffic accidents and massive traffic congestion, disrupted electricity and water supply in office and residential buildings and affected mobile communications. The trading on exchanges and the operation of many banks, stores and markets were also halted. 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.

Fluctuations in the global economy could materially adversely affect the Russian economy and our business.

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 businesses could face severe liquidity constraints, further materially adversely affecting these economies. 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 antidumping measures by the United States, the European Union or by other principal export markets.

Political and Social Risks

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

Since 1991, Russia has sought to transform itself from a one party state with a centrally planned economy to a democracy with a market economy. As a result of the sweeping nature of the reforms, and the failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatizations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. In light of these conditions, the Russian public has largely supported increased centralized authority and renationalization and governmental control of key industries. In addition, a failure of salaries and benefits to keep pace with the rapidly increasing cost of living or changes in government-funded benefits or perceived unfairness in the distribution of wealth could lead to social unrest in the future. Low birth rates and life expectancies in Russia are expected to result in significant declines in the population over the next few decades. These declines, combined with increasing immigration, could pose significant risks to political and social stability in Russia.

Current and future changes in the government, major policy shifts or lack of consensus between various branches of the government and powerful economic groups could disrupt or reverse economic and regulatory reforms. In addition, the Russian presidential elections scheduled for 2008 could bring more volatility to the market. Any disruption or reversal of reform policies could lead to political or governmental instability or the occurrence of conflicts among powerful economic groups, which could have a material adverse effect on our business, financial condition and results of operations and the value of our Shares and GDRs.

Conflict between central and regional authorities and other conflicts could create an uncertain operating environment hindering our long term planning ability and could materially adversely affect the value of investments in Russia, including the value of our Shares and GDRs.

The Russian Federation is a federation of 86 sub federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatization, land legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus hinders our long term planning efforts and creates uncertainties in our operating environment, both of which may prevent us from effectively and efficiently implementing our business strategy.

Additionally, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, such as the conflict in Chechnya. Violence and attacks relating to this conflict have spread and several terrorist attacks have been carried out by Chechen terrorists in other parts of Russia, including in Moscow. The further intensification of violence, including terrorist attacks and suicide bombings, or its spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures are likely to cause disruptions to domestic commerce and exports from Russia. These factors could materially adversely affect our business and the value of our Shares and GDRs.

Crime and corruption could disrupt our ability to conduct our business, and accusations against us regarding alleged participation in corrupt or illegal business activities could materially adversely affect our business, financial condition, results of operations and the market price of our Shares and GDRs.

The political and economic changes in Russia in recent years have resulted in significant dislocations of authority. The local and international press has reported that significant organized criminal activity has arisen, particularly in large metropolitan centers. Property crime in large cities has increased substantially. In addition, the local press and international press have reported high levels of corruption, including the bribing of officials for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials engaged in selective investigations and prosecutions to further the commercial interests of certain government officials or certain companies or individuals. Additionally, some members of the Russian media regularly publish disparaging articles in return for payment.

We have at times been the subject of accusations, including speculation in the press, relating to certain of our business activities. For instance, we have received negative publicity surrounding our acquisitions of Open Joint Stock Company “Krasnopresnensky Sakharorafinadny Zavod” and our attempted acquisition of Open Joint Stock Company “480 Kombinat Zhelezobetonnykh Izdeliy.” Such accusations or claims could disrupt our ability to conduct our business effectively and could thus materially adversely affect our business, financial condition and results of operations and the value of the Shares and GDRs.

Social instability could increase support for renewed centralized authority, nationalism or violence and thus materially adversely affect our operations.

The failure of the government and many 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 have led in the past, and could lead in the future, to labor and social unrest. Labor and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralized authority; increased nationalism, including restrictions on foreign involvement; and increased violence. An occurrence of any of the foregoing events could restrict our operations and lead to the loss of revenues, materially adversely affecting our operations.

Legal Risks and Uncertainties

Weaknesses relating to the legal system and legislation create an uncertain environment for investment and business activity, which could have a material adverse effect on the value of our Shares and GDRs.

Russia is still developing the legal framework required to support a market economy. The following risks relating to the Russian legal system, many of which do not exist in countries with more developed market economies, create uncertainty with respect to the legal and business decisions that we make:

- inconsistencies between and among the Russian Constitution, federal law, presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;
- conflicting local, regional and federal rules and regulations;
- the lack of judicial and administrative guidance on interpreting legislation;
- substantial gaps in the regulatory structure due to delay or absence of implementing legislation;
- the relative inexperience of judges and courts in interpreting legislation;
- lack of an independent judiciary;
- corruption within the judiciary;
- a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions such as suspension or termination of our licenses; and
- poorly developed bankruptcy procedures that are subject to abuse.

The recent nature of much Russian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Russian legal system in ways that may not always coincide with market developments cast doubt on the enforceability and underlying constitutionality of laws and result in ambiguities, inconsistencies and anomalies. In addition, Russian legislation often contemplates implementing regulations, many of which have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect our ability to enforce our rights under our licenses and contracts, or to defend ourselves against claims by others. We cannot assure you that regulators, judicial authorities or third parties will not challenge our compliance with applicable laws, decrees and regulations.

The judiciary's lack of independence and overall inexperience, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent us or holders of our Shares and GDRs from obtaining effective redress in a court proceeding, materially adversely affecting the value of our Shares and GDRs.

The independence of the Russian judicial system and its immunity from economic, political and nationalistic influences remain largely untested. The court system in Russia is understaffed and under-funded. Judges and courts are generally inexperienced in the area of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all Russian legislation and court decisions are readily available to the public or organized in a manner that facilitates understanding. The Russian judicial system can be slow or unjustifiably swift, and the outcome of decisions may be unpredictable. Additionally, court claims are often used in furtherance of political and commercial aims or infighting. We may be subject to such claims and may not be able to receive a fair hearing. Additionally, enforcement of court orders can, in practice, be very difficult. Court orders are not always enforced or followed by law enforcement agencies, and the government may attempt to invalidate court decisions by backdating or retroactively applying relevant legislative changes.

These uncertainties also extend to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation was enacted to protect private property against expropriation and nationalization. However, it is possible that due to the lack of experience in enforcing these provisions and due to political factors, these protections would 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.

Selective or arbitrary government action could have a material adverse effect on our business, financial condition and results of operations.

Governmental authorities in Russia have a high degree of discretion and, at times, act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that is inconsistent with legislation or influenced by political or commercial considerations. Selective or arbitrary governmental actions have reportedly included the denial or withdrawal of licenses, sudden and unexpected tax audits and claims, criminal prosecutions and civil actions. Federal and local government entities have also used ordinary 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. 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. Standard & Poor's, a provider of independent credit ratings, has expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups." In this environment, our competitors may receive preferential treatment from the government, potentially giving them a competitive advantage over us.

In addition, recently, the Russian tax authorities have aggressively brought tax evasion claims against certain Russian companies for their use of tax optimization schemes, and press reports have speculated that these enforcement actions have been selective and politically motivated. Selective or arbitrary government action, if directed at us, 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 Russia could limit our ability to attract future investment.

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than, for example, in the United States or the European Union. Many Russian securities regulations have only recently been adopted. 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 Russian Federal Anti-Monopoly Service ("FAS");
- the CBR; 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 our group. The FSFM has recently introduced a number of regulations relating to offerings of shares in and outside of Russia, including combined offerings involving closed subscription for new shares and the sale of existing shares (such as is the case with respect to the Offering) which remain largely untested and subject to varying interpretations. Any challenges of such regulations or transactions consummated pursuant to them could have an adverse effect on the Offering the GDR program and our ability to effect similar equity offerings in the future. As a result, we may be subject to fines and/or other enforcement measures despite our best efforts at compliance, which could have a material adverse effect on our business, financial condition and results of operations or on the liquidity or on the market price of the Shares or the GDRs.

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.

Following the dissolution of the Soviet Union, land reforms took place in Russia and real estate legislation changed continually during subsequent 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 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 Federal Law on Joint Stock Companies ("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 Shares and GDRs.

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

The Civil Code of the Russian Federation and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company and bear only the risk of loss of their investment. This may not be the case,

however, when one company is capable of determining decisions made by another company. The company capable of determining such decisions is deemed an “effective parent.” The company whose decisions are capable of being so determined is deemed an “effective subsidiary.” Under the Joint Stock Companies 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 the companies; and
- the effective parent gives obligatory directions to the effective subsidiary.

In addition, an effective parent is secondarily liable for an effective subsidiary’s debts if an effective subsidiary becomes insolvent or bankrupt resulting from the action or inaction of an effective parent. This is the case no matter how the effective parent’s ability 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, we could be liable in some cases for the debts of our subsidiaries. The total liabilities of our Russian subsidiaries, as of December 31, 2006, were RUB 22.8 billion. This liability could have a material adverse effect on our business, financial condition and results of operations.

Shareholder rights provisions under Russian law could impose significant additional obligations on us.

Russian law provides that shareholders that vote against or abstain from voting on certain matters have the right to sell their shares to the company at market value in accordance with Russian law. The decisions that trigger this right to sell shares include:

- decisions with respect to a reorganization;
- the approval by shareholders of a “major transaction,” which, in general terms, is a transaction involving property worth more than 50% of the gross book value of a company’s assets calculated according to Russian accounting standards, regardless of whether the transaction is actually consummated; and
- the amendment of its charter in a manner that limits shareholder rights.

Our (or, as the case may be, our subsidiaries’) obligation to purchase shares in these circumstances, which is limited to 10% of the company’s net assets calculated in accordance with Russian accounting standards at the time the matter at issue is voted upon, could have a material adverse effect on our results of operations and financial condition.

The lack of a central and 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 currently 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 Depository, 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—Description of Share Capital—Registration and Transfer of Shares” and “Description of the Global Depository Receipts—Russian Share Register” for a further discussion of the share registration system and registrars in the Russian Federation.

Characteristics of and changes in the Russian tax system could materially adversely affect our business, financial condition and results of operations and the value of the Shares and GDRs.

Generally, taxes payable by Russian companies include, among others:

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

Laws related to these taxes have been in force for a short period relative to tax laws in more developed market economies. Over the past decade there have been significant changes to the Russian taxation system. Global tax reforms commenced in 1999 with the introduction of Part One of the Tax Code of the Russian Federation (“Tax Code”), which sets general taxation guidelines. Since then, Russia has been in the process of replacing legislation regulating the application of major taxes such as corporate profits tax, VAT and property tax with new chapters of the Tax Code. In some instances, new tax regulations have been given retroactive effect.

Differing 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 penalties and interest charges. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretations of the legislation and assessments.

Generally, taxpayers are subject to tax audit for a period of three calendar years which immediately preceded the year in which the decision to carry out tax audit is taken. Previous audits do not completely exclude subsequent claims relating to the audited period because Russian tax law authorizes upper level tax inspectorates to reaudit taxpayers which were audited by subordinate tax inspectorates.

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 similar positions were supported by the Constitutional Court of the Russian Federation. These changes as well as the position of the Constitutional Court of the Russian Federation potentially grant considerable discretion to the Russian tax authorities to disregard the statute of limitations in their tax investigations.

Financial results of Russian companies belonging to the same group cannot be consolidated for tax purposes. Therefore, each of our Russian subsidiaries pays its own Russian taxes and may not offset its profit or loss against the loss or profit of any of our other subsidiaries. In addition, intercompany dividends are generally subject to a withholding tax of 9%, if being distributed by Russian companies to Russian companies, and 15%, if being distributed by Russian companies to foreign companies. Dividends from foreign companies to Russian companies are subject to a tax of 15% (beginning January 1, 2008 this rate will be reduced to 9%) against which it may be possible to offset taxes withheld from the dividends in countries with which Russia has an applicable double tax treaty if this treaty provides for a possibility of such offset. If the receiving Russian company itself pays a dividend, it may offset tax previously withheld on dividends received against its own withholding liability with respect to the onward dividend although not against any withholding made upon a distribution to a foreign resident.

Uncertainties and inconsistent enforcement of tax regulations and the assertive positions of the tax authorities in interpreting legislation may result in our tax compliance being challenged. In particular, we have entered into transactions with various suppliers in which we did not hold any direct or indirect equity interest. These entities are fully responsible for their own tax and accounting compliance. However, due to existing Russian tax practice, if the tax compliance of such entities is challenged, we may become liable for additional tax payments. We do not believe it is practicable to estimate the financial effect of potential tax liabilities that ultimately could be imposed on us due to transactions with suppliers, and we have not provided any amounts in respect of such obligations in our consolidated financial statements. However, if such liabilities were imposed, the amounts involved, including penalties and interest, could be material.

The foregoing conditions create tax risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on our 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 us to significant fines and penalties and enforcement measures despite our best efforts at compliance. See also “—Risks Relating to the Russian Federation—Legal Risks and Uncertainties—Selective or arbitrary government action could have a material adverse effect on our business, financial condition and results of operations.”

Russian thin capitalization rules could affect our ability to deduct interest on certain borrowings.

Russian thin capitalization rules limit the amount of interest that can be deducted by a Russian company on debts payable to non-resident shareholders. Until January 1, 2006, these rules applied only to loans issued to a Russian company by a foreign shareholder owning directly or indirectly more than 20% of the charter capital of the Russian company. However, thin capitalization rules that came into effect on January 1, 2006 extend the rules' application to loans issued to a Russian company by another Russian company that is affiliated with the foreign shareholder as well as to loans secured by such foreign shareholder or its affiliated Russian company. It is not yet fully clear how these new rules will be applied in practice by the Russian tax authorities.

Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may adversely affect our business, financial condition and results of operations.

Russian transfer pricing rules effective since 1999 give the Russian tax authorities the right to control prices for transactions between related entities and certain other types of transactions between unrelated parties, such as foreign trade transactions or transactions with significant price fluctuations if the transaction price deviates by more than 20% from the market price. Special transfer pricing rules apply to operations with securities and derivative instruments. The Russian transfer pricing rules are vaguely drafted, and are subject to interpretation by Russian tax authorities and courts. Due to the uncertainties in interpreting transfer pricing legislation, the tax authorities may challenge our prices and make adjustments which could affect our tax position. If such tax adjustments become effective, our results of operations could be materially adversely affected. In addition, we could face significant losses associated with the assessed amount of underpaid prior tax and related interest and penalties.

In addition, a number of draft amendments to the transfer pricing law have recently been introduced which, if implemented, would considerably toughen the existing law. The proposed changes include, among others, effectively shifting the burden of proving market prices from the tax authorities to the taxpayer, removing the existing permitted deviation threshold and introducing specific documentation requirements for proving market prices.

Risks Relating to the GDRs, the Shares and the Trading Market

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 the GDR holders. In these jurisdictions, shares held by a depositary on behalf of the GDR holders would not be subject to seizure in connection with legal proceedings against the depositary that are unconnected with the shares.

Russian law may not, however, recognize a distinction between legal and beneficial ownership of securities. Russian law generally 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. In May 2007, the Federal Customs Service of Russia filed a new lawsuit against that other depositary, based on allegations of fact common to the prior lawsuit. 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 of the money invested in them.

GDR holders will not be able to withdraw the Shares underlying the GDRs or instruct the Depositary to vote the Shares evidenced by their GDRs prior to the registration of a placement report for the newly issued Ordinary Shares, and the failure to register this placement report could result in the newly issued Ordinary Shares underlying the GDRs being cancelled, reliance by GDR holders on us and on the Underwriters to return the offering proceeds in respect of such GDRs and a small public float based solely on the Shares sold by the Selling Shareholders.

Under the terms of the Deposit Agreements, all GDRs shall be deemed to be issued on a provisional basis until the placement report is registered by the FSFM in respect of the newly issued Ordinary Shares of the Company. Until the placement report is registered, GDR holders will not be able to withdraw the Shares underlying their GDRs or instruct the Depositary to exercise voting rights with respect to the Shares that underlie their GDRs, as they would ordinarily be able to do. Such limitations on withdrawal and voting of the underlying Ordinary Shares apply with equal force to all Shares deposited with the Depositary against the provisional issuance of GDRs prior to the registration of the placement report, whether deposited by us or by the Selling Shareholders with the Depositary at closing against the issuance of GDRs in connection with the Offering, or otherwise.

The form of the placement report requires us to disclose information about the recipients of the newly issued Ordinary Shares and the total number of Shares actually placed. For purposes of such disclosure requirements, we will name the Depositary as the recipient of the newly issued Ordinary Shares. Russian law requires that we file the placement report within 30 days following the completion of the placement. We intend to file the placement report as soon as practicable following the completion of the placement. The FSFM is statutorily required to make its decision within two weeks after we file the placement report but it may take longer or the registration of the placement report may not occur at all. The FSFM may refuse to register the placement report if, among other things, we violated Russian law in the issuance process and a Russian court may also hold the placement invalid for such violations.

In the event that the placement report is not registered by the FSFM within 60 days after the Closing Date (or such later date as we agree with the Joint Global Coordinators), we will issue a press release and notify the Depositary and the London Stock Exchange, and trading in the GDRs representing our newly issued Ordinary Shares will be cancelled. Under Russian law, in the case of non-registration of the placement report we are required to return the full amount of proceeds that were initially deposited into our account on the Closing Date. In addition, the Joint Global Coordinators have agreed to return the underwriting commissions related to the GDRs sold by us. Such amounts will be paid to the Depositary for remittance to the holders of the GDRs, and the GDRs will represent the right to receive a proportional interest in the funds so received. The Depositary will then promptly cancel such number of GDRs as corresponds to the number of newly issued Ordinary Shares being cancelled on a *pro rata* basis or on such other basis as it deems practicable in its sole discretion, and distribute through DTC, Euroclear and Clearstream, as applicable, the funds it has received, *pro rata* or on such other basis as it deems practicable to the then holders of GDRs, subject to the terms of the Deposit Agreements. The amount per GDR ultimately delivered to holders of GDRs will be less than the offer price per GDR. The delivery of funds may be subject to applicable withholding taxes and may be delayed

or diminished due to Russian currency control, banking and securities regulations or practices (including those potentially requiring the conversion of funds from or into rubles) and may be prevented if there is a change in such regulations or practices. GDR holders will be taking credit risk on us and on the Underwriters for the delivery of funds in the event that the placement report is not registered.

Thereafter, the market for our Ordinary Shares and any GDRs that remain outstanding is likely to be highly illiquid.

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 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 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 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 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 and "Registration of Placement Report" for a description of limitations on voting rights in respect of Shares underlying the GDRs prior to the registration of the placement report.

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 cancelled and take delivery of the Shares and thus become the owner of the Shares on our share register.

Because there has been no prior active public trading market for the Shares or GDRs, 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. Furthermore, a significant portion of the Shares and GDRs is being offered in the Offering to certain institutions in the Russian Federation and elsewhere, which will result in such investors holding a significant portion of the Shares and GDRs. See “Subscription and Sale.” 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 become more 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 (following the registration of the placement report with the FSFM), 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 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.

In addition, the newly issued Shares are not transferable until the FSFM registers the placement report. From the time the placement report is registered and until the state registration number for the newly issued Ordinary Shares is consolidated with the state registration number for previously issued Ordinary Shares, the newly issued Ordinary Shares are transferable and can be traded on MICEX or RTS. The newly issued Ordinary Shares will be eligible for trading on MICEX under a temporary, separate ticker symbol “PIKK-003D” until the state registration number for the newly issued Ordinary Shares is consolidated with the state registration number of the previously issued Ordinary Shares. The FSFM generally consolidates the state registration number of newly issued shares with that of previously issued shares after the end of a three month period commencing upon its registration of the placement report relating to the newly issued shares. After such consolidation, the MICEX trading symbol for the newly issued Ordinary Shares will be unified with the trading symbol for the previously issued Ordinary Shares, “PIKK,” and all such Ordinary Shares will be fully fungible. To facilitate liquidity in the Russian market, until the registration numbers are consolidated, upon withdrawal, GDR holders will first receive the Shares being sold by the Selling Shareholders (if any are deposited in the GDR program), which can be traded on MICEX under the general symbol “PIKK,” and, only if no such shares remain in the GDR program, will GDR holders receive newly issued Ordinary Shares.

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 Joint Global Coordinators.

You may be unable to repatriate distributions made on the Ordinary Shares.

We intend to pay dividends, if any, on the Shares in rubles. The Depositary will also receive dividends in respect of the Shares underlying the GDRs in rubles. The ability to convert rubles

into US dollars is subject to the availability of US dollars in Russia's currency markets. Although there is an existing, albeit limited, market within Russia for the conversion of 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 liquid market in which to hedge ruble and ruble-denominated investments.

You will experience immediate and substantial dilution.

The offer price of the Shares and GDRs is substantially higher than the net book value per Share and per GDR. That is, holders of GDRs and Shares will contribute 70.4% of our total book equity capitalization as at the date of the Offering, but will own only 15.0% of our total equity outstanding.

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

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

In addition, certain institutions in the Russian Federation and elsewhere are being offered to a significant portion of the Shares and GDRs in the Offering. See "Subscription and Sale." Such institutions may subsequently elect to sell such Shares or GDRs which may adversely affect the price of the Shares and GDRs.

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 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 we receive adequate clarification from the Russian competent authorities that it is permitted under Russian law to withhold Russian withholding tax in respect of dividends it pays to the Depositary at a lower rate 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 Federation 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 payors.

Under Russian tax law, gains arising from a sale, exchange or other disposition by non-resident holders that are organizations of Russian securities, such as the Shares, as well as financial instruments derived from such securities, such as the GDRs, may be subject to Russian income

tax to be withheld at source by the Russian payor of the income if immovable property located in Russia constitutes more than 50% of the 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 Russian source, hence 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 Russian source 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 considered a "passive foreign investment company," or "PFIC," for US federal income tax purposes for our taxable year ending December 31, 2007. However, the determination of whether we are a PFIC is a factual determination made annually after the end of each year and our PFIC status may greatly depend on the price of the Shares and GDRs, which may fluctuate considerably, and the manner in which and how quickly we spend the cash we receive in this Offering and other financing transactions. Therefore, there can be no assurance that we will not be treated as a PFIC for our current taxable year or any future taxable year. If we were to be treated as a PFIC, certain adverse US federal income tax consequences could apply to US investors. See "Taxation—Certain Material United States Federal Income Tax Considerations—Passive Foreign Investment Company."

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 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, 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 20.9% 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 16.5% 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.

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—Share Acquisition Above Certain Thresholds and 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 Russian accounting standards 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—Approval of the Russian Anti-Monopoly Authorities." 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, the provisional suffix is canceled. Under Russian law, the FSFM must cancel the suffix upon the expiration of three months following the registration of the placement report for the issuance (or, if applicable, upon the expiration of three months following the filing of a notice of the results of the issuance), but in practice such cancellation may be delayed beyond the prescribed term. The FSFM permission for our GDR program expressly permits the deposit of shares

having specific registration numbers, namely, 1-02-01556-A, our general share registration number, and 1-02-01556-A-003D, the provisional number for the Ordinary Shares issued in connection with the Offering. 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.

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.

Maintenance of our “V” listing on MICEX and on RTS and, upon expiration of the six-month term of the “V” listing, either the “A” or “B” listing, will require us to meet relevant listing requirements, including, among others, to comply with securities laws and regulations of the FSFM, and with certain minimum corporate governance requirements as well as minimum trading volumes. A material failure to comply with these listing requirements may constitute grounds for de-listing a company such as ours, either by express de-listing, or denial of transition to the “A” or “B” listing upon expiration of the “V” listing term.

While we are not aware of any other Russian issuer that has been de-listed on such grounds or has had its GDR permit revoked, this gap in the Russian securities regulatory regime creates uncertainty as to whether a failure to comply with corporate governance requirements may 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 Shares and the GDRs.

THE OFFERING

The Company

PIK Group, an open joint stock company organized under the laws of the Russian Federation.

The Selling Shareholders

FMC Realtors Holding Inc. and IBG Development Group Inc., each incorporated under the laws of the British Virgin Islands, and 100% owned indirectly by Kirill V. Pisarev and Yury V. Zhukov, respectively.

The Offering

The Offering consists of (i) an offering by the Company of 37,000,000 newly issued Shares in the form of GDRs, with each GDR representing one newly issued Share, and (ii) an offering of 37,000,000 existing Shares by the Selling Shareholders (18,500,000 Shares each), including in the form of GDRs.

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 being offered in the Russian Federation, in the United States to QIBs in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S. The GDRs will be delivered by Deutsche Bank Trust Company Americas, as Depositary.

A significant portion of the Shares and GDRs is being offered in the Offering to certain institutions in the Russian Federation and elsewhere which will result in such investors holding a significant portion of the Shares and GDRs. See “Subscription and Sale”

Share Capital

Prior to the Offering, our share capital consisted of 456,260,384 Ordinary Shares, each with a nominal value of 62.5 rubles, which are fully paid and issued. In addition, we are authorized by our charter to issue up to 400,000,000 additional Ordinary Shares and, of this amount, the issuance of up to 58,000,000 Ordinary Shares has been approved by our shareholders and registered with the FSFM. Following the Offering, our share capital will consist of 493,260,384 issued and outstanding Ordinary Shares.

Our Ordinary Shares are subject to applicable provisions of Russian corporate law and our charter and have the rights described under “Description of Share Capital and Certain Requirements of Russian Legislation.”

The GDRs

One GDR will represent one Ordinary Share on deposit with Deutsche Bank Ltd., as Custodian for the Depositary. The GDRs will be issued pursuant to one of two separate deposit agreements, one relating to the Rule 144A GDRs (“Rule 144A Deposit Agreement”) and one relating to the Regulation S GDRs (“Regulation S Deposit Agreement”), among us, the Depositary and holders and beneficial owners from time to time of the relevant GDRs. The Rule 144A Deposit Agreement and the Regulation S Deposit

Agreement are herein referred to as the “Deposit Agreements.” 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. The Master Regulation S GDR Certificate and the Master Rule 144A GDR Certificate are herein collectively referred to as the Master GDRs. Pursuant to the Deposit Agreements, the Shares represented by the GDRs will be held in Russia by the 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,” “Settlement and Delivery—The Clearing Systems—Registration and Form” and “Settlement and Delivery—Global Clearance and Settlement Procedures—Secondary Market Trading.”

Offer Price

\$25.00 per Share and \$25.00 per GDR.

Closing Date

Expected to be on or about June 6, 2007.

Over-allotment Option

The Selling Shareholders have granted to the Underwriters an option exercisable within 30 days after the announcement of the offer price, to purchase up to an additional 7,515,000 Ordinary Shares in the form of GDRs at the offer price, solely to cover over-allotments, if any, in the Offering.

Registration of Placement Report

Trading on the London Stock Exchange in the GDRs representing Ordinary Shares will be subject to cancellation until the placement report for the newly issued Ordinary Shares being offered by us is registered by the FSFM. We have undertaken that if the placement report is not registered within 60 days after the Closing Date (or such later date as the Company and the Selling Shareholders agree with the Joint Global Coordinators), we will deliver to the Depositary the proceeds of the GDRs sold by us and the Joint Global Coordinators have agreed to deliver the underwriting commissions related to the GDRs sold by us. The Depositary will then distribute the funds thus received by it to the then holders of the GDRs, and cancel a corresponding

number of GDRs, *pro rata* or on such other basis as it deems practicable, subject to the terms of the Deposit Agreements. The amount per GDR ultimately returned to such holders of GDRs will be less than the offer price per GDR, and may be subject to withholding taxes and delays. See “Registration of Placement Report.”

Until the registration of the placement report, all GDRs will be issued on a provisional basis and GDR holders will not be entitled to instruct the Depositary to exercise any voting rights as a shareholder, and neither the Depositary nor the Custodian will exercise any voting rights as a shareholder. GDR holders may not withdraw the Shares or other property on deposit with the Depositary in respect of the GDRs sold in the Offering prior to the registration of the placement report. Such limitation on withdrawal and voting of the underlying Shares apply with equal force to all Shares deposited with the Depositary against the provisional issuance of GDRs prior to the registration of the placement report, whether deposited by us or by the Selling Shareholders with the Depositary at closing against the issuance of GDRs in connection with the Offering or otherwise. The foregoing will not, however, prohibit trading in the GDRs.

See “Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—GDR holders will not be able to withdraw the Shares underlying the GDRs or instruct the Depositary to vote the Shares evidenced by their GDRs prior to the registration of a placement report for the newly issued Ordinary Shares, and the failure to register this placement report could result in the newly issued Ordinary Shares underlying the GDRs being cancelled, reliance by GDR holders on us and on the Underwriters to return the offering proceeds and a small public float based solely on the Shares sold by the Selling Shareholders.”

Lock-up

We and the Selling Shareholders have agreed, subject to certain exceptions, not to issue, offer, sell, lend, mortgage, assign, contract to sell, pledge, charge, grant options over or otherwise dispose of, directly or indirectly, any Ordinary shares in us or securities convertible or exchangeable into or exercisable for any Ordinary shares in us or warrants or other rights to purchase such shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or GDRs representing the right to receive any such securities or publicly announce any intention to do any of the foregoing, from the date hereof until 180 days from the Closing Date, without the prior written consent of the Joint Global Coordinators. However, such consent shall not be required for the sale of the Shares to the Joint Global Coordinators pursuant to the Underwriting Agreement. See “Subscription and Sale.”

Transfer Restrictions

The Shares and GDRs will be subject to certain restrictions on transfer as described under “Description of the Global Depositary Receipts,” “Subscription and Sale” and “Settlement and Delivery.”

Listing and Market for the Shares and GDRs

Our existing Ordinary Shares have been admitted to list “V” on each of MICEX and RTS, but are not actively traded, in each case under the symbol “PIKK.”

Application has been made to (1) the FSA for a listing of 172,641,134 GDRs, consisting of up to 50,100,000 GDRs to be issued on or about the Closing Date, and up to 122,541,134 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 (2) the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange’s regulated market for listed securities. Conditional trading in the GDRs on the London Stock Exchange is expected to commence on a when and if issued basis on or about June 1, 2007. Admission to the Official List and to trading on the London Stock Exchange’s regulated market for listed securities are expected to take place on or about June 6, 2007.

The GDRs will trade on the London Stock Exchange under the symbol “PIK.” Application has also been made to have the Rule 144A GDRs designated eligible for PORTAL. Trading in the GDRs on PORTAL is expected to commence on or about June 1, 2007.

In connection with the Over-allotment Option and otherwise, 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 deposit the Depositary shall deliver GDRs representing such Shares (to the extent permitted by law) up to a maximum aggregate number of 172,641,134 GDRs, assuming the Joint Global Coordinators exercise the Over-allotment Option in full. See also “Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—Following the Offering you may not be able to deposit 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 Ordinary Shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the Ordinary Shares and GDRs offered in the Offering.”

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 Joint Global Coordinators and the Depositary will apply to DTC to have the Rule 144A GDRs accepted into DTC’s book-entry settlement system. 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 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 Clearing 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, Open Joint Stock Company “R.O.S.T. Registrar,” or a deposit account with Closed Joint Stock Company “Depositary Clearing Company” (“DCC”) or Not-for-Profit Partnership “The National Depositary Center” (“NDC”) or any other depositary 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 share depositary account with a Russian-licensed depositary 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.”

Voting

If you hold Shares, you are generally entitled to one vote per share at a shareholders’ meeting, subject to certain exceptions described in “Description of Share Capital and Certain Requirements of Russian Legislation—General Meetings of Shareholders.” Under the Deposit Agreements, one GDR carries the right to vote one Ordinary Share, subject to the provisions of the Deposit Agreements and applicable Russian law.

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: 69338N206 ISIN: US69338N2062 Common Code: 029673527
Rule 144A GDRs:	CUSIP: 69338N107 ISIN: US69338N1072 Common Code: 029673454
ISIN for Shares: London Stock Exchange GDR trading symbol:	RU000A0JP7J7 PIK
MICEX trading symbol:	PIKK
RTS trading symbol:	PIKK
PORTAL symbol for GDRs:	P69338N107

The newly issued Ordinary Shares will be eligible for trading on MICEX under a temporary, separate ticker symbol "PIKK-003D" until the state registration number for the newly issued Ordinary Shares is consolidated with the state registration number of the previously issued Ordinary Shares, following which all the Ordinary Shares will be tradeable on MICEX under the general symbol "PIKK."

REGISTRATION OF PLACEMENT REPORT

Under Russian law, placement of the newly issued Ordinary Shares we are offering pursuant to this prospectus is subject to the registration of a placement report with the FSFM. Russian law requires that we file the placement report within 30 days following the completion of the placement. We intend to file the placement report as soon as practicable following the completion of the placement. The FSFM is statutorily required to make its decision within two weeks after we file the placement report, but it may take longer or the registration of the placement report may not occur at all. Although it is not uncommon for the FSFM to refuse to register the placement report on technical grounds, no such refusals have been reported in relation to major international initial public offerings of Russian companies.

In the event that the placement report is not registered by the FSFM within 60 days after the Closing Date (or such later date as the Company and the Selling Shareholders agree with the Joint Global Coordinators), we will issue a press release and notify the Depositary and the London Stock Exchange, and trading in the GDRs will be cancelled. Under Russian law, in the case of non-registration of the placement report we are required to return the full amount of proceeds that were initially deposited into our account on the Closing Date for the newly issued Ordinary Shares or GDRs representing them. In addition, the Joint Global Coordinators have agreed to return the underwriting commissions related to the GDRs sold by us. Such amounts will be paid to the Depositary for remittance to the holders of the GDRs, and the GDRs will represent the right to receive a proportional interest in the funds so received. The Depositary will then promptly cancel such number of GDRs as corresponds to the number of newly issued Ordinary Shares being cancelled on a *pro rata* basis or on such other basis as it deems practicable in its sole discretion, and distribute through DTC, Euroclear and Clearstream, as applicable, the funds it has received, *pro rata* or on such other basis as it deems practicable at its sole discretion to the then holders of GDRs, subject to the terms of the Deposit Agreements. The amount per GDR ultimately delivered to holders of GDRs may be less than the offer price per GDR. The delivery of funds may be subject to applicable withholding taxes and may be delayed or diminished due to Russian currency control, banking and securities regulations or practices (including those potentially requiring the conversion of funds from or into rubles) and may be prevented if there is a change in such regulations or practices. GDR holders will be taking credit risk on us and the Underwriters for the delivery of funds in the event that the placement report is not registered. Thereafter, the market for our Ordinary Shares and any GDRs that remain outstanding is likely to be highly illiquid. We have agreed with the Managers that we will not use the proceeds of the Offering until the placement report is registered.

Until the registration of the placement report, all GDRs will be issued on a provisional basis and GDR holders will not be entitled to instruct the Depositary to exercise any voting rights as a shareholder, and neither the Depositary nor the Custodian will exercise any voting rights as a shareholder. GDR holders may not withdraw the Shares or other property on deposit with the Depositary in respect of the GDRs sold in the Offering prior to the registration of the placement report. Such limitations on withdrawal and voting of the underlying Shares apply with equal force to all Shares deposited with the Depositary against the provisional issuance of GDRs prior to the registration of the placement report, whether deposited by us or by the Selling Shareholders with the Depositary at closing against the issuance of GDRs in connection with the Offering or otherwise. Such limitation on withdrawal and voting of the underlying Shares will not prohibit trading in the GDRs.

See “Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—GDR holders will not be able to withdraw the Shares underlying the GDRs or instruct the Depositary to vote the Ordinary Shares evidenced by their GDRs prior to the registration of a placement report for the newly issued Ordinary Shares, and the failure to register this placement report could result in the newly issued Ordinary Shares underlying the GDRs being cancelled, reliance by GDR holders on us and on the Underwriters to return the offering proceeds and a small public float based solely on the Shares sold by the Selling Shareholders.”

USE OF PROCEEDS

The net proceeds that the Company will receive from the Offering, after deducting underwriting commissions, fees and expenses incurred in connection with the Offering, will be approximately \$895,000,000. We will not receive any of the proceeds from the sale of Shares being offered by the Selling Shareholders.

We expect to use these proceeds to fund acquisitions of new land plots, potential strategic acquisitions of developers across the Russian Federation, as well as potentially to repay some of our more expensive debt. Depending on future events and other changes in the business climate, we may determine at a later time to use the net proceeds for different purposes.

We have agreed with the Managers that we will not use the proceeds in the manner described above until the placement report in respect of the newly issued Ordinary Shares we are offering is registered with the FSFM. See “Registration of Placement Report.”

DIVIDEND POLICY

We currently intend to pay dividends of approximately 10%-15% of our IFRS net profit commencing in 2008 based on the financial results of 2007. Until such time, we expect to reinvest substantially all of our cash flows from operating activities into our business. At such time that we determine to pay dividends, the declaration and payment by us of any dividends and the amount thereof will depend on the results of our operations, our financial position, cash requirements, acquisition or investment opportunities, profits available for distribution and other factors deemed to be relevant at the time.

As a Russian holding company, our ability to pay dividends depends upon receipt of dividends and distributions from our subsidiaries and our ability to make dividend payments under Russian law. See “Description of Share Capital and Applicable Russian Legislation.” The payment of dividends by our subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable reserves and their ability to make dividend payments to us in accordance with relevant legislation, Russian company law and foreign exchange controls.

According to Russian legislation, dividends are to be paid out of net profits determined based on Russian accounting standards. Our current dividend policy, adopted by our Board of Directors on May 29, 2006, provides that the size of the dividend and the relevant part of net profit, from which the dividends are paid, are determined in accordance with the recommendations of our Board of Directors. Such recommendations are prepared on the basis of the amount of net profits determined according to Russian accounting standards, adjusted in accordance with the expected results to be determined under IFRS, and our investment needs.

We currently expect that we will pay dividends in rubles. To the extent that we declare and pay dividends, owners of our Ordinary Shares and GDRs on the relevant respective record dates will be entitled to receive dividends payable in respect of our Ordinary Shares or, as the case may be, our Ordinary Shares underlying the GDRs, subject to the terms of the Deposit Agreements. The Depositary as our shareholder will receive rubles and convert the rubles into US dollars for distribution to GDR holders. Accordingly, the value of dividends received by GDR holders will be subject to fluctuations in the exchange rate between the ruble and the US dollar. Under the Deposit Agreements, the Depositary may also deduct a fee of up to \$0.02 per GDR and other fees and expenses with respect to distributions of dividends to GDR holders. See “Description of the Global Depositary Receipts—Fees and Charges.” in addition, our dividend payments to the Depositary will be subject to applicable Russian withholding taxes. See “Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—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 to the Depositary” and “Taxation—Russian Federation Tax Considerations—Taxation of Dividends.”

CAPITALIZATION

The following table sets forth our cash and cash equivalents, current loans and borrowings and total capitalization as of December 31, 2006, on a historical basis and as adjusted to give effect to (i) the issuance of 37,000,000 Shares in the Offering and (ii) crediting of the net proceeds of the Offering 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 December 31, 2006			
	Historical		As Adjusted	
	RUB	\$	RUB	\$
	<i>(in thousands)</i>			
Cash and cash equivalents	1,134,068	43,071	24,699,409	938,071
Current loans and borrowings	13,983,348	531,080	13,983,348	531,080
Non-current loans and borrowings	10,040,180	381,321	10,040,180	381,321
Equity:				
Share capital	28,530,114	1,083,559	30,842,614	1,171,387
Reserve resulting from additional share issue	(28,506,274)	(1,082,654)	7,253,430	275,482
Retained earnings	9,481,598	360,106	9,481,598	360,106
Total equity attributable to shareholders of the Company	9,505,438	361,011	33,070,782	1,256,011
Minority interest	425,480	16,160	425,480	16,160
Total equity	9,930,918	377,171	33,496,262	1,272,171
Total capitalization⁽¹⁾	19,971,098	758,492	43,536,442	1,653,492

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

For the period from January 1, 2007 to May 14, 2007, we experienced an increase in unaudited consolidated loans and borrowings, excluding finance lease liability, of RUB 4.8 billion. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments.”

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information set forth below shows the Company's historical consolidated financial information and other operating information as of and for the years ended December 31, 2004, 2005 and 2006.

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 financial statements included elsewhere in this prospectus. US dollar amounts were not derived from audited financial statements and were calculated as described under "Currencies and Exchange Rates."

The information presented below under the caption "Selected Operating Data" is not derived from the audited financial statements. EBITDA and EBITDA margin are non-IFRS measures and were calculated by us based on data derived from our audited 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,			
	2004	2005	2006	2006
	<i>(in RUB thousands)</i>			<i>(in \$ thousands)</i>
Consolidated Income Statement Data				
Revenues	12,694,939	22,138,665	42,045,707	1,546,366
Cost of sales	<u>(11,514,441)</u>	<u>(19,518,550)</u>	<u>(32,265,506)</u>	<u>(1,186,668)</u>
Gross profit	1,180,498	2,620,115	9,780,201	359,698
Income from disposals of development rights	—	—	2,851,215	104,863
Distribution expenses	(272,135)	(322,119)	(467,535)	(17,195)
Administrative expenses	(420,302)	(530,578)	(1,511,484)	(55,590)
Other income	358,337	—	1,552,573	57,101
Financial income	413,388	148,396	570,812	20,993
Financial expenses	(555,079)	(735,978)	(1,361,349)	(50,068)
Loss from associates	<u>(7,725)</u>	<u>(8,300)</u>	<u>(9,688)</u>	<u>(356)</u>
Profit before income tax	696,982	1,171,536	11,404,745	419,446
Income tax expense	<u>(193,072)</u>	<u>(607,069)</u>	<u>(3,304,951)</u>	<u>(121,550)</u>
Net profit for the year	<u>503,910</u>	<u>564,467</u>	<u>8,099,794</u>	<u>297,896</u>
Attributable to:				
Shareholders of the Company	509,002	556,340	8,105,086	298,091
Minority interest	<u>(5,092)</u>	<u>8,127</u>	<u>(5,292)</u>	<u>(195)</u>
	<u>503,910</u>	<u>564,467</u>	<u>8,099,794</u>	<u>297,896</u>

	As of December 31,			
	2004	2005	2006	2006
	<i>(in RUB thousands)</i>			<i>(in \$ thousands)</i>
Consolidated Balance Sheet Data				
Cash and cash equivalents	565,597	700,580	1,134,068	43,071
Total assets	20,188,890	44,267,562	65,653,951	2,493,504
Loans and borrowings, non-current	3,299,821	9,199,822	10,040,180	381,321
Loans and borrowings, current	3,993,526	9,065,976	13,983,348	531,081
Total equity	979,124	1,877,126	9,930,918	377,171

	Years ended December 31,			
	2004	2005	2006	2006
	<i>(in RUB thousands)</i>			<i>(in \$ thousands)</i>
Consolidated Statement of Cash Flows Data				
Cash flows from/(utilized by) operating activities	244,016	(4,744,749)	3,220,399	118,441
Cash flows utilized by investing activities	(1,129,171)	(4,281,497)	(7,856,680)	(288,955)
Cash flows from financing activities	930,361	9,010,399	5,084,052	186,982

	Years ended December 31,			
	2004	2005	2006	2006
	<i>(in RUB thousands, except percentages)</i>			<i>(in \$ thousands except percentages)</i>
Non-IFRS Measures				
EBITDA ⁽¹⁾	1,410,946	1,987,242	13,217,489	486,116
EBITDA margin ⁽²⁾	11%	9%	31%	31%

(1) EBITDA represents net profit for the year attributable to shareholders of the Company before income tax expense, interest income, interest expense and depreciation and amortization. EBITDA is not a measure of financial performance under IFRS. You should not consider it an alternative to net profit for the year as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of EBITDA may be different from the calculation used by other companies and therefore comparability may be limited. We believe that EBITDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of subsidiaries and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under IFRS, these expenses primarily represent non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods.

Reconciliation of EBITDA to net profit for the year attributable to shareholders of the Company is as follows for the periods indicated:

	Years ended December 31,		
	2004	2005	2006
	<i>(in RUB thousands)</i>		
Net profit for the year attributable to shareholders of the Company	509,002	556,340	8,105,086
Depreciation and amortization	299,423	411,227	676,367
Interest expense	555,079	553,661	1,361,349
Interest income	(145,630)	(141,055)	(230,264)
Income tax expense	193,072	607,069	3,304,951
EBITDA	1,410,946	1,987,242	13,217,489

(2) Margins are calculated as a percentage of revenues.

	Years ended December 31,		
	2004	2005	2006
Selected Operating Data			
Total square meters completed (thousands) ⁽¹⁾ , including:	497	827	1,244
Residential housing	495	816	1,190
Other	2	11	54
Total number of residential units completed ⁽¹⁾	6,608	12,238	17,314

(1) Includes housing constructed for the Moscow city government by our Construction Services segment.

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

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements, including the notes thereto, and other information included elsewhere in this prospectus. This section contains forward-looking statements that involve risk and uncertainties. Our actual results may differ materially from those discussed in forward-looking statements as a result of various factors, including those described under "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements."

Overview

We are one of the leading residential developers in Russia, with a concentration in Moscow and the Moscow region and an increasing presence in many of Russia's other regions. Our principal activity is the development, construction and sale of residential properties targeted at the middle income housing market in Russia. For a description of properties that we are currently developing, see "Business—Projects—Ongoing Development Projects."

Our revenues are derived principally from the following activities: (1) sales of real estate property; (2) construction services; and (3) sales of construction materials and other activities.

For the year ended December 31, 2006, we had revenues and net profit of RUB 42.0 billion and RUB 8.1 billion, respectively. The Sales of Real Estate Property segment represents the most significant aspect of our business, accounting for 72.1% of our revenues for the year ended December 31, 2006 based on revenues reported in the IFRS financial statements' segment note, before inter-segment eliminations. The following table sets forth our revenues and net profit for the year by segment.

	Years ended December 31,					
	2004	% of revenues	2005	% of revenues	2006	% of revenues
	<i>(in RUB thousands, except percentages)</i>					
Revenues						
Sales of Real Estate Property	7,431,398	58.5%	13,430,494	60.7%	30,304,837	72.1%
Construction Services	5,746,760	45.3%	12,569,758	56.8%	15,586,468	37.1%
Sales of Construction Materials and Other Activities	2,029,647	16.0%	2,373,492	10.7%	3,013,973	7.2%
Eliminations	(2,512,866)	(19.8)%	(6,235,079)	(28.2)%	(6,859,571)	(16.4)%
Total	12,694,939	100.0%	22,138,665	100.0%	42,045,707	100.0%

	Years ended December 31,					
	2004	% of net profit for the year	2005	% of net profit for the year	2006	% of net profit for the year
	<i>(in RUB thousands, except percentages)</i>					
Net Profit for the Year						
Sales of Real Estate Property	300,725	59.7%	749,776	132.8%	8,322,379	102.7%
Construction Services	289,323	57.4%	36,831	6.5%	342,831	4.2%
Sales of Construction Materials and Other Activities	(39,444)	(7.8)%	62,805	11.1%	223,256	2.8%
Eliminations	(46,694)	(9.3)%	(284,945)	(50.4)%	(788,672)	(9.7)%
Total	503,910	100.0%	564,467	100.0%	8,099,794	100.0%

Operating Segments

Sales of Real Estate Property

Activities of this segment primarily relate to the implementation of developments planned and undertaken by us, including identification of investment opportunities, performance of feasibility studies, obtaining the necessary construction permits, carrying out construction of projects and performing project management activities, and marketing our real estate projects to potential buyers. Revenues of this segment primarily consist of revenues generated from the sale of apartments in the buildings we develop. A substantial proportion of the construction services contracted by this segment are procured from our Construction Services segment at prices that we believe are generally lower than those we would receive from unrelated third parties.

Construction Services

Activities of this segment primarily relate to contracting activities, construction of concrete panels, assembly of prefabricated panel buildings and production of other construction materials. This segment provides such services to our Sales of Real Estate Property segment as well as to third parties, including the Moscow city government. Most of our inter-segment sales within the group and eliminations noted in our financial statements are attributable to services provided by this segment. Generally, prices charged by our Construction Services segment to our other segments are lower than prices we charge to unrelated third parties.

Sales of Construction Materials and Other Activities

Activities of this segment primarily related to (i) the production of raw materials, (ii) servicing and maintenance of residential properties and (iii) production of doors, windows and facades. This segment supplies raw materials and construction materials to our Construction Services segment and the Sales of Real Estate Property segment as well as to third parties. Generally, prices charged by our Sales of Construction Materials and Other Activities segment to our other segments are lower than prices we charge to unrelated third parties.

Our segments are constituted on the basis of the grouping of our significant operating subsidiaries as follows:

Segment	Entity	Business	Effective ownership and voting rights as of March 31, 2007
Sales of Real Estate Property	PIK LLC	Development activities in Moscow	100%
	PIK Region	Development activities in the Moscow region and other regions of Russia	100%
Construction Services	DSK-2	Concrete panel manufacturing plant and assembly of residential buildings	98%
	DSK-3	Concrete panel manufacturing plant and assembly of residential buildings	84%
	100 KGI	Concrete panel manufacturing plant	92%
	PIK Development	General contracting and development of poured concrete buildings in Moscow and the Moscow region	100%
	PIK Invest	Construction management for projects in Moscow and the Moscow region	100%
	MFS-PIK	General contracting for panel housing constructed by us in Moscow and the Moscow region	100%

<u>Segment</u>	<u>Entity</u>	<u>Business</u>	<u>Effective ownership and voting rights as of March 31, 2007</u>
Sales of Construction Materials and Other Activities	Trading House Osnova	Raw materials supply	100%
	PIK Nerud	Raw materials production	100%
	PIK Comfort	Servicing and maintenance of residential and non-residential properties	100%
	PIK Profile	Production of windows and doors	100%
	PIK Design	Advertising	100%
	PIK Technology	Production of facades	100%

Recent Developments

For the period from January 1, 2007 to May 14, 2007, we experienced an increase in unaudited consolidated loans and borrowings, excluding finance lease liability, of RUB 4.8 billion.

In the first quarter of 2007, we had fewer buildings completed and accepted by relevant local regulatory authorities (the “State Commission”), relative to the corresponding period in the prior year. As explained under “—Certain Factors Affecting Our Results of Operations—Revenue Recognition,” our consolidated revenue is significantly impacted by the size and often long development cycle of projects. Consequently, with respect to the first quarter of 2007, we experienced lower revenues. For the period from January 1, 2007 to May 14, 2007, we experienced a decrease in unaudited consolidated revenues from sales of apartments of RUB 518.4 million when compared to the corresponding period in the prior year. In addition, for the period from January 1, 2007 to May 14, 2007, we experienced a decrease in unaudited consolidated cash and cash equivalents of RUB 582.9 million, primarily as a result of expenditures to obtain land plots. As discussed under “Business—Real Estate Development Activities—Description of our Key Projects,” we have a number of projects in development in relation to which we expect to be able to recognize revenue from buildings completed and accepted by the State Commission during the remainder of 2007.

Material Transactions Since December 31, 2006

We have engaged in the following material transactions since December 31, 2006:

In November 2006, we entered into a three tranche revolving credit facility with Sberbank, with a credit limit of RUB 2.7 billion and a term of one year. As of April 30, 2007, this facility was fully drawn. Borrowings under this facility bear interest at rates of between 8-9% depending on the amount of group funds deposited in Sberbank accounts during the preceding month. Under the terms of this facility agreement, the purpose of this facility is payment for development projects, equipment, taxes, wages and the purchase of promissory notes of our subsidiaries.

In 2006, we concluded a partnership agreement with a co-investor relating to the development of a land plot located in an industrial area of Moscow. In February 2007, we acquired this same co-investor’s rights to develop this land plot for \$140.0 million, and as of May 31, 2007 we had paid \$105.0 million of this amount. This land plot comprises 15.3 hectares and we currently plan to construct a residential micro district with a total area of 188,100 square meters at this location.

In March 2007, we signed a commitment to purchase 100% of several entities which jointly own house-building facilities (DSK), a sand-pit and development rights for plots of land in Kaluga region. The purchase price for these entities is expected to be greater than RUB 1.0 million. The main activity of these entities is the production of concrete panels and assembly of the above-ground sections of residential buildings.

In March 2007, we entered into a loan facility for working capital purposes with Nomos Bank in the amount of \$30.0 million with a term of one year. This facility bears interest at the rate of 10% per annum. Under the terms of this loan, this facility is for working capital purposes.

In March 2007, we issued a guarantee in favor of Housing Finance Bank, a related party, for the performance of its obligations under a non-convertible interest-bearing bond. The guarantee is equal to the total face value of the bond of RUB 1.4 billion plus underlying interest. The bonds have not yet been issued.

In March 2007, we entered into a term facility agreement with Deutsche Bank AG, London Branch, one of the Underwriters of the Offering, for an unsecured loan facility guaranteed by several of our subsidiaries in the amount of RUB 3.0 billion for a term of one year. This facility bears interest at a rate of 8.5% per annum for the first six months and 9.5% per annum for the second six months.

In April 2007, we sold for RUB 2.7 billion a 100% interest in the entity that owns the development rights for a land plot in the Northwest part of the Moscow region. However, prior to initial acquisition of this entity in 2006, we entered in 2005 into a co-investment agreement with the acquiree under which we agreed to bear all construction costs while the entity contributed its development rights. When construction is completed, we will own 76% of the total net selling area and 24% of the net selling area will be owned by the entity that is the holder of the development rights. The terms of this co-investment agreement remained unchanged after we disposed of our shareholding.

See “—Liquidity and Capital Resources—Capital Resources” and “Description of Certain Indebtedness” for more information about certain of these guarantees and loan facilities.

Certain Factors Affecting Our Results of Operations

Our results are affected by a variety of factors, and in particular, the following:

Acquisitions

Between January 2004 and December 2006, we completed five strategic acquisitions and purchased companies and assets for a total cash consideration of RUB 4.5 billion, excluding share consideration. Our results of operations reflect the impact of this acquisition strategy as well as the timing of each acquired company’s consolidation in our financial statements. As a result, sales, expenses and profit for corresponding periods in different years are not directly comparable in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

We have provided below a brief description of our five strategic acquisitions and purchased companies and assets during the periods under review for a total cash consideration of RUB 4.5 billion:

160 DSK. In June 2004, we acquired a 100% interest in 160 DSK and its subsidiaries for consideration of RUB 162.6 million. The primary activity of 160 DSK is the manufacture and assembly of individual wood-framed houses at small sites in Moscow and the Moscow region.

DSK-3. In June 2005, we acquired an 81% interest in DSK-3 for cash consideration of RUB 2.9 billion. The main activities of DSK-3 consist of the production of concrete panels and assembly of residential buildings.

DrevProfil. In August 2005, we acquired a further 56% interest in Limited Liability Company “DrevProfil” for cash consideration of RUB 11.4 million, thereby increasing our ownership interest from 37% to 93%. The main activity of DrevProfile is the production of construction materials.

100 KGI. In December 2005, our shareholders acquired a 68.9% interest (constituting 89.8% of the ordinary shares and 6.3% of the preferred shares) in 100 KGI for RUB 145.1 million in cash. Later in December 2005 our shareholders transferred such interest to us, along with shares in certain other companies held by our shareholders, in exchange for 456,100,384 additional shares of the Company. The main activity of 100 KGI is the production of concrete panels.

Stroyinvestregion. In March 2006, we acquired a 100% interest in Stroyinvestregion and its subsidiaries from a third party. Together with Stroyinvestregion we acquired from the same seller 100% interests in four smaller companies, the activities of which are closely related to Stroyinvestregion’s activities. We purchased all these companies for a total of RUB 1.3 billion.

The main activity of Stroyinvestregion is investing in development projects of residential buildings in several cities in Russia, including Nizhny Novgorod, Rostov-on-Don, Perm, Yaroslavl, Kaliningrad and Omsk. In November 2006, we merged Stroyinvestregion into PIK Region in order to consolidate all the group's development activities outside Moscow and the Moscow region into a single entity, PIK Region.

Revenue Recognition

Revenue recognition policies have a significant impact on our results of operations. Below we have summarized key elements of our revenue recognition policies for each of the segments.

Sales of Real Estate Property

Revenue from sale of real estate is accounted for as a sale of goods and recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, which is considered to be the date when the respective building is approved by the state commission organised by the local regulating authorities for acceptance of finished buildings (the "State Commission"). When contracts for sale of real estate are concluded after the State Commission has accepted the construction of the respective building, revenue is recognized immediately.

Sales are recognized at prices valid at the date of concluding the sales contract, which may be significantly different from the prices as at the date when the sale is recognized.

In part because of long development cycles, we have experienced significant variations in revenues from our development activities during the periods under review. For the years ended December 31, 2004, 2005 and 2006, revenues from our Sales of Real Estate Property segment (before inter-segment elimination) were RUB 7.4 billion, RUB 13.4 billion, and RUB 30.3 billion, respectively.

We expect that due to the long development cycles of our projects, the revenues of our Sales of Real Estate Property segment will continue to vary significantly from period to period.

Construction Services

We recognize revenue from construction services rendered on a monthly basis in accordance with the actual volume of work completed.

There are certain construction projects in which we act as a co-investor and a third party acts as the developer. In such cases, certain of our subsidiaries may provide construction services to the developer. We recognize revenues from construction services relating to such projects separately from the sales proceeds we may receive in connection with our role as an investor.

Sales of Construction Materials and Other Activities

We recognize revenue from the sale of raw materials and other construction materials when the significant risks and rewards of ownership have been transferred to the buyer, which is determined based on specific contract terms such as payment and delivery. Revenue received from the servicing and maintenance of residential properties is recognized on a monthly basis in accordance with the actual volume of work completed.

Costs of Land and Construction and Other Development Costs

During the periods under review, we have experienced increases in development and construction costs, including costs of materials, labor, pre-design documentation and land and property acquisition costs. Prices of construction materials have been outpacing the rate of inflation in Russia, especially with respect to cement and metal. Labor and other costs have been increasing due to labor shortages and the high costs of living in Russia, particularly in Moscow.

See "Risk Factors—Risks Relating to our Business—Shortages of components and materials may delay our projects or reduce our sales and increase our costs, and our financial results are in part dependent on volatile prices for these components and materials" and "—Increased energy costs or an interruption in electricity or other utilities provided to us could materially adversely affect our business and results of operations."

Seasonality

Our revenues are generally higher during the third and fourth quarters of the year because the majority of buildings are completed and subject to acceptance by the State Commission at that time.

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. Our non-ferrous raw materials production usually decreases during the winter months of December and January. Sand, for example, is more difficult to extract in cold temperatures. In addition, MFS-PIK and PIK Development experience some reduction in productivity in the winter months with respect to their activities relating to constructing foundations and frameworks for poured concrete buildings, as the technological processes for these activities are susceptible to low temperatures. The activities of DSK-2 and DSK-3, including assembly of pre-fabricated panel buildings in Moscow and the Moscow region, are generally not subject to seasonal effects.

Macroeconomic Factors

All our current properties and projects are located in Russia. As a result, macroeconomic trends and country-specific risks relating to Russia 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 generally positive trends in the period under review, reduced rates of inflation and a relatively stable ruble that has been appreciating against the US dollar. During this period, the Russian government has generally followed conservative fiscal and monetary policies, resulting in federal budget surpluses, reductions in its foreign debt, large foreign currency reserves and a large stabilization fund. These positive trends have been accompanied by significant growth in the demand for residential space. Sales prices for real estate have also increased.

Certain of our sales, purchases and borrowings are denominated in a currency other than the measurement currency of our respective group entities, which is the ruble. Future decreases in the value of the ruble relative to the US dollar would result in exchange losses. See “Qualitative Disclosures about Market Risks—Foreign Currency Risk.”

Results of Operations

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
	<i>(in RUB thousands, except percentages)</i>			
Revenues	22,138,665	100.0%	42,045,707	100%
Cost of sales	(19,518,550)	(88.2)%	(32,265,506)	(76.7)%
Gross profit	2,620,115	11.8%	9,780,201	23.3%
Income from disposals of development rights	—	—	2,851,215	6.8%
Distribution expenses	(322,119)	(1.5)%	(467,535)	(1.1)%
Administrative expenses	(530,578)	(2.4)%	(1,511,484)	(3.6)%
Other income	—	0.0%	1,552,573	3.6%
Financial income	148,396	0.7%	570,812	1.4%
Financial expenses	(735,978)	(3.3)%	(1,361,349)	(3.2)%
Loss from associates	(8,300)	(0.04)%	(9,688)	(0.02)%
Profit before income tax	1,171,536	5.3%	11,404,745	27.1%
Income tax expense	(607,069)	(2.7)%	(3,304,951)	(7.9)%
Net profit for the year	<u>564,467</u>	<u>2.5%</u>	<u>8,099,794</u>	<u>19.3%</u>

Revenues

Revenues increased by RUB 19.9 billion, or 90.0%, from RUB 22.1 billion for the year ended December 31, 2005 to RUB 42.0 billion for the year ended December 31, 2006. The following table sets forth our revenues by segment, including as a percentage of total revenues.

	Years ended December 31,			
	2005	% of revenues	2006	% of revenues
	<i>(in RUB thousands, except percentages)</i>			
Revenues				
Sales of Real Estate Property	13,430,494	60.7%	30,304,837	72.1%
Construction Services	12,569,758	56.8%	15,586,468	37.1%
Sales of Construction Materials and Other Activities	2,373,492	10.7%	3,013,973	7.2%
Eliminations	(6,235,079)	(28.2)%	(6,859,571)	(16.4)%
Total	<u>22,138,665</u>	<u>100.0%</u>	<u>42,045,707</u>	<u>100.0%</u>

The increase in revenues was due primarily to increases in revenues of our Sales of Real Estate Property segment and Constructions Services segment.

Revenues of the Sales of Real Estate Property segment (before inter-segment eliminations) increased by RUB 16.9 billion, or 126.1%, from RUB 13.4 billion for the year ended December 31, 2005 to RUB 30.3 billion 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 living space and a significant increase in the number of buildings we completed that were accepted by the State Commission, allowing us to recognize revenues for prior sales of our residences. We also had a significant increase in construction volumes in 2006 and an increase in sales of residences, primarily as a result of our acquisition of Stroyinvestregion and the increase in development activity in Moscow and the Moscow region which contributed to the increased number of completed buildings accepted by the State Commission.

Revenues of the Construction Services segment (before inter-segment eliminations) increased by RUB 3.0 billion, or 23.8%, from RUB 12.6 billion for the year ended December 31, 2005 to RUB 15.6 billion for the year ended December 31, 2006. This increase resulted primarily from

an increase in construction orders and from the activities of DSK-2 and MFS-PIK, for which 2006 was the first full year of operation as part of our group.

Revenues of the Sales of Construction Materials and Other Activities segment (before inter-segment elimination) increased by RUB 640.5 million, or 27.0%, from RUB 2.4 billion for the year ended December 31, 2005 to RUB 3.0 billion for the year ended December 31, 2006. This increase resulted primarily from an increase in production and sales of construction materials by PIK Nerud and production and sales of concrete goods as a result of the activities of our panel manufacturing facilities, namely DSK-2, DSK-3 and 100 KGI.

Cost of sales

Cost of sales increased by RUB 12.8 billion, or 65.6%, from RUB 19.5 billion for the year ended December 31, 2005 to RUB 32.3 billion for the year ended December 31, 2006.

The overall increase in cost of sales was due primarily to increases in costs in our Sales of Real Estate Property segment and our Construction Services segment.

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; (ii) increases in labor costs relating to the addition of personnel; (iii) increases in depreciation relating to the fixed assets acquired with new subsidiaries and, as a result, the growth of the value of our fixed assets; and (iv) increases in overhead expenses in connection with the establishment of our integrated development, construction and production structure.

Cost of sales of the Sales of Real Estate Property segment relate primarily to the acquisition of land plots and development rights and the construction of developments. The increase was primarily the result of a significant increase in the number of buildings we completed and were accepted by the State Commission, which is the point at which we recognize our costs with respect to these projects. In addition, we had a significant increase in construction volumes in 2006, primarily as a result of our acquisition of Stroyinvestregion and the increase in development activity in Moscow and the Moscow region.

Cost of sales of the Construction Services segment relate primarily to services provided to entities in our Sales of Real Estate Property segment and to third parties such as the Moscow city government and other contractors located primarily in the Moscow region. Cost of sales of this segment increased primarily as a result of the increase in the volume of housing constructed and from increases in the prices of raw materials and the volume of raw materials consumed by this segment.

Cost of sales of the Sales of Construction Materials and Other Activities segment related primarily to production of raw materials and construction materials provided to our group and to third parties. Cost of sales of this segment increased primarily as a result of an increase in production and sales of concrete goods and other raw materials and from increased extraction and transportation costs.

Gross profit

Gross profit increased by RUB 7.2 billion, or 276.9%, from RUB 2.6 billion for the year ended December 31, 2005 to RUB 9.8 billion for the year ended December 31, 2006. Gross profit margin calculated as a percentage of revenues increased from 11.8% for the year ended December 31, 2005 to 23.3% for the year ended December 31, 2006.

Overall gross profit increased for the year ended December 31, 2006 primarily due to an increase in gross profit in our Sales of Real Estate Property segment.

Gross profit for the Sales of Real Estate Property segment increased primarily as a result of substantial growth in 2005 and 2006 of the sales price per square meter of living space and a significant increase in the number of buildings we completed and were accepted by the State Commission, allowing us to recognize revenues for residences prepaid long before the date of revenue recognition.

Gross profit for the Construction Services segment increased primarily as a result of a significant increase in the volume of housing constructed for the Moscow city government and other contractors and a moderate increase in the prices charged for construction services.

Gross profit for the Sales of Construction Materials and Other Activities segment decreased primarily as a result of a decrease in operating efficiency of some of our production facilities and changes in production activity of PIK Nerud.

Income from disposal of development rights

For the year ended December 31, 2006, we recognized income from disposals of development rights of RUB 2.9 billion. This income resulted from the transactions described below. In June 2005 we acquired development rights through a purchase of 70% interest in a legal entity, a production plant, located on two land plots in central Moscow. The legal entity leased the land plots for production purposes on a long-term basis. The acquisition was accounted for as a purchase of an intangible asset (the right to lease the land plots). At December 31, 2005, the development rights had a carrying value of RUB 707.6 million.

In March 2006, because of continual disagreement with minority shareholders of the production plant relating to the development of the land plots, we sold our interest in the production plant and the corresponding development rights to a third party for RUB 2.3 billion for a gain of RUB 1.6 billion.

However, during the last half of 2006, the same third party to whom we had sold our interest in the production plant acquired an additional 28% of the shares in the plant. This third party therefore became a 98% shareholder and offered to sell its entire interest in the plant to us for RUB 5.3 billion, and we purchased this interest in December 2006. This transaction was accounted for as an acquisition of assets rather than a business combination in our consolidated financial statements.

In December 2006, we then sold a 50% interest in this plant to a third party for RUB 3.9 billion for a gain of RUB 1.3 billion.

Distribution expenses

Distribution expenses consist of transportation costs, marketing costs, advertising costs and promotion expenses. Distribution expenses increased by RUB 145.4 million, or 45%, from RUB 322.1 million for the year ended December 31, 2005 to RUB 467.5 million for the year ended December 31, 2006. This increase resulted primarily from an increase in marketing and advertising expenses of RUB 71.8 million, which was in part related to increased advertising activities in Moscow and the Moscow region and advertising costs in several Russian regions as a result of our acquisition of Stroyinvestregion, and an increase in transportation expenses of RUB 70 million associated with a changes in the contract terms with customers of PIK Nerud, pursuant to which we started to bear transportation costs.

Administrative expenses

Administrative expenses consist of compensation paid to employees, lease payments, fees paid to auditors and consultants, and charitable and social expenses. Administrative expenses increased by RUB 980.9 million, or 185%, from RUB 530.6 million for the year ended December 31, 2005 to RUB 1.5 billion for the year ended December 31, 2006. This increase resulted from an increase in labor expenses of RUB 527.0 million, business representative expenses of RUB 255.0 million, service expenses (including auditing and legal expenses) of RUB 84.9 million, office repair expenses of PIK Development of RUB 33.4 million, charity and social expenses of RUB 2.6 million and other general and administrative expenses, including rent for our office space, of RUB 78.0 million. Labor expenses increased primarily due to an increase in staff in the Company and PIK Region, including senior management, as new departments such as our IFRS reporting department were created, as well as to an increase in salaries generally in line with inflation.

Other income

Other income includes income from share issuances and negative goodwill resulting from the acquisition of new subsidiaries. For the year ended December 31, 2006, other income amounted to RUB 1.6 billion as a result of negative goodwill, arising primarily from our acquisition of Stroyinvestregion.

Financial income

Financial 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 recognized as it accrues, using the effective interest method. Dividend income is recognized on the date that the right to receive payments is established.

Financial income increased by RUB 422.4 million, or 285%, from RUB 148.4 million for the year ended December 31, 2005 to RUB 570.8 million for the year ended December 31, 2006. This increase consisted primarily of a foreign exchange gain recognized in 2006 of RUB 341.0 million related to the translation from US dollars into rubles of part of our US dollar-denominated loans and borrowings at the respective periods, as well as an increase in interest income from loans extended to both related and third parties.

Financial expenses

Financial expenses comprise interest expense on borrowings and foreign currency losses. All borrowing costs are recognized in the income statement using the effective interest method, except for borrowing costs related to qualifying assets which are recognized as part of the cost of such assets.

Financial expenses increased by RUB 625.4 million, or 85%, from RUB 736.0 million for the year ended December 31, 2005 to RUB 1.4 billion for the year ended December 31, 2006. This increase consisted primarily of interest expenses related to a significant increase in borrowings to finance the purchase of land plots and development rights.

Loss from associates

Loss from associates includes losses from the group's associates, calculated according to the cost method. Loss from associates increased by RUB 1.4 million, or 17%, from RUB 8.3 million for the year ended December 31, 2005 to RUB 9.7 million for the year ended December 31, 2006 and related to a loss generated by Khromtsovsky quarry, a non-ferrous materials producer.

Income tax expense

Income tax expense includes expenses relating to profits tax, which consist of our current profits tax and deferred tax liabilities.

In accordance with IFRS, revenues from the sale of residences are recognized on the date the State Commission issues an acceptance certificate. At the same time, profits tax accrues with respect to the profit gained from the buildings accepted by the State Commission, which constitutes a deferred tax liability.

We pay profits tax to the Russian government in accordance with Russian Accounting Standards. Under these standards, profit gained from projects is recognized upon the execution of a certificate confirming that an investment agreement has been fulfilled. The period between such date and the date that the State Commission issues an acceptance certificate can be as long as two years.

Income tax expense increased by RUB 2.7 billion, or 444%, from RUB 607.1 million for the year ended December 31, 2005 to RUB 3.3 billion for the year ended December 31, 2006. This increase includes RUB 500.0 million in respect of tax provisions recognized within income tax during 2006. See “—Provision and Contingencies”. The increase also resulted from an increase in profit before income tax.

Net profit for the year

As a result of the above, net profit for the year was RUB 8.1 billion for the year ended December 31, 2006, as compared to RUB 564.5 million for the year ended December 31, 2005.

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
	<i>(in RUB thousands, except percentages)</i>			
Revenues	12,694,939	100.0%	22,138,665	100.0%
Cost of sales	(11,514,441)	(90.7)%	(19,518,550)	(88.2)%
Gross profit	1,180,498	9.3%	2,620,115	11.8%
Distribution expenses	(272,135)	(2.1)%	(322,119)	(1.5)%
Administrative expenses	(420,302)	(3.3)%	(530,578)	(2.4)%
Other income	358,337	2.8%	—	0.0%
Financial income	413,388	3.3%	148,396	0.7%
Financial expenses	(555,079)	(4.4)%	(735,978)	(3.3)%
Loss from associates	(7,725)	(0.06)%	(8,300)	(0.04)%
Profit before income tax	696,982	5.5%	1,171,536	5.3%
Income tax expense	(193,072)	(1.5)%	(607,069)	(2.7)%
Net profit for the year	503,910	4.0%	564,467	2.5%

Revenues

Revenues increased by RUB 9.4 billion, or 74%, from RUB 12.7 billion for the year ended December 31, 2004 to RUB 22.1 billion for the year ended December 31, 2005. 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
	<i>(in RUB thousands, except percentages)</i>			
Revenues				
Sales of Real Estate Property	7,431,398	58.5%	13,430,494	60.7%
Construction Services	5,746,760	45.3%	12,569,758	56.8%
Sales of Construction Materials and Other Activities	2,029,647	16.0%	2,373,492	10.7%
Eliminations	(2,512,866)	(19.8)%	(6,235,079)	(28.2)%
Total	12,694,939	100.0%	22,138,665	100.0%

The increase in revenues was primarily comprised of increases in revenue in our Sales of Real Estate Property segment and our Construction Services segment.

Revenues of the Sales of Real Estate Property segment (before inter-segment elimination) for the year ended December 31, 2004 increased by RUB 6.0 billion, or 81.1%, from RUB 7.4 billion for the year ended December 31, 2004 to RUB 13.4 billion for the year ended December 31, 2005. The increase was due primarily to a significant increase in construction volumes in 2005 and a corresponding increase in sales of residences. Our construction volumes increased partially as a result of our acquisition of DSK-3, which produces concrete panels used in construction of our prefabricated panel buildings. Growth in revenues from the sale of real estate property and, consequently, total revenues, also increased due to substantial growth in 2004 and 2005 of the price per square meter of living space.

Revenues of the Construction Services segment (before inter-segment elimination) increased by RUB 6.8 billion, or 118.7%, from RUB 5.8 billion for the year ended December 31, 2004 to RUB 12.6 billion for the year ended December 31, 2005. This increase resulted primarily from an increase in construction orders and from the activities of DSK-2 and MFS-PIK, which became part of our group in 2005.

Revenues of the Sales of Construction Materials and Other Activities segment (before inter-segment elimination) increased by RUB 343.8 million, or 16.8%, from RUB 2.0 billion for

the year ended December 31, 2004 to RUB 2.4 billion for the year ended December 31, 2005. This increase resulted primarily from an increase in production and sales of concrete goods as a result of the acquisition of DSK-3 and 100 KGI. In addition, we experienced an increase in production and sales of windows to DSK-3 and to third parties.

Cost of sales

Cost of sales increased by RUB 8.0 billion, or 69.5%, from RUB 11.5 billion for the year ended December 31, 2004 to RUB 19.5 billion for the year ended December 31, 2005.

While cost of sales increased in all our segments, the overall increase was primarily due to increases in costs in our Sales of Real Estate Property segment and our Construction Services segment.

Cost of sales of the Sales of Real Estate Property segment increased primarily as a result of a significant increase in construction volumes in 2005 as a result of the acquisition of DSK-3 and start-up costs relating to the formation of our own general contractor, MFS-PIK.

Cost of sales of the Construction Services segment increased primarily as a result of the increase in the volume of housing constructed and expenses associated with the operations of DSK-3 and MFS-PIK.

Cost of sales of the Sales of Construction Materials and Other Activities segment increased primarily as a result of costs associated with increased production and increases in the cost of raw materials such as cement and metal.

Gross profit

Gross profit increased by RUB 1.4 billion, or 116.6%, from RUB 1.2 billion for the year ended December 31, 2004 to RUB 2.6 billion for the year ended December 31, 2005. Gross profit margin calculated as a percentage of revenues increased from 9.3% for the year ended December 31, 2004 to 11.8% for the year ended December 31, 2005.

Gross profit increased for the year ended December 31, 2005 primarily due to an increase in real estate property sales.

Gross profit for the Sales of Real Estate Property and for the Construction Services segments increased primarily as a result of an increase in construction volumes.

Gross profit for the Sales of Construction Materials and Other Activities segment increased as a result of a significant growth in prices of raw materials and other building materials when compared with the rate of growth of production costs.

Distribution expenses

Distribution expense increased by RUB 50.0 million, or 18.4%, from RUB 272.1 million for the year ended December 31, 2004 to RUB 322.1 million for the year ended December 31, 2005. This increase resulted primarily from increases in transportation costs associated with the acquisition of DSK-3 and from increases in transportation costs in our raw materials division as a result of increased production.

Administrative expenses

Administrative expenses increased by RUB 110.3 million, or 26%, from RUB 420.3 million for the year ended December 31, 2004 to RUB 530.6 million for the year ended December 31, 2005. This increase resulted primarily from increased payroll expenses as a result of new hires and salary increases in line with inflation in the amount of RUB 69.3 million and property rental payments of PIK Comfort in the amount of RUB 41.0 million.

Other income

For the year ended December 31, 2004, other income amounted to RUB 358.3 million as a result of an issuance of shares by DSK-2, which resulted in income to the group of RUB 411.7 million, partially offset by a RUB 53.4 million loss associated with the establishment of a subsidiary, CJSC Ochakovsky ZhBK.

Financial income

Financial income decreased by RUB 265.0 million, or 64.1%, from RUB 413.4 million for the year ended December 31, 2004 to RUB 148.4 million for the year ended December 31, 2005. This decrease resulted primarily from a currency exchange gain arising from the translation of US dollar denominated debt into rubles in 2004 from loans we extended to both related and third parties.

Financial expenses

Financial expenses increased by RUB 181.0 million, or 32.6%, from RUB 555.1 million for the year ended December 31, 2004 to RUB 736.0 million for the year ended December 31, 2005. This increase resulted primarily from a currency exchange loss in 2005 arising upon translation of our US dollar-denominated borrowings.

Loss from associates

Loss from associates increased by RUB 575,000, or 7.4%, from RUB 7.7 million for the year ended December 31, 2004 to RUB 8.3 million for the year ended December 31, 2005 and related to a loss from investment in the Khromtsovsky quarry.

Income tax expense

Income tax expense increased by RUB 414.0 million, or 214%, from RUB 193.1 million for the year ended December 31, 2004 to RUB 607.1 million for the year ended December 31, 2005. This increase resulted primarily from an increase in taxable profit.

Net profit for the year

As a result of the above, net profit for the year was RUB 564.5 million for the year ended December 31, 2005, as compared to RUB 503.9 million for the year ended December 31, 2004.

Liquidity and Capital Resources

Capital Requirements

We require capital to finance the following:

- capital expenditures, consisting of cash outlays for capital investments in real estate developments projects and the acquisition of real estate properties, land rights (ownership or leasehold) and production facilities or any other purchases of property, plant and equipment and intangible assets;
- repayment of debt;
- changes in working capital; and
- general corporate activities.

Real estate investment and development is a capital-intensive business, and we expect to have significant ongoing liquidity and capital requirements in order to finance our growth strategy, including investing in new properties and development projects in our target market segments, while making additional investments into our existing properties and real estate development projects.

Cash outflows for acquisition of property, plant and equipment and intangible assets, for each of the years ended December 31, 2004, 2005 and 2006 amounted to the following:

	Years ended December 31,		
	2004	2005	2006
		<i>(in RUB thousands)</i>	
Acquisition of property, plant and equipment	(646,884)	(889,690)	(2,838,336)
Acquisition of intangible assets	(2,032)	(707,914)	(5,973,512)
Total	(648,916)	(1,597,604)	(8,811,848)

Our capital expenditure (comprising cash flows utilized by the acquisition of property, plant and equipment and intangible assets) was RUB 8.8 billion for the year ended December 31, 2006. We expect our capital expenditures for the year 2007 will amount to almost RUB 21.1 billion, including acquisitions. These investments will be focused on acquiring land and purchasing fixed assets. We expect that acquisitions of land plots, development companies or projects and production facilities will be a key part of our growth strategy. Our cash requirements relating to potential acquisitions may vary significantly based on market opportunities.

Dividends

We currently intend to pay dividends of approximately 10%-15% of our IFRS net profit commencing in 2008 based on our 2007 financial results. Until such time, we expect to reinvest substantially all of our operating cash flows into our business. See “Dividend Policy.”

Repayment of debt

We may repay a portion of our current debt portfolio using the proceeds of the Offering. See “Use of Proceeds.”

Capital Resources

For the year ended December 31, 2005, our primary sources of funding were cash flows from financing activities RUB 9.0 billion. For the year ended December 31, 2006, our primary sources of funding were cash flows from operating activities RUB 3.2 billion and cash flows from financing activities RUB 5.1 billion.

In March 2007, we entered into a loan facility with Nomos Bank in the amount of \$30.0 million with a term of one year. This facility bears interest at the rate of 10% per annum. Under the terms of this loan, this facility is for working capital purposes.

In March 2007, we entered into a term facility agreement with Deutsche Bank AG, London Branch, one of the Underwriters of the Offering, for an unsecured loan facility guaranteed by several of our subsidiaries in the amount of RUB 3.0 billion for a term of one year. This facility bears interest at a rate of 8.5% per annum for the first six months and 9.5% per annum for the second six months.

See “Description of Certain Indebtedness” for a further discussion of certain of our borrowings.

Over the next several years, we expect to finance most of our capital expenditure needs through operating cash flows, co-investment arrangements, advance payments from customers and additional debt and equity financing, as well as by utilizing the proceeds of the Offering. We expect that our capital expenditures in connection with the development of real estate properties will be the majority of our cash outflows for the foreseeable future.

The availability of debt and equity financing is influenced by many factors, including our profitability, operating cash flows, debt levels, credit ratings, contractual restrictions and market conditions. We have also pledged shares of certain of our subsidiaries and real properties in connection with our borrowings. We cannot guarantee that we will be able to continue to obtain debt financing in the future.

Consistent with our growth strategy, we may acquire other real estate companies or developers. Our cash requirements relating to potential acquisitions may vary significantly based on market opportunities. We may also finance these acquisitions through swapping interests in our existing projects and properties.

As of December 31, 2006, our loans and borrowings were comprised of the following:

	<u>Currency</u>	<u>Annual interest rate (actual at December 31, 2006)</u>	<u>Aggregate Principal Amount Outstanding at December 31, 2006</u> <i>(in RUB thousands)</i>
Bank loans from third parties and related parties			
Sberbank	RUB	8-16	15,335,798
Sberbank	USD	13	50,789
Absolutbank	RUB	10	765,300
Lanta-Bank	RUB	10	90,000
MDM Bank	USD	11.5	526,624
Promsvyazbank	USD	11	921,588
ROSBANK	USD	11	1,316,555
Finansbank	USD	8	131,656
Lokobank	RUB	11	100,000
Natsionalny Standart	USD	12	263,311
Bank Vozrozhdenie	RUB	14	28,762
Bank Vozrozhdenie	USD	13	1,695
Bank Zenit	RUB	12	1,000,000
Raiffeisen	USD	15	275
Bank ZhilFinans (related)	RUR	11-13	176,336
Bonds PIK-05	RUB	10.2	1,120,000
Loans and borrowings from third parties and related parties			
Related parties	USD	3	104,432
Related parties	RUB	0-11	207,586
Third parties	USD	2	3,318
Third parties	RUB	0-14	1,543,915
Non-current and current loans and borrowings less finance lease liabilities and interest payable			
			23,687,940
Finance lease liabilities			220,168
Interest payable			115,420
Total loans and borrowings, non-current and current			
			24,023,528
Bank loans			11,706,280
Bonds			560,000
Related parties			141,112
Third parties			1,342,343
Current loans and borrowings less finance lease liabilities and interest payable			
			13,749,735
Finance lease liabilities			118,193
Interest payable			115,420
Current loans and borrowings			
			13,983,348
Bank loans			9,002,409
Bonds			560,000
Related parties			170,906
Third parties			204,890
Non-current loans and borrowings less finance lease liabilities and interest payable			
			9,938,205
Finance lease liabilities			101,975
Non-current loans and borrowings			
			10,040,180

Loans repayment schedule

		<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Bank loans	RUR	8,493,787	5,488,861	2,342,366	1,171,182	17,496,196
Bank loans	USD	3,212,493				3,212,493
Bonds	RUR	560,000	560,000			1,120,000
Related parties	RUR	141,112	66,474			207,586
Related parties	USD			104,432		104,432
Loans from third parties	RUR	1,342,343	200,451		1,121	1,543,915
Loans from third parties	USD			3,318		3,318

		<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Non-current and current loans and borrowings less finance lease liabilities and interest payable		13,749,735	6,315,786	2,450,116	1,172,303	23,687,940
RUR		10,537,242	6,315,786	2,342,366	1,172,303	20,367,697
USD		3,212,493	0	107,750	0	3,320,243
RUR, %		77%	100%	96%	100%	
USD, %		23%	0%	4%	0%	

As of December 31, 2006, our loans were secured by pledge of property, plant and equipment with a carrying value of RUB 1.8 billion; inventory with a carrying value of RUB 9.2 billion; and pledges of an 81% interest in DSK-3, a 58% interest in DSK-2, a 92% interest in 100 KGI and a 100% interest in ZAO Viktor and OOO SPTK.

Cash Flows

A summary of our cash flows is presented in the table below for the periods indicated:

	<u>Years ended December 31,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
	<i>(in RUB thousands)</i>		
Operating Activities			
Net profit for the year	503,910	564,467	8,099,794
Adjustments for:			
Depreciation and amortization	299,423	411,227	676,367
Dilution of minority interest in a subsidiary	(411,703)	—	—
Foreign exchange (gain)/loss, net	(262,952)	182,317	(340,548)
Loss on disposal of property, plant and equipment	43,347	19,789	215,418
Income from disposals of development rights	—	—	(2,851,215)
Income from disposal of other investments	(4,806)	(7,341)	—
Negative goodwill on acquisition of subsidiaries and minority interests	—	—	1,552,573
Loss from associates	7,725	8,300	9,688
Minority interest on establishment of new subsidiaries	65,380	—	—
Interest expense	555,079	553,661	1,361,349
Interest income	(145,630)	(141,055)	(230,264)
Income tax expense	193,072	607,069	3,304,951
Inventory obsolescence allowance	—	36,266	(35,010)
Doubtful debt allowances	16,469	46,427	(73,580)
Operating profit before changes in working capital and provisions	859,314	2,281,127	8,584,377
Increase in inventories	(8,688,932)	(12,882,958)	(2,152,526)
(Increase)/decrease in trade and other receivables	6,908,836	(2,498,680)	(183,616)
(Decrease)/increase in trade and other payables	1,772,077	9,960,785	(704,391)
Increase in provisions	88,410	193,878	35,251

	Years ended December 31,		
	2004	2005	2006
	<i>(in RUB thousands)</i>		
Cash flows from/(utilized by) operations before income taxes and interest paid	939,705	(2,945,848)	5,579,095
Income taxes paid	(53,206)	(155,791)	(558,858)
Interest paid	(642,483)	(1,643,110)	(1,799,838)
Cash flows from/(utilized by) operating activities	244,016	(4,744,749)	3,220,399
Investing Activities			
Proceeds from disposal of property, plant and equipment	19,692	36,299	51,478
Proceeds from disposal of intangible assets	—	—	5,129,822
Proceeds from disposal of investments	1,498,479	1,828,484	2,022,130
Interest received	115,500	113,860	82,859
Acquisition of property, plant and equipment	(646,884)	(889,690)	(2,838,336)
Acquisition of other investments	(1,963,823)	(1,328,188)	(2,925,508)
Acquisition of investment in associates	—	(746,889)	—
Acquisition of intangible assets	(2,032)	(707,914)	(5,973,512)
Acquisition of minority interest	—	—	(11,345)
Acquisition of assets held for sale	—	—	(2,300,534)
Acquisition of subsidiaries, net of cash acquired	(150,103)	(2,587,459)	(1,093,734)
Cash flows utilized by investing activities	(1,129,171)	(4,281,497)	(7,856,680)
Financing Activities			
Proceeds from borrowings	6,933,748	26,402,659	23,393,884
Repayment of borrowings	(6,003,387)	(17,392,260)	(18,309,832)
Cash flows from financing activities	930,361	9,010,399	5,084,052
Net increase/(decrease) in cash and cash equivalents	45,206	(15,847)	447,771
Cash and cash equivalents at beginning of year	338,332	383,538	367,691
Cash and cash equivalents at end of year	383,538	367,691	815,462

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

Cash flows from operating activities amounted to RUB 3.2 billion for the year ended December 31, 2006 compared to cash flows utilized by operating activities of RUB 4.7 billion for the year ended December 31, 2005. This was primarily the result of an increase in cash inflow from sales of residences.

Foreign exchange gain for the year ended December 31, 2006 amounted to RUB 340.5 million compared to a foreign exchange loss for the year ended December 31, 2005 of RUB 182.3 million. This gain primarily resulted from a significant decrease in the value of the US dollar against the ruble during 2006. As part of our borrowings were denominated in US dollars, these borrowings were revalued in rubles at the respective periods.

Income from disposals of development rights amounted RUB 2.9 billion for the year ended December 31, 2006. This resulted primarily from a gain from disposals of development rights relating to the land plots occupied by KSRZ, in which we owned shares.

Interest expense for the year ended December 31, 2006 amounted to RUB 1.4 billion compared to interest expense for the year ended December 31, 2005 of RUB 553.6 million. This change was primarily the result of a significant increase in borrowings used for the acquisition of land plots and development rights.

Income tax expense for the year ended December 31, 2006 amounted to RUB 3.3 billion compared to income tax expense for the year ended December 31, 2005 of RUB 607.1 million. This increase resulted primarily from an increase in deferred tax expense due to the timing differences between the moment of recognition of revenue for sales under IFRS and revenue recognition under the Russian Tax Code.

Increase in inventories for the year ended December 31, 2006 amounted to RUB (2.2) billion compared to an increase in inventories for the year ended December 31, 2005 of RUB (12.9) billion. Inventories increased primarily as a result of a significant increase in the number of our projects.

Increase in trade and other receivables for the year ended December 31, 2006 amounted to RUB (183.6) million compared to increase in trade and other receivables for the year ended December 31, 2006 of RUB (2.5) billion. Trade and other receivables increased as a result of increased prepayments for the purchase of raw materials due to growth of production volumes.

Decrease in trade and other payables for the year ended December 31, 2006 amounted to RUB (704.4) million compared to an increase in trade and other payables for the year ended December 31, 2005 of RUB 10.0 billion. This decrease in trade and other payables resulted primarily from a decrease in accruals for costs to complete constructions recognized in revenues in 2005 and a decrease of the balance of deferred VAT due to a change in the tax law.

Cash flows utilized by investing activities increased by RUB 3.6 billion, or 84%, from RUB 4.3 billion for the year ended December 31, 2005 to RUB 7.9 billion for the year ended December 31, 2006. The increase was primarily due to increase in cash outflows for the acquisition of property, plant and equipment in the amount of RUB 1.9 million and intangible assets in the amount of RUB 5.3 million.

Proceeds from disposal of intangible assets for the year ended December 31, 2006 amounted to RUB 5.1 billion. This amount primarily consisted of revenue from the disposal of development rights registered with KSRZ.

Acquisition of property, plant and equipment for the year ended December 31, 2006 amounted to RUB (2.8) billion compared to RUB (889.7) million for the year ended December 31, 2005. This increase resulted primarily from the purchase of a corporate aircraft and prepayments for a new office building to be occupied by us once it is completed.

Acquisition of other investments for the year ended December 31, 2006 amounted to RUB (2.9) billion compared to RUB (1.3) billion for the year ended December 31, 2005. This increase resulted primarily from the grant of a loan to Limited Liability Company "Kvinturin."

Acquisition of intangible assets for the year ended December 31, 2006 amounted to RUB (5.9) billion compared to RUB (707.9) million for the year ended December 31, 2005. This increase resulted primarily from the purchase of KSRZ and development rights registered with Open Joint Stock Company "160 DSK Stroykonstruktsiya-2."

Acquisition of assets held for sale for the year ended December 31, 2006 amounted to RUB (2.3) billion. This amount primarily consisted of expenditure for the acquisition of investment rights for a project in the Moscow region intended for sale.

Cash flows from financing activities decreased by RUB 3.9 billion from RUB 9.0 billion for the year ended December 31, 2005 to RUB 5.1 billion for the year ended December 31, 2006. The increase was primarily due to a decrease in loans received.

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

Cash flows from operating activities for the year ended December 31, 2004 was RUB 244.0 million compared to cash flows utilized by operating activities for the year ended December 31, 2005 of RUB 4.7 billion. The cash flows utilized by operating activities in 2005 includes cash outflows resulting from prepayments of RUB 5.2 billion for entering into co-investment agreements to develop 11 land plots. In 2004, prepayments of RUB 921.0 million were made to enter into co-investment agreements to acquire seven land plots.

Changes in connection with operations relate to the expansion of construction operations and the growth of expenses for projects that will be implemented in subsequent periods.

Increase in inventories for the year ended December 31, 2004 amounted to RUB (8.7) billion compared to increase in inventories for the year ended December 31, 2005 of RUB (12.9) billion. This change was primarily the result of higher prepayments in connection with construction that is reflected, in accordance with IFRS, in the "Inventory" line item and constitute expenses relating to work in progress.

Decrease in trade and other receivables for the year ended December 31, 2004 amounted to RUB 6.9 billion compared to an increase in trade and other receivables for the year ended December 31, 2005 of RUB (2.5) billion. This change was primarily the result of our allowing in 2004 deferred payments for apartments, while in 2005 we discontinued this practice and only accepted prepayments.

Increase in trade and other payables for the year ended December 31, 2004 amount to RUB 1.8 billion compared to an increase in trade and other payables for the year ended December 31, 2005 of RUB 10.0 billion. This change was primarily the result of a large increase in accounts payable in connection with the growth of prepayments received from purchasers.

Interest expense for the year ended December 31, 2004 amounted to RUB 555.1 million compared to interest expense for the year ended December 31, 2005 of RUB 553.7 million.

Proceeds from disposal of investments for the year ended December 31, 2004 amounted to RUB 1.5 billion compared to proceeds from disposal of investments for the year ended December 31, 2005 of RUB 1.8 billion. This change was primarily the result of an increase in sales of securities, including notes.

Cash flows utilized by investing activities amounted to RUB 1.1 billion for the year ended December 31, 2004 compared to RUB 4.3 billion for the year ended December 31, 2005. This increase was primarily due to the acquisition of DSK-3 and KSRZ in 2005. This increase also resulted from the growth of acquisitions of non-current assets.

Acquisition of other investments for the year ended December 31, 2004 amounted to RUB 2.0 billion compared to acquisition of other investments for the year ended December 31, 2005 of RUB 1.3 billion. This change was primarily the result of purchases of securities, including notes.

Acquisition of investment in associates for the year ended December 31, 2005 amounted to RUB 746.8 million primarily as a result of the acquisition of the interest in CJSC Park City Investments and Limited Liability Company “Kompania Reabilitatsii Promyshlennykh Territory.”

Acquisition of subsidiaries, net of cash acquired for the year ended December 31, 2004 amounted to RUB 150.1 million compared to acquisition of subsidiaries, net of cash acquired for the year ended December 31, 2005 of RUB 2.6 billion. This change was primarily the result of the acquisition of DSK-3 in 2005.

Cash flows from financing activities amounted to RUB 930.4 million for the year ended December 31, 2004 compared to RUB 9.0 billion for the year ended December 31, 2005. This increase was connected with the financing requirements for investment activities, resulting from an increase in borrowings.

Liquidity

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

As of December 31, 2004, 2005 and 2006 we had cash and cash equivalents in the balance sheet of RUB 383.5 million, RUB 367.7 million and RUB 815.5 million, respectively.

	As of December 31,		
	2004	2005	2006
	<i>(in RUB thousands)</i>		
Petty cash	14,523	16,551	21,978
Current accounts	<u>551,074</u>	<u>684,029</u>	<u>1,112,090</u>
Cash and cash equivalents in the balance sheets	565,597	700,580	1,134,068
Bank overdrafts	<u>(182,059)</u>	<u>(332,889)</u>	<u>(318,606)</u>
Cash and cash equivalents in the statements of cash flows	<u><u>383,538</u></u>	<u><u>367,691</u></u>	<u><u>815,462</u></u>

Contractual Obligations and Commercial Commitments

We have various contractual obligations and commercial commitments to make future payments, including debt agreements, lease obligations and certain committed obligations. For

example, we have entered into a number of co-investment construction contracts, for which payments have not been made in full. In addition, the group has contractual commitments with municipal authorities to complete the construction of residential buildings where the apartments had been sold to the customers by predecessor construction companies that had not completed construction due to insolvency or other reasons.

Commitments under co-investment agreements

We have entered into a number of co-investment contracts under which payments have not been made in full, and contracts to provide construction services. As of December 31, 2006 the amount of future payments under these contracts was RUB 53.1 billion. These payments also cover the costs to construct apartments and/or infrastructure for municipal authorities.

Commitments to acquire property, plant and equipment

As of December 31, 2006 we had contractual commitments to acquire property, plant and equipment in the amount of RUB 736.0 million.

Commitments to complete constructions

As of December 31, 2006 we had contractual commitments with municipal authorities to complete the construction of residential buildings where apartments had been sold to customers by predecessor construction companies that had not completed construction due to insolvency or other reasons. As of December 31, 2006 costs to complete such construction were estimated to be approximately RUB 600.0 million and will become a part of construction work-in-progress intended for sale.

Guarantees

In 2005, we guaranteed the obligations of Housing Finance Bank, which is a related party, in respect of its bond issuance of RUB 500.0 million. As of December 31, 2006, the bonds had been partially redeemed, with RUB 29.4 million outstanding.

On December 22, 2006, we issued a guarantee in favor of Morgan Stanley Bank International Limited, an affiliate of one of the Underwriters of the Offering, in connection with a credit agreement entered into between Housing Finance Bank, as borrower, and Morgan Stanley Bank International Limited, as lender. The amount of the guarantee is equal to the loan principal of \$50.0 million plus interest on the loan in the amount of 8% per annum for the period until April 30, 2007 inclusive, 9.5% per annum for the period from May 1, 2007 until August 31, 2007 inclusive, and 11% per annum for the period from September 1, 2007 until expiration of the term of the loan on December 22, 2007.

Provisions and Contingencies

As of December 31, 2004, 2005 and 2006 we had recognized provisions for restoration works of RUB 10.2 million, RUB 13.5 million and RUB 18.7 million, respectively. These provisions arose from our obligations to restore three quarries, one in Karelia and two in the Moscow region.

We have in the past engaged in certain transactions which might be challenged by Russian tax authorities as having the effect of lowering our tax obligations. Were the Russian tax authorities successfully to challenge these transactions, we could be obligated to pay additional taxes, interest and penalties. In connection with these transactions, as of December 31, 2006 we had recognized provisions for tax risks in the aggregate amount of RUB 875.8 million, consisting of RUB 572.0 million in respect of income tax and RUB 303.8 million in respect of other taxes, including interest and penalties. As of December 31, 2005, our aggregate tax provisions amounted to RUB 345.8 million, of which RUB 72.0 million was in respect of income tax and RUB 273.8 million in respect of other taxes, and as of December 31, 2004, our aggregate tax provisions amounted to RUB 83.1 million in respect of other taxes.

We have also entered into transactions with various suppliers in which we did not hold any direct or indirect equity interest. These entities are fully responsible for their own tax and accounting compliance. Though the management of these entities is primarily responsible for the correctness and timeliness of their tax payments, were the tax compliance of these entities to be

challenged by the tax authorities as not being in accordance with applicable tax legislation we may be subject to additional tax liabilities, including interest and penalties. While we believe that it is not practicable to estimate the financial effect of potential tax liabilities which ultimately could be imposed on us due to transactions with suppliers, were such liabilities to be imposed the amounts involved, including penalties and interest, could be material. We have not provided any amounts in respect of such obligations in our consolidated financial statements as we believe that it is possible, but not probable, that any outflow of economic benefits will be required to settle such obligations.

See also “Risk Factors—Risks Relating to our Business—We may be subject to liability for back taxes and related interest and penalties” and “Risk Factors—Legal Risks and Uncertainties—Characteristics of and changes in the Russian tax system could materially adversely affect our business, financial condition and results of operations and the value of the Shares and GDRs.”

Qualitative Disclosures about Market Risks

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. We did not hold or issue derivative or other financial instruments for trading purposes as of December 31, 2006.

Interest Rate Risk

While none of our borrowings currently carry a variable interest rate, we may in the future borrow funds at a variable interest rate. 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). We do not have a formal policy of determining how much of our 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 favorable to the group over the expected period until maturity.

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.

At December 31, 2006 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.

Significant Accounting Policies

Significant 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. Significant 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 significant accounting policies are those described below, which have been consistently applied in the preparation of the audited consolidated financial statements.

Goodwill relating to the acquisition of subsidiaries

As part of our transition to IFRS, we elected to restate only those business combinations that occurred on or after January 1, 2004. We did not prepare consolidated financial statements under Russian GAAP. In respect of acquisitions prior to January 1, 2004, 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 acquisition of that interest. For acquisitions on or after January 1, 2004, goodwill represents the excess of the cost of the acquisition over our interest in the net fair value of identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in the income statement.

Development rights

Expenditure on identifying land plots with the purpose of obtaining new development projects is recognized in the income statement as an expense as incurred. Expenditure on obtaining development rights, necessary to start the construction activities, are recognized in intangible assets if the projects are technically and commercially feasible and the group has sufficient resources to accomplish the development of the projects. The cost of development rights includes the cost of obtaining the right to lease the land plot and the cost of obtaining the registered permit to construct a specific property.

Capitalized development rights recognized on initial acquisition as intangible assets are stated at cost less accumulated impairment losses until the development starts. On commencement of construction such development rights are reclassified as construction-in-progress intended for sale and are included in inventories.

When we do not act as a developer, but participate in projects in the capacity of an investor or co-investor, the cost of development rights contributed to such projects is recognized within inventories.

Inventories

Inventories include construction work-in-progress when we act in the capacity of a developer and the real estate is intended for sale, prepayments made under investment and co-investment agreements for apartments intended for sale and for raw materials, other work in progress and finished goods. Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories, other than real estate property under construction and prepayments for apartments, is based on the weighted average cost formula and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Cost of manufactured inventories and work in progress includes an appropriate share of overheads based on normal operating capacity.

The costs of real estate properties under construction, which are not ordinarily interchangeable and which are segregated for specific projects, are assigned by using specific identification. The costs of real estate property comprise costs of construction and other expenditure directly attributable to a particular project, including operating lease and finance costs. Where real estate property is not being actively developed, net rental and finance costs are taken to the income statement.

Advances made under terms of co-investment contracts represent payments made by or assets transferred from the group in its capacity of investor or co-investor to finance the construction of real estate, which is developed by a third party.

Our normal operating cycle for a construction project may exceed 12 months. Inventories are classified as current assets even when they are not expected to be realized within 12 months after the balance sheet date.

Impairment

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 amortized 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 recognized in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in equity is transferred to income or expense.

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

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 recognized 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 recognized in the income statement. Impairment losses recognized 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 recognized 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 amortization, if no impairment loss had been recognized.

Provisions

Tax provisions

We provide for tax risks including interest and penalties when the tax becomes payable according to the effective laws and regulations. Such provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax authorities. Upon expiry of the review period the provisions are released. Tax provisions are recognized as part of income tax expense or in another relevant line of the income statement.

Construction obligations

In some cases we enter into investment or co-investment agreements to construct residential buildings where a certain number of apartments will be allocated to the local authorities for no consideration, and we may agree to construct certain infrastructure facilities. In other cases we enter into agreements with local authorities to complete the construction of certain residential buildings where most of the apartments were sold by a predecessor construction company but construction halted due to the insolvency of such predecessor builder or other similar reason.

When such agreements cannot be directly attributable to any of our projects and the agreements are assessed as onerous, a provision is recognized in our consolidated financial statements when entering into the agreement to complete the construction. The provision is estimated based on the present value of estimated unavoidable net costs to complete the construction.

Other provisions

Other provisions are recognized if, as a result of a past event, we have 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.

Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized 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 recognized 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 recognized 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 income, and differences relating to investments in subsidiaries to the extent that they probably 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 recognized to the extent that it is probable that future taxable income will be available against which temporary difference can be utilized. 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 realized.

New Accounting Pronouncements

A number of new accounting standards, amendments to existing standards and interpretations were not effective as of December 31, 2006 and, as a result, have not been applied in preparing our consolidated financial statements for the year ended December 31, 2006. Of these pronouncements, the following may have an impact on our operations. We plan to adopt these pronouncements when they become effective.

- *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 our 2007 financial statements, will require extensive additional disclosures with respect to our financial instruments and share capital. We have not yet analyzed the likely impact of the new standard on our financial position or performance.
- *IFRS 8 Operating Segments*, which is effective for annual periods beginning on or after January 1, 2009. This standard introduces the "management approach" to segment reporting. We have not yet analyzed the likely impact of the new standard on our financial position or performance.
- *IFRIC 12 Service Concession Arrangements*, which is effective for annual periods beginning on or after January 1, 2008. The interpretation addresses how service concession operators should account for the obligations they undertake and rights they receive in service concession arrangements. We have not yet analyzed the likely impact of the new standard on our financial position or performance.

INDUSTRY

Macroeconomic and Demographic Overview

In each of the last three years, real GDP in Russia has increased by 6% to 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.

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 a net decline in population, 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.

Russian Residential Real Estate Market Overview

Prior to the break up of the Soviet Union, much residential construction was financed predominantly by the government. In the early 1990s, government financing of residential construction decreased dramatically. This, combined with a reduction in private investment due to economic and political instability, resulted in a dramatic decrease in construction volumes, from a historical high of 75 million square meters registered in 1987 to 61.7 million square meters in 1990 and further to 30.3 million square meters in 2000, according to Rosstat. In 2000, however, residential construction began to recover, growing at an average rate of 8.7% per annum to reach 50.2 million square meters in 2006.

The following table summarizes Russian residential construction dynamics from 1990-2006:

	<u>1990</u>	<u>1995</u>	<u>1990-95</u> <u>CAGR</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2000-06</u> <u>CAGR</u>
Total residential construction in Russia, millions square meters.	61.7	41.0	-7.8%	30.3	31.7	33.8	36.4	41.0	43.5	50.2	8.7%
<i>Growth</i>		-34%		-26%	5%	7%	8%	13%	6%	15%	
No. of apartments	682.0	602.0	-2.5%	373.0	382.0	396.0	427.0	477.0	515.0	604.7	8.4%
<i>Growth</i>		-12%		-38%	2%	4%	8%	12%	8%	17%	
Average space, square meters	60.8	68.2	2.3%	81.1	83.1	85.3	85.4	86.0	84.5	83.0	3.1%
<i>Growth</i>		12%		19%	2%	3%	0%	1%	-2%	-2%	

Source: Rosstat

Residential construction activity in Moscow, the Moscow region and St. Petersburg was relatively unaffected by the decline in 1990-2000, when compared to other Russian regions, which experienced a marked slow-down in residential construction activity. As a result, these other regions' share of the total national residential construction volumes decreased from 89% in 1990 to 69% in 2004 and began to recover only in 2005.

The following table summarizes residential construction volumes by region for the periods indicated:

	<u>1990</u>	<u>1995</u>	<u>1990-95</u> <u>CAGR</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2000-06</u> <u>CAGR</u>
Total square meters of residential construction in Russia	61.7	41.0	-7.8%	30.3	31.7	33.8	36.4	41.0	43.5	50.2	8.7%
Moscow	2.3	2.5	2.5%	3.3	3.7	4.3	4.4	4.6	4.6	4.7	6.2%
Moscow region	2.4	2.4	-0.3%	2.6	2.8	3.4	4.1	5.7	5.3	6.4	16.1%
St Petersburg	1.1	1.0	-1.0%	1.1	1.1	1.2	1.8	2.0	2.3	2.4	14.0%
Leningrad region	0.8	0.4	-11.1%	0.4	0.4	0.4	0.4	0.5	0.5	0.7	9.4%
Other regions	55.2	34.7	-8.9%	22.9	23.7	24.5	25.7	28.2	30.7	35.9	7.8%
Share of other regions	89%	85%		75%	75%	72%	70%	69%	71%	72%	

Source: Rosstat.

Construction volumes have tended to historically grow towards the end of the year due to the seasonally severe climatic conditions in the first quarter of the year which impact on construction activity. The unusually high 51% year-on-year growth in construction volumes in the first quarter of 2007 was partly due to the suspension of construction activity in the first quarter of 2006 related to that year's unusually cold winter.

The following table summarizes quarterly residential construction for the period 2005-2007:

	<u>1Q2005</u>	<u>2Q2005</u>	<u>3Q2005</u>	<u>4Q2005</u>	<u>1Q2006</u>	<u>2Q2006</u>	<u>3Q2006</u>	<u>4Q2006</u>	<u>1Q2007</u>
Total value of construction works, billions roubles	273.2	389.2	508.7	540.6	315.6	497.2	664.8	769.2	447.8
Growth year on year					16%	28%	31%	42%	42%
Total residential construction, million sq. m.	6.6	7.7	8.9	20.4	6.3	9.4	10.3	24.2	9.5
Growth year on year					-5%	22%	16%	19%	51%

Source: Rosstat

As set forth in the table below, from December 2002 to December 2006, average prices per square meter on the primary residential real estate market in Russia nearly tripled; growing from \$407 per square meter to \$1,374 per square meter, which implies average annual growth of 36%. The city of Moscow and St Petersburg experienced the highest price inflation in 2002-06.

The following table summarizes average residential market prices for the primary market in \$ per square meter:

	<u>Dec. 2002</u>	<u>Dec. 2003</u>	<u>Dec. 2004</u>	<u>Dec. 2005</u>	<u>Dec. 2006</u>	<u>CAGR 02-06</u>
Russia	407	554	750	882	1,376	36%
Central Region	501	727	1,025	1,208	1,816	38%
Moscow	766	1,201	1,696	2,029	3,364	45%
Moscow Region	464	592	751	897	1,339	30%
North-West Region	402	590	763	849	1,423	37%
St. Petersburg	522	750	973	1,089	1,726	35%
St. Petersburg Region	264	399	574	634	870	35%
Ural Region	384	487	628	813	1,344	37%
Far-East Region	452	615	803	916	1,195	27%
Volga Region	339	415	531	620	1,100	34%
Sibir Region	358	456	597	737	986	29%
South Region	316	405	531	616	876	29%

Source: Rosstat

The following table summarizes average residential market prices for the secondary market in \$ per square meter:

\$/square meter	Year-end					CAGR 02-06
	2002	2003	2004	2005	2006	
Russia	364	474	646	770	1,391	40%
Central Region	467	636	851	996	2,099	46%
Moscow	843	1,177	1,518	1,822	3,848	46%
Moscow Region	399	539	695	881	1,565	41%
North-West Region	319	474	705	793	1,392	45%
St.Petersburg	396	583	974	1,077	1,547	41%
St.Petersburg Region	239	346	561	612	966	42%
Ural Region	388	448	575	787	1,210	33%
Far-East Region	316	432	585	707	1,076	36%
Volga Region	317	394	529	622	1,142	38%
Sibir Region	338	393	575	696	1,018	32%
South Region	274	374	504	585	839	32%

Source: Rosstat

The following factors have contributed to the growth in demand for residential real estate over the last 5 years, and we expect that they will continue to be key factors affecting growth in demand in the medium-term:

- **Growing purchasing power of population.** According to Rosstat, the amount of annual investment by the Russian population in residential real estate more than tripled over the past five years, reaching \$7.1 billion in 2005 compared to \$1.6 billion in 2000, partly as a result of decreasing unemployment and growing disposable incomes. The Economist Intelligence Unit estimates that disposable income in Russia will grow at an annual rate of 16% during each of the years from 2007 to 2011.
- **Development of a national mortgage system.** Since its emergence in 2003, the system of mortgage financing in Russia has been rapidly developing, with mortgage loans becoming more affordable and accessible to a broader segment of the population than before. Interest rates dropped from between 12% and 15% in 2003 to between 9% and 11% in 2007, while average term for loans increased from between 10 and 15 years in the period from 2000 to 2003 to between 20 and 30 years in 2007. Loan-to-value ratios have also increased to between 80% and 100%. Greater range and availability of mortgage products has led to an increased take-up of mortgage loans which grew from \$1.1 billion as of July 2004 to \$13.5 billion as of January 2007, according to CBR. In addition, in 2006, the federal government, through the Agency of Housing Mortgage Lending (“AHML”), refinanced \$1.6 billion worth of mortgages to support liquidity of the mortgage system, which, in turn, impacted the supply and terms of new mortgages. According to CBR, the total number of people who received mortgages increased from 78,000 at the end of 2005 to 206,000 (or less than 0.2% of total population) in 2006. The number of mortgages as a proportion of all residential transactions varies across different regions and is, for example, higher in the Urals (12%) and Siberia (13%) than the nationwide average of 9%.

	Share of mortgage in total no. of residential transactions	Number of mortgage contracts
Russia	9%	206,123
Central region	7%	38,722
North West	6%	15,151
South	5%	12,330
Volga	9%	54,240
Urals	12%	35,237
Siberia	13%	44,780
Far East	6%	5,663

Source: Rosregistratsia, AHML

- **Relatively low current penetration and quality of stock.** According to Rosstat, at the end of December 2006, the total area of residential housing stock in Russia was approximately 3 billion square meters, implying a per capita area of approximately 21 square meters. This is considerably lower than the average in developed European countries and in the United States, according to UNECE.

The following table summarizes housing space per capita in square meters in Russia versus its peers:

Denmark	46.4	Ireland	26.0
Norway	45.0	Croatia	25.7
Germany	41.3	Poland	25.2
Austria	39.7	Georgia	24.9
Finland	37.8	Moldova	24.9
France	37.3	Estonia	24.8
US	36.8	Russia	21.0
Hungary	33.1	Belarus	20.7
Greece	31.5	Turkey	19.0
Italy	30.3	Slovakia	18.5
Czech Republic	28.7	Romania	17.3
Slovenia	27.3	Albania	17.0

Source: UNECE, Rosstat, International comparable data for 1998-2004, Russia for 2006

Moreover, according to the Presidential national address speech made in April 2007, over half the national housing stock was not repaired for over 40 years, 93 million square meters of stock are in need of urgent repair, of which 11.2 million square meters are hazardous to live in. According to Moscow city government data, up to 50% of households wish to upgrade their housing.

Supply of new residential space is constrained by a deficit in raw materials and urban infrastructure, bureaucratic permitting processes, unstable regulatory environment and government-sponsored wholesale purchases which further diminish an already scarce supply. We believe the following factors will have an impact on supply in the medium-term:

- **Limited infrastructure and shortage of construction materials.** Insufficiency of urban infrastructure, such as utilities and roads, imposes additional restrictions on the supply of new residential space. The current deficit of cement supply also constrains construction growth in some regions.
- **Government incentives.** Improving affordability, availability and quality of housing is currently one of the key priorities of the Russian government, which plays an active role in the development of the residential real estate market in Russia through, for example, refinancing and subsidizing mortgages and sponsoring infrastructure development. In September 2001, the federal government launched a national housing program to be implemented between 2002 to 2010. The program sets several targets to be achieved by 2010 listed in the table below:

Federal Government Program on Affordable Housing Targets⁽¹⁾

	2004	2005	2006	2007	2008	2009	2010
Residential space per capita	20	20.2	20.5	20.9	21.2	21.4	21.7
Annual construction, million sq. meters	41.2	44.7	50.8	56.3	63.1	70.6	80
Families which received government support	17,300	n/a	21,200	24,900	25,000	27,200	34,000
Average waiting time for social housing, years	15-20	18	16	14	11	8	5-7

	2004	2005	2006	2007	2008	2009	2010
Annual origination of mortgages, \$ billion			4.0	5.8	8.3	11.8	16.4
Mortgage rates				10.5- 11%	10%	9%	8%
Government financing, \$ billion			4.1	6.8	8.6	9.5	6.3
Mortgage refinancing through AHML			0.9	1.4	1.8	2.0	1.7
Housing for young families			0.8	1.4	1.4	1.4	1.4
Infrastructure modernisation			0.4	0.6	0.7	0.9	1.1
Infrastructure for new land for residential development			1.2	2.4	3.5	3.7	0.3
Other			0.8	1.1	1.2	1.3	1.7

(1) Approved by the Government Resolution No. 865 as of December 31, 2005

Source: Rosstroy

The Russian President in his address to the nation in April 2007 called for a revision of the target annual residential construction volume from 80 million square meters to over 100 million square meters and for the preparation and realisation of a long-term strategy of sustainable development of mass residential construction aimed at improving the living conditions of the population.

- **Unstable regulatory environment.** The development of real estate legislation in Russia is at a relatively early stage and is frequently amended by the government which creates volatility in the market. For example, the introduction of Federal Law 214-FZ in April 2005 slowed the development of the residential real estate market. The law restricted access to financing from customers at the early stages of construction. As a result of non-compliance with the new law, many smaller developers were unable to commence or complete new projects, which caused a sharp decrease in the supply of housing. Larger developers were less affected by these regulatory changes as they were generally better able to obtain financing for construction and implement alternative customer financing arrangements. The government continues to consider amendments to the law, which creates additional regulatory uncertainties. In addition, a cumbersome permitting process in Russia lengthens the development cycle, which in turn affects supply of newly constructed space in the market.

Residential market segmentation

The residential market in Russia can be segmented along many different criteria, including quality of design, construction materials and technology, price range, geographical location, number of rooms and area of living space. The most widely used segmentation of primary residential real estate is based on quality of real estate and price range, splitting the market into the following three categories, according to CBRE:

- **Economy class (mass market).** This segment includes standardized housing in the low to middle price range. The buildings are built to a standard design from prefabricated reinforced concrete panels and are inexpensive relative to other classes as costs of design, labor and materials are low. This segment also includes poured concrete buildings built to simplified designs. The quality panel housing is often considered equivalent or superior to economy poured concrete housing because of the high quality of the latest prefabricated panel designs;
- **Business class.** This segment includes both standardized and customized housing in the mid-to-high price range. The segment includes brick and poured concrete buildings, often with underground parking, improved layouts and heating insulation. The high end of the business class segment (referred to as Business+) includes new poured concrete buildings in prestigious locations often in gated developments, made of high quality construction materials, with on-site security and underground parking; and

- **Elite (luxury).** This segment includes premium and super-premium (exclusive) class housing in the high to very high price range. These buildings usually have no more than 50 apartments. Situated in prime locations (often in a gated development), they generally have air-conditioning, a security system, telephone and internet lines, a modern interior and exterior design, and often have a garden.

Moscow Residential Real Estate Market Overview

The city of Moscow is Russia's strongest economic area and is the second largest real estate market in Russia after the Moscow region, accounting for 10% of the total annual residential construction volume in Russia in 2006. The city of Moscow's share of the total volume of residential construction in Russia has remained relatively stable from 2000, when its share was approximately 9%.

Construction volumes in Moscow grew steadily between 1990 and 2004. However, volume growth slowed in 2005 and 2006. According to Blackwood, in 2006, Moscow's residential market (both primary and secondary) experienced a dramatic supply deficit, including due to the following factors:

- Growing share of government owned social housing purchased by the government on the open market, thus limiting the supply of affordable housing that can be acquired in the open market. In April 2006, the Moscow city government adopted a medium term program of residential construction for 2006 to 2010, designed to improve the affordability of housing for Muscovites. According to the program, out of a total of 22.6 million square meters to be constructed between 2007 and 2010, social housing will constitute 9.5 million square meters which should result in a twofold reduction of the average waiting period. The Federal government sponsors the acquisition of apartments for officers of the Russian Army (3,626 apartments in 2006 and 3,998 apartments planned for acquisition in 2007). The increased government spending reduces the supply of residential real estate in the open market which puts an upward pressure on prices.
- Protectionist policy for Muscovites. The mid-term program approved by the Moscow city government also established preferences for people who have lived in Moscow for 10 years or more. In addition, according to the medium term program of residential construction for 2006 to 2010 designed to improve the affordability of housing for Muscovites (approved in January 2007), the terms of all future tenders for development sites will contain a requirement for the mandatory sale of up to 80% of the developer's space to Muscovites or the sale of up to 30% of the developer's space to those entitled to social housing at a fixed price. In addition, in June 2006 the Moscow city government issued Order No. 1120-RP requiring developers to reserve 15% of their total residential construction for rental rather than sale. At present these new regulations have not been implemented. However, once they become effective, these regulations are expected to further decrease housing available for sale.
- Decrease in the availability of vacant land plots for new construction.
- Limited urban infrastructure capacity (mainly with respect to power, sewage and roads) for newly constructed buildings.

Mid-Term Moscow City Government Program on Affordable Housing Target

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total 2007-10</u>
Social housing space, thousand square meters	2,234	2,584	2,543	2,129	9,490
Number of households eligible for social housing, thousand	21	23	27	32	103
Average waiting time, years	19	17	13	11	
Share of flats acquired with mortgages	12.50%	17.40%	25.70%	32%	
Affordability index, years	9.9	8.7	7.9	7.5	

Source: Moscow city government

According to IRN, average prices for residential real estate on the secondary market in Moscow more than doubled between 2004 and 2005, from approximately \$1,800 per square meter at the end of 1999 to \$4,200 per square meter at the end of 2006.

The table below sets out the average prices (in \$) in Moscow per square meter for individual segments on the secondary market:

	<u>Dec. 2004</u>	<u>Dec. 2005</u>	<u>Dec. 2006</u>
Panel buildings	1,638	2,067	4,012
<i>Growth</i>		26%	94%
Poured concrete buildings	1,997	2,390	4,533
<i>Growth</i>		20%	90%

Source: IRN

We believe that the decrease in panel housing constructed in Moscow in 2005 was mainly driven by a lack of available land plots necessary for large scale panel housing projects and by increased use of scarce plots for more profitable business class housing consisting of more compact poured concrete or clay brick buildings. As a result, the construction of panel housing in Moscow is currently shifting to the Moscow region.

Moscow has clearly defined geographical submarkets, with the most expensive and prestigious locations in the Central (inside the Garden Ring), Western and South Western districts.

The following table summarizes residential prices in Moscow, by district in \$ per square meter:

	<u>March 2006</u>	<u>March 2007</u>	<u>Growth</u>
Central	4,115	6,634	61%
North	2,935	4,493	53%
North East	2,866	4,345	52%
East	2,753	4,064	48%
South East	2,567	3,917	53%
South	2,763	4,169	51%
South West	3,128	4,702	50%
West	3,310	5,101	54%
North West	2,824	4,343	54%
Average	2,620	4,218	61%

Source: IRN

Key players in the Moscow market—panel construction

There are four key participants in the Moscow panel construction market as summarized in the following table:

<u>Name</u>	<u>Description</u>	<u>Geography</u>	<u>Type of building</u>	<u>Capacity, sq. m. (000)</u>
DSK-1	4 panel production and 5 assembly units.	Moscow and Moscow region	P44T, P44TM, P44K	1050
PIK	2 DSKs in Moscow and 1 DSK in Moscow region	Moscow, Moscow regions, other regions		1085
Glavmosstroy	Over 70 production and assembly units.	Moscow and Moscow region	GMS and poured concrete	599
Su-155	Over 120 units	Moscow, St Petersburg, Nizhny Novgorod Samara, Kaliningrad, Vologda and others	I155, P46M, P46S, non-residential, poured concrete	780

Source: Company reports

Key players in the Moscow market—poured concrete construction

Approximately 90% of poured concrete construction is financed by commercial developers. There are approximately 300 participants in the poured concrete market, including many small developers constructing only one project. The largest residential developers by volume constructed specializing in poured concrete construction are INTEKO, Donstroy, PIK, MFS-6, Mirax Group and Sistema-Hals.

Moscow Region Residential Real Estate Market Overview

The Moscow region (excluding the city of Moscow), with a population of 6.6 million, has been the largest residential real estate market in Russia since 2004, when construction volume in the region exceeded that of Moscow. Its share of the total volume of residential construction in Russia increased from 8.6% in 2000 to 12.7% in 2006.

The volume of new residential construction in the Moscow region has more than doubled over the last five years due in part to a lack of land plots and limited infrastructure capacity in the city of Moscow. This shortage has forced developers to move construction outside of Moscow, primarily to areas within 20 kilometers of the capital. High demand for housing in the Moscow region has also been driven by an increasing gap between housing prices in Moscow and the Moscow region as well as by a flow of immigrants to the Moscow area in the last ten years who, in our experience, tend to prefer to purchase larger and more modern residences in the suburbs rather than smaller, lower quality apartments in Moscow. Moreover, access routes to Moscow from many areas in the Moscow region are comparable to, or even better, than access routes from certain Moscow neighborhoods located outside of the city boundaries, whilst prices are significantly lower. Expansion of residential construction deeper into the Moscow region, however, is currently limited by insufficiencies in transportation infrastructure.

According to a December 2006 IRN.ru research study of 182 new residential construction projects in the so-called “near Moscow” suburbs located within five kilometers of the Moscow Ring Road, (which comprises an area that partially overlaps the official boundaries of the city of Moscow), of a total 182 new residential construction projects which were marketed in 2006 in the nearest Moscow suburbs, 149 were located in the Moscow region and the remaining 33 were in the boundaries of the city of Moscow. According to the report, in 2006 the number of companies that offered buildings in the nearest Moscow suburbs declined by 15% to 75.

According to the IRN study, the total space of the projects marketed in 2006 amounted to 3.2 million square meters and declined by 6% over the prior year. However, in value terms, the market grew from \$3.5 billion to \$7.5 billion due to abnormal price growth of 131.5% in 2006 compared to 2005. According to the IRN study, panel construction amounted to 53% of production. The number of poured concrete buildings constructed in 2006 decreased by 12% compared to 2005 and the share of poured concrete buildings fell to 47%.

According to CBRE, 84% of all new residential construction in the Moscow region is concentrated in areas within 25 kilometers of the Moscow Ring Road. Approximately 30% of the total housing supply is concentrated in the western part of the Moscow region, with 20% in the east, 13% in the south and 11% in the northwest. According to CBRE, the locations most in demand in the Moscow region are Khimki, Odintsovo, Krasnogorsk, Troitsk, Dolgoprudny and Mytishi.

Apartment prices vary widely depending on a number of factors, including geographical location, proximity to major transportation routes, level of development of local infrastructure and environmental cleanliness. According to MIEL, the average price for panel residential housing on the primary market in the Moscow region in December 2006 was \$1,870 per square meter, up from \$745 in December 2004. Over the last three years, prices grew by 150% and were generally correlated with those in Moscow.

The following table summarizes residential prices in Moscow region in \$ per square meter:

	<u>Dec. 2004</u>	<u>Dec. 2005</u>	<u>Dec. 2006</u>
Panel buildings	745	900	1,870
<i>Growth</i>		21%	108%
Poured concrete buildings	790	900	1,900
<i>Growth</i>		14%	111%

Source: MIEL

Key players in the Moscow regional residential markets are Glavmosstroy, SU-155, PIK (PIK Region), StroyTex, GK Druzhba and YIT-Ramenie.

Land development in the Moscow region

Over the last four years, there has been a lack of new primary market stock as regional authorities have virtually suspended privatization of land. Prior to 2004, land for real estate development was primarily sourced through acquisition of agricultural land, the zoning of which was subsequently converted to residential use. However, due to local regulatory changes which took place in 2004, the conversion of the zoning of agricultural land was discontinued and was allowed only for sites located within existing residential areas. Later, in 2005, conversion of zoning became possible only upon certified inspection by the agency Rosnedvizhimost and the period required to complete the entire process increased from six months to over 12 months. Nevertheless, the most attractive agricultural land plots within 30 kilometers from the Moscow Ring Road have already been acquired by the key market players (large financial industrial groups, banks and residential developers), which is expected to improve the overall liquidity of the secondary market. According to CBRE, in December 2006, the average price for green-field agricultural land in the Moscow region was approximately \$1,000 per 100 square meters and as high as \$3,000 to \$3,500 per 100 square meters for a site with utilities already installed.

Regional Residential Real Estate Market Overview

Regional markets are driven by the dynamics of local income levels and the supply of and demand for real estate from the local population. The table below summarizes key economic characteristics of our target (current or potential) regional markets:

	GDP			Population			Average monthly salary	
	2004 \$	2005 \$	2005 per capita \$	Population as of Jan-2006 (thousands)	Natural growth per 10,000	Net migration per 10,000	2004 \$	2005 \$
Moscow	95.8	167.9	16.1	10,425	-3.4	5.3	369	510
Moscow Region	19.1	34.3	5.2	6,628	-8.5	8.3	257	338
Krasnodar Region	11.3	14.3	2.8	5,097	-5.3	4.7	179	228
Nizhny Novgorod Region	9.2	11.5	3.4	3,411	-11.1	1.1	182	231
Perm Region	9.3	10.3	3.7	2,748	-7.0	-0.8	216	274
Rostov Region	7.8	9.7	2.2	4,304	-6.7	-0.4	166	210
Omsk Region	7.3	7.8	3.8	2,035	-5.1	-0.8	190	252
Yaroslavl Region	4.2	5.7	4.3	1,328	-10.7	2.5	214	260
Kaliningrad Region	2.3	2.9	3.1	940	-9.2	3.8	193	240
Russia	591.9	764.2	5.3	142,754	-5.9	0.9	234	302

Source: Rosstat, CBRE

Construction growth in a given market reflects overall growth of that market, with highest construction growth observed in cities with populations over 500,000 people increasingly attracting more labor and capital resources.

	Residential construction volume					CAGR '02-'06
	2002	2003	2004	2005	2006	
	<i>(in square meters, thousands)</i>					
Krasnodar Region	1,645	1,580	1,810	1,940	2,667	12.8%
– Novorossiysk	30	68	76	52	168	53.6%
N. Novgorod Region	485	576	684	748	815	13.9%
– Nizhny Novgorod	198	265	331	366	430	21.4%
Perm Region	361	416	449	638	695	17.8%
– Perm	149	221	245	369	425	30.0%
Rostov Region	984	1,005	1,119	1,186	1,362	8.5%
– Rostov-on-Don	453	506	582	620	707	11.8%
– Taganrog	27	24	70	70	86	33.6%
Omsk Region	230	318	520	756	906	40.9%
– Omsk	169	221	398	595	723	43.9%
Yaroslavl Region	175	215	218	224	247	9.0%
– Yaroslavl	92	146	122	120	121	7.1%
Kaliningrad Region	198	232	245	266	501	26.1%
– Kaliningrad	149	162	167	178	369	25.5%

Source: Rosstat, CBRE

Price growth differed from city to city, depending on supply and demand in each city, resulting in a wide range of prices, from \$900 per square meter to \$1,700 per square meter, as set forth in the following table:

The following table summarizes average residential prices in \$ per square meter:

	March 2007	December 2006	Average price increase			
			March 2007- Dec. 2006	Dec. 2006- Dec. 2005	Dec. 2005- Dec. 2004	Dec. 2004- Dec. 2003
Novorossiysk	1,529	1,358	13%	88%	28%	13%
Nizhny Novgorod	1,695	1,100	54%	47%	17%	23%
Perm	1,725	1,470	17%	37%	42%	58%
Rostov-on-Don	1,647	1,466	12%	54%	32%	34%
Taganrog	942	811	16%	50%	23%	13%
Omsk	1,059	1,024	3%	55%	24%	n/a
Yaroslavl	1,540	1,324	16%	79%	56%	n/a
Kaliningrad	1,550	1,360	14%	70%	37%	5%

Source: CBRE

*Exchange rate= \$1=26.1481

BUSINESS

Overview

We are one of the leading residential developers in Russia, with a concentration in Moscow and the Moscow region and an increasing presence in many of Russia's other regions. During 2006, we constructed over 1.2 million square meters of residential housing consisting of over 17,300 residential units, including housing constructed for the Moscow city government. We are one of the few vertically integrated developers in Russia, which allows us to manage and control many of the most important steps in the development and sale of our projects. Our principal activity is the development, construction and sale of residential properties targeted primarily at the middle income housing market in Russia. For the years ended December 31, 2004, 2005 and 2006, we had revenues of \$440.5 million, \$782.5 million and \$1.5 billion, respectively, and as of December 31, 2006 we had total assets of \$2.5 billion. As of December 31, 2006, we had over 14,000 employees.

We focus our operations on developing large residential developments, some of which are large townships integrated with social infrastructure (e.g., kindergartens, schools and sports centers). As of December 31, 2006, we owned or leased (i) undeveloped land relating to approximately 222 hectares of buildable area for which no construction permits had yet been obtained, (ii) undeveloped land relating to approximately 460 hectares of buildable area for which we had received initial construction permits but had not yet begun construction, and (iii) land relating to approximately 430 hectares of buildable area for which all construction permits had been obtained and construction had begun. According to CBRE, as of January 1, 2007 the combined market value of our projects is \$8.8 billion.

While our operations have historically been concentrated in Moscow and the Moscow region, over the past several years we have expanded our activities into many other regions and we believe we are now one of the few nationwide developers in Russia. Since the beginning of 2004, we have developed approximately 2.0 million square meters of housing in Moscow (including housing constructed for the Moscow city government), approximately 420,000 square meters of housing in the Moscow region and approximately 163,000 square meters of housing in other regions in Russia. As of March 31, 2007, we were developing 65 properties in Moscow, 212 properties in 13 cities in the Moscow region and 136 properties in eight other regions in Russia. We plan to continue our expansion in these regions and into other regions in Russia.

We believe that our vertically integrated real estate development process gives us an important advantage in our industry as compared to our competitors. Our operations include the production of raw materials for our business such as gravel, sand and crushed rock. We own several plants that produce prefabricated concrete panels, window frames and aluminum facades that are used in the construction of our projects, and in Moscow and the Moscow region we assemble and construct all concrete panel housing for our developments. We also provide servicing and maintenance for a substantial number of our developed properties. We have strong relationships with several credit and mortgage institutions that provide mortgage financing to our clients, including Housing Finance Bank, which is controlled by our shareholders. We believe we have a well-recognized brand in the Russian real estate market, particularly in Moscow and the Moscow region.

Our core activities consist of: (1) development of residential real estate projects and sales of completed units, including service and maintenance of residential real estate developed by us and by other developers; (2) production and assembly of concrete panel housing in Moscow and the Moscow region; and (3) production and sales of raw materials and construction materials.

With respect to our development activity, the table below sets forth certain operating information during the years indicated:

	<u>Years ended December 31,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Total square meters completed	497,000	827,000	1,244,000
Total number of residential units completed	6,608	12,238	17,314

History and Development

We were founded in September 1994 as PIK (“First Mortgage Company”) and initially invested in a small number of residential development projects in Moscow. In 1996 we significantly expanded our operations in Moscow and by 1998 we had already completed or were in the process of developing 12 projects.

In 1998 we launched mortgage financing activities in cooperation with the Moscow Mortgage Agency, an agency of the Moscow city government that we helped to establish at the request of the Moscow city government. The Moscow Mortgage Agency was commissioned to develop a residential mortgage infrastructure for the city of Moscow. Housing Finance Bank, originated the first 10 pilot mortgages in Moscow under this new mortgage program. We have continued to strengthen our expertise in mortgage finance and currently participate in joint mortgage programs with other leading banks in Russia such as Sberbank, Vneshtorgbank, ROSBANK and Raiffeisenbank Austria.

We began our diversification into industrial activities in 2001 with our acquisition of DSK-2, a concrete panel manufacturer in Moscow. This acquisition gave us the capability to provide our own materials for construction on a significantly larger scale and allowed us to become a leading developer in the residential real estate market in Moscow.

In 2003 we began the process of expanding our operations into the Moscow region and we are now one of the leading developers of residential real estate in the Moscow region.

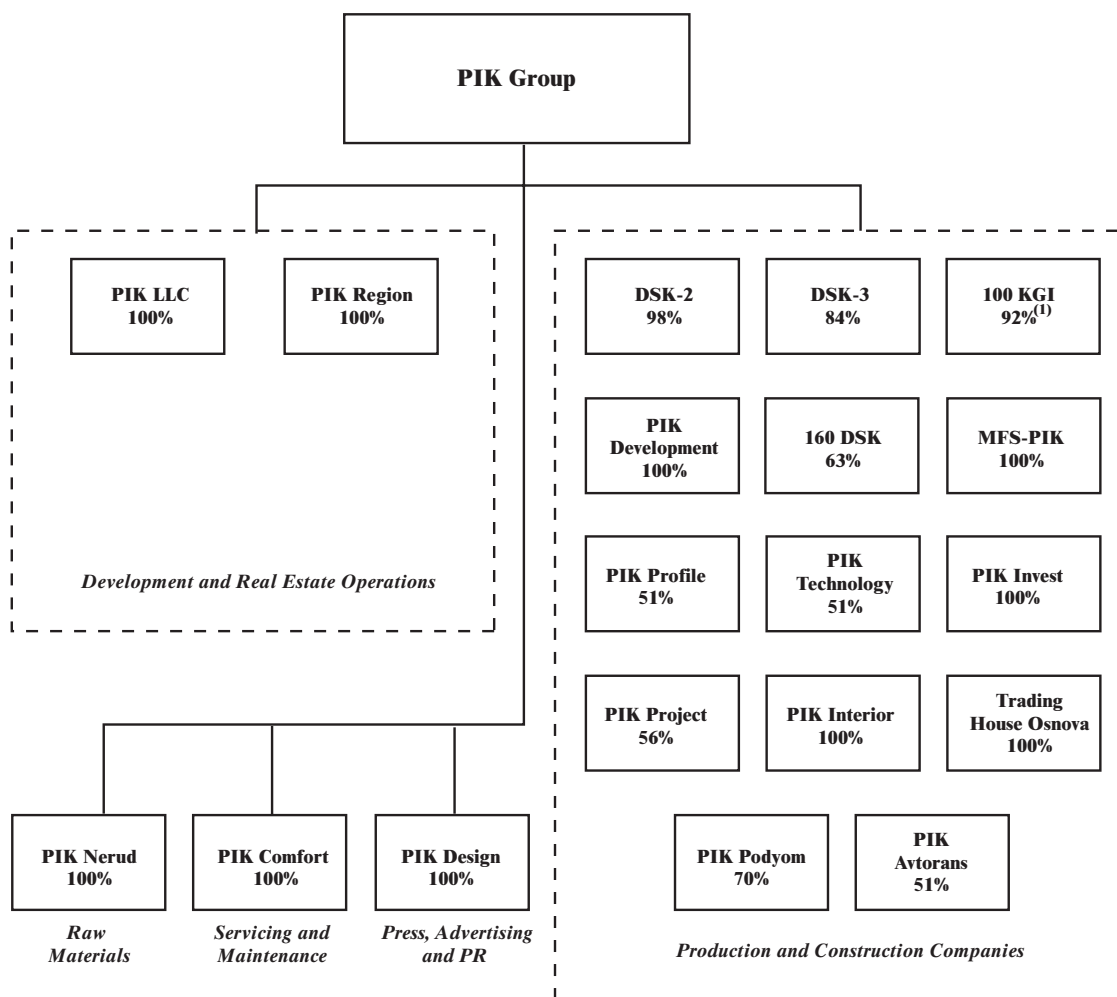
In 2004 we began our expansion into other regions of Russia, initially Rostov-on-Don. We continued this expansion in 2005, and in 2006 we acquired Stroyinvestregion, a regional developer. As of March 31, 2007 we were developing projects in Rostov-on-Don, Taganrog, Omsk, Nizhny Novgorod, Yaroslavl, Novorossiysk, Kaliningrad and Perm. PIK Region, one of our wholly owned subsidiaries, is responsible for all development projects outside of Moscow.

In 2005 we acquired DSK-3, a concrete panel manufacturer in Moscow, and 100 KGI, a prefabricated concrete panel plant located in the Moscow region. With the acquisition of DSK-3, we now own two of the three concrete panel manufacturers in Moscow.

At the end of 2005, we completed the first phase of a restructuring process aimed at consolidating assets, changing our corporate structure and introducing international standards of corporate governance. Following this phase, all companies under the PIK umbrella were consolidated into PIK Group, a Russian open joint stock company which is now the holding company for all our businesses.

Corporate Structure

The diagram below sets forth our corporate structure showing our principal subsidiaries as well as our percentage of beneficial ownership in each.



(1) The Company owns 92% of the ordinary shares and 17% of the preferred shares of 100 KGI, corresponding to ownership of 74% of all shares of 100 KGI.

In support of our goal to improve integration and increase efficiencies, we restructured our operations in 2006.

Competitive Strengths

Large and diversified land bank. We either own or have obtained development rights to approximately 10.5 million square meters of net selling area. As of December 31, 2006, we owned approximately 1,137 hectares of undeveloped land in 10 regions in Russia. As of January 1, 2007, approximately 20% of the net selling area attributable to us was located in Moscow, approximately 51% was located in the Moscow region and approximately 29% was located in other regions in Russia including in Rostov-on-Don, Nizhny Novgorod, Yaroslavl, Novorossiysk, Kaliningrad, Perm, Omsk and Taganrog. Over the next several years, we estimate that up to 5% of our total investments will be in the commercial real estate sector.

Vertically integrated business model. Our development activities are integrated, which allows us to manage and control the most important stages of the development process. Our operations include the production of key raw materials for our operations as well as all the concrete panels required for the construction of our panel housing developments, identifying and evaluating development opportunities and obtaining all necessary planning approvals, carrying out design, construction and sale of residences, and providing services to our clients before, during and after the sale. We believe that this integrated process provides us with several advantages, including

(i) cost efficiencies derived from performing development, construction and sale, allowing us to control costs and achieve higher profit margins, (ii) operational flexibility and reliability allowing us to build quickly and deliver products to meet market demand, (iii) better quality control through all stages of the development process and (iv) strong customer knowledge and understanding obtained from our own sales and relationship teams which is then used to tailor our future construction projects to market demand.

Capability and capacity to produce residential developments on a large scale. We believe we have the ability to construct housing on a significantly larger scale than the majority of our competitors. DSK-2 and DSK-3 are capable of producing approximately 950,000 square meters of housing per year. This production capacity allows us to plan and maintain a significant number of development projects, and we have a large number of residential developments in various stages of execution. Because of limited concrete panel production capacity in the Russian market in general, and in Moscow and the Moscow region specifically, we believe our concrete panel production facilities provide us with an advantage over our competition as we are able to more easily secure new land plots and complete projects in a timely and cost efficient manner. Moreover, as a result of significant regulatory barriers in establishing new concrete panel production facilities, we expect to sustain this advantage in the short- to medium-term. In addition, as a result of the high volume of construction projects in which we are engaged and the good long-term relationship we have with our suppliers and subcontractors, we are able to achieve significant economies of scale in our purchases of materials and retention of services. In the construction of our panel housing we use relatively standardized products that result in greater efficiency and quicker construction.

Leading market position in Moscow and the Moscow region, and a significant and growing presence in Russia's other regions. From 2004-2006 we completed approximately 2.4 million square meters of housing in Moscow and the Moscow region. According to Rosstat, our share of construction of residential housing (not including construction of individual homes) in Moscow and the Moscow region in 2006 was 14.7% and 8.3%, respectively, which includes concrete panel housing constructed/assembled by DSK-2 and DSK-3 for the Moscow city government. While our operations have historically been concentrated in Moscow and the Moscow region, over the past several years we have expanded our activities into many regions in Russia and can now be considered one of the few nationwide developers in Russia. We are currently developing projects in nine Russian cities outside of the Moscow region, and we plan to continue our expansion into other cities and regions.

Largely self-funding business model driven by pre-sales of residences. Historically, we have pre-sold in advance of completion the residences for a majority of our development projects. At December 31, 2004, 2005 and 2006, we had advances from our customers of \$286.0 million, \$492.0 million and \$645.0 million, respectively. We believe that this model provides us with significant benefits, including improved predictability of future earnings, ability to finance construction with advances received from customers and improved return on capital. In addition, we have long-standing relationships with key residential mortgage lenders in Russia, including Housing Finance Bank, which offer loan programs tailored to our customers. This further facilitates pre-sales of our residences. In 2005 and 2006, long-term pre-mortgage loans accounted on average for 25% of our total retail sales. We are able to capitalize on our operating cashflows and our borrowing capacity in order to take advantage of land acquisition and development opportunities not available to smaller local developers. In addition, our current capital structure and level of leverage also gives us the flexibility to increase our borrowings, which assists us in the development of future projects. We believe that our financing model provides us with the necessary flexibility to continue our growth and maintain our strong financial position.

Strong brand recognition, a well-established reputation and long-standing relationships with governmental authorities. We have been operating in the Russian real estate market since 1994. We believe we have strong brand recognition in the Russian real estate market, particularly in Moscow and the Moscow region. We believe that our reputation is based largely on our successful completion of our projects in Russia in a timely and cost-efficient manner. Our experience has allowed us to continue to maintain long-standing relationships with governmental authorities and to accumulate extensive know-how with respect to federal and local real estate

regulations and procedures. We have also completed, at the request of government authorities in Moscow and the Moscow region, developments that were unfinished due to the bankruptcy of the initial developer.

Experienced and dedicated management team enhanced by a strong board of directors. Our senior management team has significant experience in the Russian real estate market with an average of over nine years' relevant experience. In addition, our board has three independent directors, including international members who have substantial experience in the Russian real estate and finance industries. We believe that our management team's expertise enables us to take advantage of the significant Russian real estate opportunity.

Strategy

Maintain our focus on the Russian middle-income residential real estate market. We intend to continue to capitalize on the growth opportunities that we see in the residential real estate market in Russia, particularly in the middle-income, mass market housing sector. We believe that the experience we have gained in over 12 years of developing residential real estate projects in Russia places us in a strong position to take advantage of this growth and further expand the scale and geography of our residential real estate operations. Our reputation as a high-quality developer, combined with our financial resources, gives us an advantage over many of our competitors and we intend to strengthen significantly our market position in the medium term.

Continue our track record of successfully acquiring and integrating businesses that will strengthen our position in the Russian real estate market. We began our diversification into industrial activities in 2001 with our acquisition of DSK-2, a concrete panel manufacturer in Moscow. In 2005 we acquired DSK-3, a second concrete panel manufacturer in Moscow, and 100 KGI, a prefabricated concrete panel plant located in the Moscow region. These acquisitions gave us the capability to provide our own materials for construction on a significantly larger scale and allowed us to become a major player in the residential real estate market in Moscow. With the acquisition of DSK-3, we now own two of the three concrete panel manufacturers in Moscow, which we believe constitutes over 30% of the prefabricated panel capacity of Moscow and the Moscow region. DSK-2 and DSK-3 are together capable of producing 950,000 square meters of housing per year. We plan to evaluate opportunities to acquire additional production and construction facilities and developers with an existing land bank and/or production capacity in order to further strengthen our vertically integrated development model.

Increase the size of our land bank. We plan to continue to purchase land and acquire development rights for properties in Moscow and the Moscow region and in other regions across Russia. We intend to accelerate our growth by significantly increasing the size of our land bank, especially outside of the Moscow region. We plan to continue to enter into partnerships with other developers and builders, especially in the regions outside of the Moscow region, with the objective of increasing the number of developments in which we participate and diversifying our project portfolio.

Strengthen our position in Russia's western, central and southern regions. Our operations are concentrated in several regions in western, central and southern Russia. We believe that these regions will continue to provide strong growth opportunities in the residential real estate market. We are continually analyzing demographic and other data to determine where it will be most profitable to expand our operations.

Improve cost efficiencies of our integrated operations, with focus on cost reduction, product modernization and the continued improvement of the construction process. We intend to improve the cost efficiencies of our integrated operations by optimizing the business processes at each level of the vertical chain. For example, in 2007 we will begin producing a modernized version of concrete panel housing that will allow us to streamline production elements by drawing on our capabilities within each of DSK-2, DSK-3 and 100 KGI, thereby controlling construction costs. We believe that maintaining to a large extent our own production and construction activities is essential for our continued growth because it assures that we can control and improve our planning and construction techniques, our purchasing processes and economies of scale to reduce construction costs.

Expand our operations into other profitable segments of the Russian real estate market. We plan to consider expanding our operations into profitable segments in the commercial real estate sector such as the development of Class A office complexes and hotels. We are currently in the early stages of developing three Class A office buildings in prime locations in Moscow, which will allow us to take advantage of the know-how and expertise we have acquired in the Moscow real estate market. This includes the “Park City” development, which will be a mixed use property with a total of 487,000 square meters of space (including approximately 146,000 square meters of Class A office space) located in a prime location along the Moscow river.

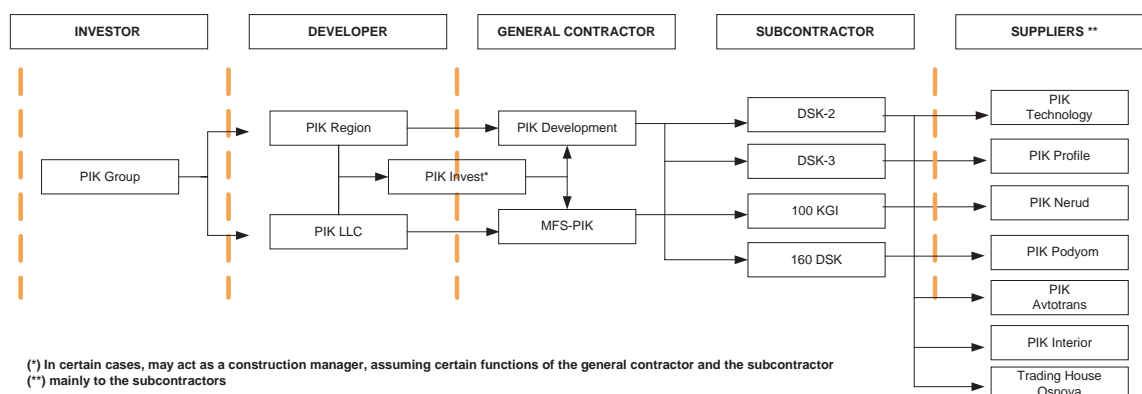
Real Estate Development Activities

Our real estate development division primarily comprises PIK LLC, which is responsible for our development operations in Moscow, and PIK Region, which is responsible for our development operations in the Moscow region and the other regions in Russia. These entities find and access land sites and development opportunities, deal with permissions and approvals processes and hold any investment rights. As of March 31, 2007, we had approximately 100 employees in our land acquisition and permitting teams, with approximately 30 employees responsible for land acquisition and 70 employees responsible for the permit process. Our management board approves all land purchases. We are increasingly focusing on development activities in the regions outside the Moscow region and we have a growing regional footprint. As of March 31, 2007 we were developing projects in Rostov-on-Don, Taganrog, Omsk, Nizhny Novgorod, Yaroslavl, Novorossiysk, Kaliningrad, Perm and Volgograd and we plan to begin development projects in the Kaluga region and Krasnodar in 2007. As of December 31, 2006, we also had a substantial land bank of approximately 8.8 million square meters of unsold net selling area which consisted of (i) land for which we have obtained development rights but do not own and (ii) land that has been purchased by us. As of December 31, 2006, approximately 20% the property in our land bank was located in Moscow, approximately 51% was located in the Moscow region and approximately 29% was located in other regions in Russia.

One of our key competitive strengths is our capability to produce large amounts of construction and raw materials for our own projects, which allows us to plan and maintain a significant number of development projects. Our production capacity allows us to supply our own needs as well as to sell construction and raw materials to other builders. See “—Construction Services.” This capacity also allows us to deliver sought after raw materials such as gravel, sand and crushed rock to our cement suppliers, which we believe has helped us in negotiating more favorable and longer-term contracts for the cement we need for our development projects.

Our real estate development activities comprise all stages of development including the identification of development opportunities and the performance of feasibility studies (which are undertaken in some cases with the assistance of international consultants), obtaining development rights from the relevant municipal and regional authorities, managing the design process, obtaining permits for construction of our developments, marketing our properties to potential purchasers and managing residential and commercial properties after construction. Our project management system allows for flexibility and control of the entire development process. As a result, we believe we are better suited than our competitors to respond quickly to changes in demand in the residential real estate market and to efficiently manage our expenses.

The diagram below illustrates our vertically integrated development and construction process:



Overview of the Development Process

Obtaining development rights

We acquire development rights primarily by entering into investment contracts or separate arrangements with municipal and regional governments. These contracts typically provide for the grant of a short-term land lease for the purpose of carrying out construction on the relevant land plot or, if there is already an existing structure on the site, we are first required to obtain ownership of the structure by taking over the existing lease agreement. In cases where we purchase rights under an existing lease and the proposed area of our new building is larger than that of the existing structure, we are required to enter into a new land lease. Depending on our development plans, the permitted use of the land may also need to be amended in the land lease.

The term of an investment contract is typically 1.5 to three years depending on the size of a project and may be extended in certain cases. The contract sets out the terms upon which we carry out construction and specifies our and such government entity's share of the development upon completion of the project. In most cases, an investment contract requires a certain portion of the project to be allocated to the government entity upon completion or that monetary compensation be provided to the government entity. For example, with respect to investment contracts entered into with the Moscow city government, the city of Moscow generally retains an interest of up to 30% of the development, and in order to obtain this interest we must compensate the Moscow city government an amount up to 30% of the total cost of the development. We generally become the owner of the completed building or structure, subject to any interest retained by the government entity, but we do not become the owner of the land upon which the building or structure is located. As an alternative, we may enter into a long-term lease of up to 49 years under which we may obtain development rights. Under both short-term and long-term land lease arrangements we are required to make periodic rental payments in accordance with the lease agreement, which are subject to unexpected increase. See "Risk Factors—Risks Relating to Our Business—We may be subject to unexpected fluctuations in the rents we pay in respect of leases." Under investment contracts with municipal and regional governments, we may be required to fulfil certain "social obligations," such as constructing schools and hospitals or participating in the development and upgrade of city utility systems. See "—Urban Planning and Development."

Typically, where the government entity retains partial ownership of a development, we will be entitled to less than 100% of the revenues from the lease or sale of the development. However, we may still have a proportionately higher (typically 100%) liability for the construction costs of the development. If the government entity allows us to buy out its share of the building or structure, the amount to be paid by us for the government entity's share of the completed development is intended to reflect the fair market value of the share, and is determined by a valuation carried out by an appraiser chosen by the government entity. Once the valuation has been approved by the government entity, we may, subject to its overriding discretion not to sell, acquire its share of the completed development. See "Risk Factors—Risks Relating to Our Business—Our interest in a development may be reduced by local or regional authorities or we may spend more than expected in carrying out certain urban development projects required by such authorities under investment contracts which could have a material adverse effect on our business, financial condition and results of operations."

Rights to enter into an investment contract may be auctioned as part of a competitive tender process held by a government entity. In this situation, the scope of the development project will have been determined by the government authority prior to the tender and the tender winner is able to bypass the formal legal approvals process. We may also acquire development rights under an existing investment contract. Where a third party has an existing investment contract, it may assign its rights thereunder to us or enter into a co-investment agreement with us pursuant to which a project is developed by us solely or jointly with the third party. This situation generally arises when the initial party to an investment contract does not have significant resources or capacity to complete the development on the terms of the investment contract. At times we may also allow co-investors to join our own development projects. In addition, we may also obtain development rights by acquiring an existing entity which owns or leases land or has executed an investment contract with respect to a development.

In certain regions in Russia we acquire land directly or enter into a long-term lease but are not required to conclude an investment contract to develop the land. Instead, we are required to obtain the relevant permits relating to use and construction from such regional and municipal authorities.

Assessing development opportunities

When assessing the feasibility of a potential development opportunity, we consider a range of factors, including:

- *Site assessment:* We carry out a general assessment of the site and its location based upon our knowledge of the area, the market and our appraisal of the surrounding buildings and other developments.
- *Preliminary design:* We explore preliminary design possibilities for a particular development which initially will be prepared internally and, in some cases, with the assistance of external architects.
- *Estimated cost and value of the development:* In determining whether or not to proceed with a development, we prepare an estimate of the cost required to complete the construction of the development. These estimates are made on the basis of a detailed budget, which will include design and management costs, costs relating to the demolition of existing buildings, and construction and construction management costs. These costs are updated as the development process progresses. We also estimate the market value of the completed development. We target an investment rate of return of at least 20%-30%, assuming no price increases.
- *Potential permitting and regulatory concerns:* We assess the likelihood of obtaining the required permitting, planning, zoning and environmental approvals relating to the development.
- *Environmental assessment:* We assess any environmental regulatory approvals that may be required in connection with the potential development of a site.

If the initial assessment of a development opportunity is approved, we prepare more detailed concept design alternatives. Our own in-house architects prepare the design plans for many of our projects, but we subcontract outside architects to design the majority of our large developments. We also commence discussions with the various regional and local authorities at this stage to determine preliminary issues such as potential difficulties relating to the supply of utilities to the relevant site. If we proceed with a development, we may then enter into a co-investment agreement with one or more third parties to provide for their respective participation interests in the development. The preliminary design plans for each development must be approved by various federal, regional and local authorities.

Financing our development activities

Although our financing methods vary depending on the development, we generally finance the first stages of an investment, including any initial amounts required to be paid under the investment contract and amounts used to obtain permits and begin construction, with our own cash and with proceeds from bank loans. In the past, these loans have been provided by such large Russian banks as Sberbank, Vneshtorgbank and others. Bank loans may comprise up to 70% of the initial financing for any particular project. After construction has begun, we finance further construction primarily with the proceeds from the pre-sales of the development's residences. We typically begin the pre-sale phase immediately after we start construction. In the case of nearly all our prefabricated panel apartment buildings, we pre-sell all residences before construction is completed. For our elite apartment buildings made of poured concrete, the sales phase usually continues for up to several months after construction has been completed.

Generally, our average sales period does not extend beyond the construction period. We aim to have the large majority of our residential units sold by the time construction of our projects is completed.

The construction process

Once we have made the decision to proceed with a development, architects prepare the final detailed concept design and plans. We also continue the process of obtaining the necessary development approvals and permits from the relevant federal and local authorities.

Each of our developments is managed by a general contractor who supervises construction and is also responsible for auxiliary projects such as landscaping and providing utilities and road access. For developments in Moscow and the Moscow region consisting of prefabricated and/or poured concrete housing, we often act as the general contractor, which provides us with better control over the costs and timing of the construction process and allows us to better allocate resources across our developments. In some cases, however, we will retain a third party to act as general contractor for our large-scale developments and also for projects consisting of customized buildings made of poured concrete, especially when our poured concrete projects are relatively complex or labor intensive. Outside of Moscow and the Moscow region, we have historically always hired a third party to be the general contractor.

We do not use subcontractors for our prefabricated panel building projects in Moscow and the Moscow region. In other regions, we often outsource panel production and a third party contractor will assemble the panels on-site. Most of the buildings assembled by DSK-2 and DSK-3 are “core and shell” buildings. This means that DSK-2 and DSK-3 assemble the paneled housing and also wire the building for electricity, install elevators, windows and front doors and plaster ceilings and walls, but each apartment owner is then responsible for the apartment fit-out, including the installation of flooring, inside doors, kitchen cabinets, appliances and light fixtures. In some cases, however, our investment contracts with government authorities in Moscow and the Moscow region provide that we fit-out a certain number of apartments in our prefabricated buildings. In such instances, DSK-2 and DSK-3 will purchase and install all required equipment and furnishings.

We have adopted quality control procedures to ensure that our projects meet certain quality standards. For example, all general contractors and subcontractors are selected by a special committee consisting of representatives of various group companies based on such factors as bid amount, time projected to complete the work and the quality of materials to be used by the contractor. The contractor must also have a good business reputation and possess all relevant certificates and licenses and the required expertise and technical and personnel resources.

Upon completion of construction, all 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.

Post-construction

Our strategy is to sell our completed residential developments and not to retain and lease the residences. Prior to completion of construction of a particular development, we commence marketing activities and pre-sell many of the residences before construction is completed. We formally acquire ownership of (or our proportionate ownership of) a particular development upon completion of a prescribed registration procedure following completion of construction.

Land Bank

We have a large and diverse land bank. As of January 1, 2007, our land bank totalled approximately 8.8 million square meters of unsold net selling area of which approximately 6.2 million square meters was located in Moscow and the Moscow 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 by us.

Building Types

We specialize in the construction of several standard types of prefabricated panel residential buildings and individually designed poured concrete residential buildings. DSK-2, DSK-3 and 100 KGI each produce a different series of panel buildings which allows us to develop projects with a variety of building types, unlike many of our competitors. Prefabricated panel housing is significantly less expensive and can be built more rapidly than poured concrete buildings. Panel housing can also be constructed in severe winter temperatures, unlike poured concrete housing. Poured concrete housing allows for maximum flexibility in design. Generally, it takes up to six months to construct the above-ground portion of a prefabricated panel building and it takes up to 18 months to construct a poured concrete building.

We construct the following types of buildings:

KOPE and KOPE-M Parus

KOPE (“prefabricated building elements”) series panel residential buildings can be built as high as 25 stories and are currently the tallest of the panel apartment buildings that we construct. Each section of a KOPE building has an average floor space of approximately 5,000 square meters. The specifications of these apartment buildings can be tailored to specific planning decisions for a particular building or development, depending on a variety of factors such as the location of the building and customer demand. We produce all concrete panels for KOPE series buildings at our DSK-2 plant.

The concrete for KOPE panels is produced with concrete mixing equipment manufactured in Finland, which was installed at our DSK-2 factory in 2001. KOPE buildings use triple-layered external wall panels that satisfy Moscow’s energy saving requirements. The middle layer is foam insulation, which ensures the heating efficiency of KOPE buildings. We use triple-glazed windows and balcony doors, which are produced using German equipment and components and that have special valves allowing apartments to be ventilated without opening windows. As of the date of this prospectus, we believe our newest line of KOPE buildings are the only paneled high-rise apartment buildings in Moscow that satisfy all anti-fire standards.

In addition, each of our KOPE buildings has the following features: (i) plastic hot and cold water-pipes, which simplify assembly and disassembly and lower the content of toxic iron oxide in drinking water; (ii) protective disconnectors in electric wiring, which reduce electrical and audio equipment failure due to surges in voltage and a unique touch-sensitive system which significantly increases safety, especially for children; (iii) convectors with thermo-regulators from leading producers, which increase the reliability of the heating system of the buildings and allows for optimal heating efficiency in apartments; (iv) high quality water and electricity meters that are built into the apartments; and (v) since 2002, copper wiring instead of aluminum wiring, which reduces susceptibility to fires.

In 2003, DSK-2 developed a modernized series of apartment buildings in the KOPE-M (“M” meaning “modernized”) “Parus” series in conjunction with OJSC Mosproekt. Parus buildings have a number of features that differentiate them from their predecessors, including: (i) bay windows, which have improved the outer appearance of the building and increased the floor space of the apartments; (ii) spacious glass balconies, which have improved the frontage of the building; (iii) increased balcony size (up to 4.35 meters); and (iv) noise-proofed flooring.

In 2007, DSK-2 plans to begin production of its latest modernized apartment buildings in the new KOPE-M Tower series. These buildings have an average floor space of approximately 11,500 square meters and can be built up to 25 stories.

P3M and P3M-7/23

The buildings in the P3M series were developed by the Moscow Research and Design Institute for Standard and Experimental Design (MOSPROEKT). The buildings are residential complexes consisting of four-apartment sections with one-, two-, three- or four-room apartments. P3M buildings can be built up 23 stories and have an average floor space of approximately 6,600 square meters. Each floor of a block section has eight apartments. Due to the layout of P3M buildings, it is possible to create various types of apartments using modular elements that allow apartments to be connected together in a number of ways. As a result, P3M buildings can have a variety of facades with regularly alternating balconies, railings and colored panels. We produce all concrete panels for our P3M buildings at our DSK-3 plant.

The buildings have been designed in accordance with modern housing standards, with increased comfort for the homeowner. Each apartment has a comfortable lobby area, a combined kitchen and dining room, built-in furniture, fitted cupboards, an electric oven and a balcony. The apartments have a newly designed bathroom with a separate lavatory area and a large-sized bathtub. Each apartment has cupboard space and adequate space for kitchen equipment.

Since 2004, we have produced our series P3M-7/23 23-story buildings with advanced layout solutions and new architectural facade concepts. We can combine buildings of different heights using both flat and raised facades that add to the variety of the types of apartments along the vertical line of the building.

Beginning in 2008 we plan to produce our new P3M-8/23 series buildings, which will permit us to construct housing at certain sites where there is a limited footprint. The building can have an angular form and can face any direction. In addition to providing for more compact construction, this design allows for increased floor area of the apartments.

Series 111

This series of concrete panel housing was first developed by the Russian Ministry of Defense and was widely used to construct buildings to house military personnel. This series has since been modernized and is now widely used to construct private housing. Series 111 buildings can be built up to 17 floors and have an average floor space of 3,400 square meters. Building specifications may be adapted to the specific planning requirements for each structure depending on the location of the project and customer demand. We produce all concrete panels for our series 111 buildings at our 100 KGI plant.

Series 111 buildings use triple-layered external wall panels that satisfy Moscow’s energy saving requirements. We also use triple-glazed windows and balcony doors manufactured using German equipment and components and that have special valves allowing apartments to be ventilated without opening windows.

In 2004, series 222 was developed, which is almost identical to series 111. The patents for series 222 are held by Closed Joint Stock Company “Corporation S.Holding,” which is trying to challenge our rights to certain technical solutions used for series 111. See “Risk Factors—Risks Relating to our Business—We may be prevented from continuing to use the series 111 and series 222 concrete panels or forced to make obligatory payments to third parties for such use.”

Poured Concrete

In addition to prefabricated paneled buildings, we produce poured concrete buildings. We started development of poured concrete buildings in 1999. These buildings are planned on an individual basis and therefore allow for greater customization of building design and apartment layouts. In poured concrete construction, moulds are put in place and concrete is poured into the moulds. Typically, foundation thickness for our poured concrete buildings is approximately 600 millimeters, thickness of internal walls is approximately 200 millimeters and thickness of external walls (with heat insulation) is approximately 500 millimeters, depending upon the level of reinforcement. All of the steel reinforcement, openings for doors and windows and electrical and plumbing elements must be in place before the concrete is poured.

In 2006 we produced approximately 166,000 square meters of housing using poured concrete technology in Moscow and the Moscow region and approximately 138,000 square meters of housing in other regions across Russia. Although this method of construction is primarily used for elite housing in Moscow and the Moscow region, it is also used on a larger scale in various Russian regions where there are no nearby facilities for producing concrete panels.

We commenced development of the various types of buildings as follows:

Year	2001	2002	2003	2004	2005	2006
Type of Buildings	KOPE Poured concrete	KOPE Poured concrete	KOPE Poured concrete	KOPE KOPE-M Parus P3M P3M-7/23 Poured concrete	KOPE KOPE-M Parus P3M P3M-7/23 Series 111 Poured concrete	KOPE KOPE-M Parus KOPE-M Tower P3M P3M-7/23 Series 111 Poured concrete

Project Design

In order to meet evolving preferences of our customers, we invest considerable resources in creating an appropriate design and marketing strategy for each new development, which includes determining the size, style and price range of units. As of March 31, 2007, our in-house design team consisted of approximately 100 employees, including engineers, marketing and sales professionals and architects. This team works with recognized independent architects on the planning and designing of our developments. Their activities include designing the interior and exterior, drafting plans for the execution of the project, and choosing the finishing construction materials. A team responsible for preparing the business plan and budget and assessing the

financial viability for each of our projects is also involved. Our design professionals often plan entire communities consisting of multiple buildings and a public infrastructure.

In-house project design allows us to design our developments on an expedited schedule, receive design approvals relatively quickly and scale our designs across many regions in Russia. Our designs reflect regional demand while utilizing standardized designs and construction processes to the greatest extent possible, which allow for volume purchases of materials and components and more efficient use of labor.

Urban Planning and Development

Depending on the terms of our investment contracts, we may be required to perform specified urban planning and development activities before a construction permit will be granted. Urban planning and development requirements can be complex and are normally undertaken in close cooperation with local, regional and federal authorities. This may involve development of local infrastructure including, for example, constructing kindergartens, schools and hospitals, landscaping adjacent land, improving roads, building water heating stations, and providing utilities access. The general contractor for a given development or project is responsible for the supervision of urban planning and development for the land we develop.

Construction Services

We provide construction services by producing and assembling “core and shell” concrete panel housing for the city of Moscow, and we are also sometimes contracted to fit-out a certain number of these apartments. DSK-2 and DSK-3 act as subcontractors to a general contractor selected by the city of Moscow. DSK-2 and DSK-3 have capacity to produce approximately 950,000 square meters of residential housing per year and, in 2006, we provided approximately 375,000 square meters of such housing to the city of Moscow as part of its residential building program.

Our services include delivery of the concrete panels to sites in Moscow and assembling the buildings. We also install windows, facades and electrical wiring for the buildings. If we have been asked to fit-out apartments, DSK-2 and DSK-3 purchase and install all required equipment and furnishings. For the years ended December 31, 2004, 2005 and 2006, our construction services segment had revenues of \$199.5 million, \$444.3 million and \$573.2 million (before inter-segment elimination), respectively. While our profit margins in this segment are lower than the margins connected with our own development projects, the Moscow city government pays market prices for our services, which allows us to absorb a portion of our fixed costs. Such cooperation with the city of Moscow aimed at social housing construction enables us to support all of our development activity and helps us to maintain a positive relationship with the Moscow city government. The proportion of buildings that we construct for the Moscow city government is gradually declining as we focus more of our efforts on expanding our development activities in other regions in Russia.

Production Activities

Production of Construction Materials

We own two of the three concrete panel manufacturers in Moscow, DSK-2 and DSK-3. We also own 100 KGI, which is a concrete panel manufacturer located in the Moscow region. Our production capacity of concrete panels is among the largest in Moscow and Moscow region.

DSK-2 was founded in 1962 and was acquired by us in 2001. At present, DSK-2 is the third largest residential construction company in Moscow and until 2006 produced approximately 350,000 square meters of housing per year. In 2006, DSK-2 increased production from 350,000 square meters to 450,000 square meters of housing and we aim for capacity to reach 490,000 square meters by the end of 2009. DSK-2's construction processes meet international standard ISO 9001-2001. As of December 31, 2006, DSK-2 had approximately 3,085 employees. DSK-2's expected capital expenditure for the years 2007 and 2008 is approximately RUB 517.1 million.

DSK-3 was founded in 1964 and was acquired by us in 2005. DSK-3 is the second largest residential construction company in Moscow and has capacity to produce approximately

500,000 square meters of housing per year and we aim for capacity to reach 500,000 square meters by the end of 2009. As of December 31, 2006, DSK-3 had approximately 3,560 employees. DSK-3's expected capital expenditure for the years 2007 and 2008 is approximately RUB 390.5 million.

100 KGI was founded in 1965 and was acquired by us in 2005. 100 KGI has capacity to produce approximately 135,000 square meters of housing per year and we aim for capacity to reach 149,000 square meters by the end of 2009. As of December 31, 2006, 100 KGI had approximately 670 employees. 100 KGI's expected capital expenditure for the years 2007 and 2008 is approximately RUB 51.6 million.

All panels used for our prefabricated concrete panel developments in Moscow and the Moscow region are manufactured by DSK-2, DSK-3 and 100 KGI. These entities also produce a limited amount of concrete panels for areas outside of Moscow and Moscow region; however high transport costs generally mean that we source concrete panels locally. The window frames for all our concrete panel housing is manufactured by PIK Profile, which is based at the DSK-2 plant. In addition, our subsidiary PIK Technology provides the aluminum facades for our buildings and PIK Podyom supplies and assembles the elevators for most of our developments in Moscow and the Moscow region.

In addition, our subsidiary 160 DSK manufactures and assembles individual wood-framed houses at small sites in Moscow and the Moscow region.

Production of Raw Materials

Our raw materials division is operated through our wholly owned subsidiary Trading House Osnova, which was created to provide materials and services for our own real estate development activity. We own gravel and non-ferrous quarry operator PIK Nerud, which has activities in the Moscow region, Ivanovo region and Republic of Karelia. Our raw materials operations allow us to extract gravel, sand and crushed rock from quarries for the production of construction materials. Approximately 30% of the raw materials we produce is used by DSK-2, DSK-3 and other of our manufacturing facilities and construction entities. We sell the remaining amount (approximately 70%) of our raw materials to third parties, including to other developers. The following table shows our production of raw materials for 2006 and our requirements for such materials:

Raw material	Volume produced by us in 2006	Volume required by us in 2006
Crushed rock	2,218,000 cubic meters	547,000 cubic meters
Gravel	360,000 cubic meters	90,000 cubic meters
Sand	2,325,000 cubic meters	31,000 cubic meters
Cement	—	238,000 tons

We believe that our ability to provide gravel, sand and crushed rock to our cement suppliers allows us to negotiate more favorable and longer-term contracts for cement used in our operations, which we believe gives us a significant advantage over our competitors.

As of December 31, 2006, we had approximately 85 employees in our raw materials division.

Suppliers

We contract with major suppliers for raw materials and construction materials and equipment used in the construction of our projects, including cement, concrete, gravel, sand and metal. For the years ended December 31, 2004, 2005 and 2006, raw materials have represented on average 40%, 39% and 36% of our total costs. Prices of some raw materials have significantly increased over the last three years at a rate much higher than inflation.

Our largest five suppliers in terms of volume are GUP Mosstroyresurs (cement, metal and cable), Magma Trade LLC (metal), Evrocement (cement), Voskresensk cement (cement) and Santekhpromkomplekt (ventilation convectors and tube shells). As of the date of the prospectus, cement and non-ferrous metals represent 9% and 7% of our total raw materials costs, respectively. In general, we purchase cement pursuant to medium- to long-term contracts ranging from three months to one year.

We have rigorous specifications when selecting our suppliers, which are based not only on the quality and price of the products, but also on the reputation of the suppliers. We also maintain strict quality controls to ensure that materials conform to specifications prior to their installation.

We work closely with our suppliers, enabling them to schedule their production in order to meet our demand or notify us in advance in the event they anticipate delays. We have good relationships with our suppliers and have experienced no significant construction delays due to shortages of materials in recent years. We do not maintain inventories of construction materials.

We produce gravel, sand, crushed rock, concrete panels, windows, aluminum facades and elevators at our own production facilities, which decreases our reliance on outside suppliers of these materials.

Real Estate Servicing and Maintenance

Through our wholly owned subsidiary PIK Comfort LLC, we provide servicing and maintenance for residential buildings and developments in Russia as well as for some non-residential premises such as shopping centers, underground garages and parking lots. We provide these services for many of our own properties and also for properties developed by third parties. While we currently do not service all the properties that we have developed, our goal is to provide servicing and maintenance for every residential property completed by us. In 2006, the total area of properties serviced by us grew by 56% over the total area serviced in 2005. As of December 31, 2006, our servicing and maintenance division had approximately 470 employees.

As of April 1, 2007, we serviced approximately 850,000 square meters of residential and commercial properties, of which approximately 166,000 square meters consisted of properties developed by third parties. Most of these properties are located in Moscow (596,000 square meters) and the Moscow region (220,000 square meters), but also include properties located in other regions (33,000 square meters). In addition, as of April 1, 2007 we serviced approximately 21,000 square meters of parking garages, of which approximately 10,000 square meters consisted of parking garages developed by third parties.

In 2007, we will begin servicing four of our large developments in Moscow and the Moscow region that are nearing completion. We will also begin servicing six residential projects and a culture and leisure center which has an underground parking garage and an apartment hotel. By January 2008, we plan to be servicing approximately 1.9 million square meters of residential and commercial property, of which approximately 204,000 square meters will consist of properties developed by third parties. In addition, by January 2008 we plan to be servicing approximately 53,000 square meters of parking garages, of which approximately 12,000 square meters will consist of parking garages developed by third parties.

We seek to ensure that all necessary services are provided to the residents and tenants of our serviced properties. For each property, we conduct routine inspections of the buildings, grounds and all plumbing and heating systems. We maintain the water supply, sewage systems and electrical, power and heating supplies. We provide waste removal and clean the common areas and the grounds surrounding the property. We also provide security for each building, including video surveillance, access control systems and alarm systems. We have 24-hour mobile emergency teams in case of breakdowns in the water, heating or power supplies or the sewage systems.

We provide a number of other management services including retention of title documents, representing residents or residents' committee in legal proceedings and other matters, collecting fees for communal services and organizing and supervising contractors. We also organize various accounting documentation, draft and implement building budgets and arrange payment of relevant charges and taxes, including lease payments. In addition, we provide offices in each building for passport registration.

We hold all licenses and certificates necessary for the management and operation of residential buildings, including licenses to operate heating and electrical systems and fire safety equipment and to provide communal services.

Mortgage Financing for Purchasers

We have a strategic partnership with Housing Finance Bank, which was founded in 1994 by our shareholders. In the future we plan to direct to Housing Finance Bank up to 50% of the total

value of the housing and mortgage loans used to purchase our properties if the terms of the mortgage loans offered by Housing Finance Bank are more favorable than (or at least equal to) the terms offered by its competitors.

Housing Finance Bank currently provides mortgage loans, housing loans (i.e. pre-mortgage loans, which are loans for unfinished properties that are convertible into classic mortgages upon registration of title) and complementary consumer finance products such as car loans and credit cards for mortgage borrowers. Housing Finance Bank currently offers mortgage programs in Moscow, the Moscow region, Omsk, Rostov-on-Don, Novorossiysk, Yaroslavl, Perm, Lipetsk, Kaliningrad and Nizhny Novgorod.

Loans offered by Housing Finance Bank for home purchases typically range from 70% to 90% of the purchase price of the home and have terms from one year to 30 years. Housing Finance Bank offers loans in rubles or US dollars. Currently, interest rates for pre-mortgage loans offering by Housing Finance Bank generally range from 12% to 14% while interest rates for mortgage loans generally range from 10% to 14%. Interest rates depend on the type of loan, the stage of construction of the building (the interest rate decreases after the title to the completed construction project has been obtained and the mortgage has been registered) and factors such as the term of the loan and the borrower's ability to repay.

Since 2003 we have participated in joint mortgage programs with other leading Russian banks such as Sberbank, Vneshtorgbank, ROSBANK, Raiffeisenbank Austria and others which offer their own loan programs tailored to our customers. The number of our customers who financed their purchases with mortgage loans grew significantly from 2003 to 2006, from 83 pre-mortgage loans in 2003 to 911 in 2006.

In 2005 and 2006, approximately 25% and 18%, respectively, of purchasers of our residences received long-term pre-mortgage loans, while the number of mortgages as a proportion of all residential purchases is, on average, 9% in Russia (see "Industry").

A program called "Affordable Housing," operated by the Russian government, aims to increase the share of households that can afford acquisition of residential real estate from 9% in 2004 to 30% in 2010 through subsidizing infrastructure costs and mortgage expenses. This has led to the increase in mortgage funded sales in the market.

Sales and Marketing

For most of our projects, we begin to market our residences for sale once a building permit for construction is received. We develop our own promotional campaigns for specific developments as well as brand promotion campaigns. In 2006, we spent approximately RUB 51.2 million on our marketing campaigns.

Marketing and sales of our residences are performed primarily by our own internal staff, which as of December 31, 2006 consisted of approximately 130 professionals. Our internal sales staff focuses exclusively on the sale of our developments and building strong relationships with current and potential customers. Our marketing team is also responsible for gathering information on needs and preferences of potential customers, which forms an important part of our land acquisition strategy and project design activities.

We currently have 15 sales offices which are located at construction sites and 15 call centers. We also generally have a showroom on or near each of our construction sites and may have showrooms in over 50 locations at any given time. The showrooms include a model apartment, outfitted with interior finishings, appliances and furniture. The showroom is staffed by our marketing and sales personnel who answer questions and invite customers for a tour of the model apartment. Our marketing and sales personnel receive substantial training in finding target homebuyers, customer service, facilities services (if applicable) and construction schedules and building plans. We believe that this results in a sales force with extensive knowledge of our products and related services. In all phases of our marketing efforts, we emphasize our commitment to on-time delivery of residences that are constructed with high-quality materials. We also have special promotional events when we launch new developments.

While sales and marketing of residences in our developments is primarily carried out by our subsidiaries PIK LLC in Moscow and PIK Region outside of Moscow, we sometimes use brokers and real estate agents such as MIEL and MIAN Real Estate Agency to market a portion of our

properties because of the large amount of residences that we construct. We have longstanding relationships of over five years with the brokers and real estate agents we use. Brokers and real estate agents accounted for sales of less than 1% of our residences that were sold during 2006.

In addition, we use multiple channels such as on-site billboards, the Internet, direct mail advertising, distribution of leaflets in neighboring areas, general and specialized press, radio and television, and commercial exhibitions to market our residences. The focus of our advertising efforts is to attract buyers to specific apartment developments.

In an effort to reduce our financial exposure, we generally “pre-sell” as many residences in our prefabricated panel buildings as possible when launching a new development by focusing our marketing and selling efforts for such development in the early stages of construction. We believe we have been successful with this strategy, generally receiving 100% advances from customers for residences in our prefabricated panel buildings before completion of construction. While under Russian law we are not prohibited from beginning pre-sales of residences once an investment contract has been concluded, we generally begin the pre-sales phase only after construction commences so that our customers will have greater assurance that their purchases will be consummated. Occasionally, we will decide not to pre-sell certain properties for business strategy or marketing reasons. The remaining units are usually sold by the end of construction. At the same time, we aim to maximize margins on sales. For elite buildings, units are sold in phases in order to control the number of units on the market and to increase prices. In the past, early sales and early payments of installments have enabled us to meet a significant portion of our cash needs for our real estate development and construction. We cannot guarantee that the same pre-sale and early payment rates will be maintained in the future.

Our sales efforts differ in the case of poured concrete buildings, which we typically market to higher-income purchasers. We generally only sell units in our poured concrete buildings after they have been built because many purchasers are investors interested in the rates of return on the invested capital. For these buildings, we sell the residences in phases in order to control the number of units that are placed on the market.

We have historically experienced a low rate of canceled sales. In the last three years, less than 1% of our contracted pre-sales have been canceled.

We pre-sell a significant amount of our properties to real estate companies in block transactions in order to secure cashflows. In 2006, these block transactions accounted for approximately 37% of our sold residences. These companies will typically have a network of offices allowing them to reach a wider customer base and this can assist us in selling large volumes of properties which may otherwise take longer to sell. We require, through formal and informal agreements, that these properties be sold at a certain price and that the marketing and selling methods are consistent with our own. Historically, we have not pre-sold properties in block transactions at a discount.

We believe the transactions that we and our subsidiaries enter into with individual investors are in compliance with legislation of the Russian Federation. Still, we cannot guarantee that the transactions will not be challenged in the future by the relevant authorities. For more information, see “Risk Factors—We are subject to numerous risks inherent to real estate development.”

Projects

During the last three years we have been active in the Russian real estate market, we have financed, constructed and sold over 2.5 million square meters of completed residential real estate, which also includes completion of townships and entire urban neighborhoods. In 2006, we completed and sold 1.2 million square meters of completed residential real estate. As of January 1, 2007 our portfolio of real estate development projects included 413 properties that have been internally approved for a total of 9.8 million square meters of net selling area attributable to the Company (the “PIK Share”).

Our residential projects include high-rise prefabricated panel apartment buildings, elite apartment buildings in prime locations in Moscow and detached family homes in some of the most prestigious Moscow suburbs. In addition, we are currently in various stages of development of three commercial projects in Moscow. These are Class A office building developments located at Presnensky Val, Mantulinskaya Street (KSRZ) and Kutuzovsky Prospect (Park City).

Completed Projects

From 2004 to 2006, we constructed and sold over 2.5 million square meters of completed residential real estate. These projects were primarily located in Moscow and the Moscow region but also included projects in other regions in Russia, primarily in Rostov-on-Don.

The following table sets forth details of our completed projects for the periods indicated.

	<u>Years ended December 31,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Total square meters of living space completed (thousands), including:			
– Residential	497	827	1,244
– Other	495	816	1,190
	2	11	54
Total number of residential units completed	6,608	12,238	17,314

Ongoing Development Projects

Our portfolio of real estate development projects as of January 1, 2007 included 413 properties with an appraised total Market Value (as defined below) of approximately \$8.8 billion according to the Valuation Report prepared by CBRE. These properties have been internally approved for a total of 9.8 million square meters of net selling area (PIK Share), including a total of 8.8 million square meters of net selling area that was unsold as of January 1, 2007 (“Unsold Area”).

Our portfolio includes properties in various stages of development and, according to the classification provided in CBRE’s Valuation Report, is comprised of: (i) properties held for investment (completed and partially sold); (ii) properties in the course of development; and (iii) properties held for development.

Properties held for investment as of January 1, 2007 included 28 properties with an appraised Market Value of approximately \$200 million, which represents approximately 2% of the total Market Value. These properties include completed and partially sold properties with a total of 600,000 square meters of PIK Share, of which Unsold Area represented approximately 100,000 million square meters.

As of January 1, 2007, we had 184 properties in the course of development with an appraised Market Value of approximately \$2.9 billion, which represents approximately 33% of the total Market Value. These properties, with respect to which we had commenced construction, are intended to be completed in the next four years and represent approximately 3.5 million square meters in net selling area (PIK Share).

Properties held for development include 201 properties as of January 1, 2007, with respect to which we had not commenced construction but had already obtained initial permission documentation and investment contracts for such properties, with an appraised Market Value of approximately \$5.7 billion or approximately 65% of the total Market Value. These properties represent approximately 5.7 million square meters in net selling area (PIK Share).

We estimate that over 90% of our projects that comprise our current land bank will be completed by 2011. However, we cannot assure you that any of these projects, particularly those which are in the early stages of development or where we have not commenced construction, will proceed in accordance with our plans or at all. See “Risk Factors—A number of our projects are in early stages of development, and we may not be able to complete these projects successfully.”

The following table sets forth information about our top 15 development projects that were valued by CBRE. These projects represent, in the aggregate, approximately 66% of our property portfolio's appraised Market Value. Other than the information relating to the number of properties contained in each project, the data contained in the table has been derived from the Valuation Report prepared by CBRE.

<u>Project in development</u>	<u>Location</u>	<u>Number of Properties¹</u>	<u>PIK Share of Net Selling Area (in thousands of square meters)</u>	<u>Market Value (in \$ millions)</u>
Yaroslavsky, Mytischki	Moscow Region	43	1,144	1,327.9
Novokurkino, Khimki	Moscow Region	23	987	1,283.2
Volzhsky 2	Moscow	8	238	415.0
Krasnaya Gorka, Lubertsy	Moscow Region	19	325	375.3
Mantulinskaya Street 7	Moscow	1	234	292.7
Sovkhoznaya 2, Khimki	Moscow Region	36	357	280.1
Centralny, Dolgoprudny	Moscow Region	14	303	277.5
Park City	Moscow	1	177	251.6
Kommunarka village	Moscow Region	1	413	241.5
English Town	Moscow	1	70	237.7
Yubileyny, Khimki	Moscow Region	14	203	204.9
Dmitrov, Makhalino	Moscow Region	3	227	191.6
Michurinsky, k-1 5-6 Ramenky	Moscow	1	63	166.2
Akademika Vinogradova	Moscow	4	82	151.7
Novo-Peredelkino	Moscow	12	211	97.4

(1) Parking garages and other required structures were distributed among the valued properties to which they are associated.

As of January 1, 2007, our 413 properties were located in Moscow, the Moscow region and eight other regions in Russia. The properties were concentrated in the Moscow region, which accounted for approximately 56% of the total Market Value of our development portfolio, and in Moscow, which accounted for 30% of the total Market Value.

The following table sets forth details of our projects by location as of January 1, 2007:

<u>Location</u>	<u>Site Area, hectares</u>	<u>Number of Properties¹</u>	<u>Net Selling Area (PIK Share in thousands of square meters)</u>	<u>Unsold Area (in thousands of square meters)</u>	<u>Market Value (in \$ millions)</u>
Moscow	197	65	1,926	1,466	2,673.6
Moscow Region	696	212	4,988	4,822	4,938.7
Rostov-on-Don	54	13	548	527	263.0
Nizhny Novgorod	14	8	192	130	59.3
Yaroslavl	23	31	260	203	106.1
Novorossiysk	21	20	319	281	117.1
Kaliningrad	67	31	587	569	303.1
Perm	2	4	51	51	41.3
Omsk	61	26	724	602	266.1
Taganrog	2	3	161	153	33.2
Total	1,137	413	9,756	8,804	8,801.5

Source: CBRE

(1) Parking garages and other required structures were distributed among the valued properties to which they are associated.

Description of our Key Projects

Yaroslavsky, Mytishi

The city of Mytishi in the Moscow region is located next to the Moscow Ring Road (MKAD). We intend to develop two adjacent “micro districts” (micro districts 15 and 16) consisting of approximately 43 multi-apartment residential and mixed purpose buildings on three land plots with a total site area of 114 hectares and a net selling area of approximately 1,144,359 square meters (PIK Share). As of January 1, 2007, we had 11 buildings in the course of development. The Yaroslavsky project is expected to be completed in 2012 and will consist of P3M, KOPE-M Parus, KOPE-M Tower and poured concrete buildings.

Limited Liability Company “Zagorodnaya Usadba,” the Construction Ministry for the Moscow Region and the Administration of the Mytishi Region entered into an investment contract (registered on March 30, 2005) for the construction of a development with an approximate residential area of 530,000 square meters and a land lease agreement dated June 10, 2005 (registered on August 25, 2005), with respect to the development at micro district 15. We acquired our development rights for micro district 15 by purchasing 100% of the shares of Zagorodnaya Usadba. We are required under the terms of the investment contract to contribute RUB 45.3 million toward the construction of engineering systems.

Limited Liability Company “Tverdynya,” the Construction Ministry for the Moscow Region and the Administration of the Mytishi Region entered into an investment contract for the construction of buildings with an approximate residential area of 200,000 square meters on April 30, 2004 (registered on July 26, 2004) and Tverdynya was granted a land lease by Closed Joint Stock Company “EuroSystems” on December 6, 2004 (registered on January 18, 2005) with respect to the development at micro district 16. We acquired development rights for micro district 16 by purchasing 100% of the shares of Tverdynya. We are required under the investment contract to contribute RUB 17.0 million toward the construction of engineering systems.

Under these investment contracts, 3% of the total residential and non-residential premises and parking at the Yaroslavsky project, as well as the so-called “social objects” to be constructed pursuant to the project (three kindergartens, two schools, one medical center, two sports fields and other facilities), engineering systems and social and transport infrastructure, are to be allocated to the Administration of the Mytishi Region and 97% of the total residential and non-residential premises and parking at the Yaroslavsky project is to be distributed to Zagorodnaya Usadba and Tverdynya.

Micro district 16 will also involve the development of a 12.9 hectare land plot owned by Limited Liability Company “Stroyzhilinvest 16.” However, the investment contract for this part of the Yaroslavsky project has not been executed and no approvals or permits had been obtained as of April 30, 2007. We acquired the development rights to this land plot by acquiring a 100% interest in the charter capital of Stroyzhilinvest-16.

Novokurkino, Khimki

Khimki lies at the intersection of the Moscow-St. Petersburg highway, the Oktyabrskaya railway and the Moscow River directly on the other side of the MKAD. Russia’s largest airport, Sheremetyevo 2, is also in the Khimki region not far from the site. We intend to develop three adjacent “micro districts” (micro districts 6, 7 and 8) consisting of 23 multi-apartment residential buildings with an approximate net selling area of 987,290 square meters (PIK Share), in addition to seven buildings which we have previously completed and sold. As of January 1, 2007, two of these 23 buildings had been completed but only partially sold, and we had one additional building in the course of development. This project was our first large-scale development in the Moscow region and consists of KOPE-M Parus, KOPE-M Tower and poured concrete buildings. The project is expected to be completed in 2011.

Limited Liability Company “Upravlenie Eksperimentalnoy Zastroyki Novokurkino,” the Administration of the Khimki Region and the Construction Ministry for the Moscow Region and the Ministry of Property Relations for the Moscow Region entered into an investment contract on May 15, 2003 with respect to the development. We acquired development rights for this project by purchasing a 100% interest in the charter capital of Upravlenie Eksperimentalnoy Zastroyki Novokurkino.

Under the investment contract, 100% of residential buildings and non-residential premises will be allocated to us. In accordance with the investment contract, we have contributed \$4.0 million toward the city's social and economic programs in the Khimki region. We are also required to allocate 6,200 square meters of the non-residential premises of the project to the Administration of the Moscow Region. However, the investment contract also gives us the right to purchase the Administration of the Moscow Region's share in the project at a price of RUB 20,000 per square meter, which right we exercised in June 2003.

Volzhsky 2, Moscow

This project is located at Okskaya Street in eastern Moscow, close to Volgogradsky Prospekt, between the Tekstilschiki and Kuzminki metro stations. The project consists of two phases. We were a co-investor for the first phase of this project, which has been completed and for which Closed Joint Stock Company "INTEKO" entered into an investment contract with the Moscow city government and FSO "Dinamo" on May 19, 2003. We entered into a corresponding co-investment contract with INTEKO on June 8, 2005 for the joint financing and development of the project.

In the second phase of the project, we intend to develop seven multi-apartment residential buildings and one shopping center with a total net selling area of 238,008 square meters (PIK Share). As of January 1, 2007, one of these seven buildings had been completed and partially sold, and we had six buildings in the course of development. The second phase of the project is expected to be completed in 2007 and will consist of P3M, P3M-17/23 and poured concrete buildings. Parking spaces and a shopping center with an area of 5,625 square meters are expected to be completed in 2008. Closed Joint Stock Company "VIKTOR" entered into an investment contract with the Moscow city government on July 12, 2006 (registered on July 12, 2006) for the second stage. We acquired development rights for this stage of the project by purchasing 100% of the shares of VIKTOR from INTEKO. VIKTOR entered into short-term lease agreements for five land plots with a total area of 17.8 hectares on February 28, 2007.

Upon completion of construction we will be entitled to 100% of the residential premises, non-residential premises, car parking spaces and the shopping center. Under the investment contract we are required to allocate to the city of Moscow two kindergartens, one school, and one medical center, among other projects. We are also required to relocate certain existing properties on the land plot.

Krasnaya Gorka, Lubertsy

Lubertsy is a satellite city located twenty kilometers from the MKAD to the southeast of Moscow. Lubertsy is the Moscow region's largest agricultural and industrial area and has convenient railway and road access. We intend to develop 19 multi-apartment residential buildings as part of micro districts 7, 8 and 8A, with a net selling area of approximately 325,285 square meters (PIK Share). As of January 1, 2007, we had seven buildings in the course of development. The Krasnaya Gorka project is expected to be completed in 2009 and will consist of KOPE-M Parus, KOPE-M Tower and series 111 buildings.

PIK Region entered into an investment contract with the Construction Ministry for the Moscow Region, the Administration of Lubertsy Municipal District of the Moscow Region, Limited Liability Company "Regionalnaya Finansovo-Stroitel'naya Kompaniya" ("RFSK") as general investor, and Limited Liability Company "Regionalnaya Upravlyauschaya Kompaniya" ("RUK") as managing company on August 23, 2006 (and registered on the same day) for the development of micro districts 7, 8 and 8A.

Under the investment contract, the Administration of Lubertsy Municipal District of the Moscow Region was allocated 10% of the useful non-residential premises, 3% of the total residential area, as well as engineering systems and facilities, roads, schools, kindergartens and polyclinics. RFSK, PIK Region and RUK were allocated 90% of the useful non-residential premises, 100% of the non-residential area and garages and parking area, 97% of the total residential area as well as engineering systems and facilities, excluding engineering systems and facilities comprising the Administration's share.

On August 30, 2006, PIK Region entered into a contract with RFSK and RUK, according to which PIK Region was allocated 80% of the total residential and useful non-residential area and

89% of the garages and parking area. Under such contract PIK Region is to finance 100% of the capital investments into the properties, excluding the land lease, which is to be paid by RFSK.

In addition, on August 30, 2006, PIK Region entered into co-investment agreements with Open Joint Stock Company “DSK-1” and Open Joint Stock Company “Moskapstroy.” Under such agreements, DSK-1 was granted 47% of the total residential and non-residential areas of the properties set out in the co-investment contract with DSK-1 in consideration for providing construction services and equipment for the buildings, and Moskapstroy was granted 8% of the total residential and non-residential area of the properties set out in the co-investment contract with Moskapstroy (and 8.9% of the garages associated with the properties set out in the co-investment contract with Moskapstroy) in consideration for investing in the project.

We are currently in the process of reclassifying the land plot category and formalizing the land rights to this project. We expect to obtain all necessary documentation for this project in the near future. As of April 30, 2007, we had not obtained construction permits for this project although we had obtained permits allowing us to perform pre-construction work at this site.

Mantulinskaya Street 7, Moscow

This project is located in central Moscow on Mantulinskaya Street near the Third Ring Road and the Moscow International Business Center (Moscow-City). The site will consist of Class A office building and will be developed in stages, with phase one completed in 2011, phase two scheduled for completion in 2014 and phase three at the end of 2015. The property will be a poured concrete development covering a total area of 7.0 hectares with a net selling area of approximately 234,000 square meters (PIK Share).

In 2006 we acquired an indirect interest of 98.4% of the shares of OJSC “Krasnopresnensky Sakharorafinadny Zavod” (“KSRZ”) which owns the rights to the land plots and real properties located at this site. In December 2006, we sold 50% of the shares of Closed Joint Stock Company “Gorodskoye Razvitiye,” which indirectly owns 98.4% of the shares of KSRZ.

As of April 30, 2007, no investment contract had been executed and no project documentation had been prepared for this project.

Park City, Moscow

Park City is located between the Garden Ring Road and the Third Ring Road on one of Moscow’s main streets, Kutuzovsky Prospekt. This street is one of the city’s most prestigious retail corridors. The project will be a mixed-use poured concrete development of Class A offices and elite apartments covering 14.3 hectares and was designed by Kohn Pederson Fox with Hines acting as consultant at the pre-development stage. The project is scheduled for completion in 2014.

The Moscow city government entered into an investment contract with Open Joint Stock Company “Badaevsky Pivovarenyy Zavod” and Open Joint Stock Company “Sacco and Vancetti” on March 29, 2005. Under the investment contract, Badaevsky Pivovarenyy Zavod and Sacco and Vancetti were each originally allocated 50% of the residential and non-residential area and parking area in the development. PIK Invest is indicated as a customer in the investment contract.

Pursuant to investment agreements entered into in 2005, Closed Joint Stock Company “Park-City Investment” was granted 85% of the residential and non-residential area and parking and garage space in consideration for financing 75% of the expenses of the project. Pursuant to a further co-investment agreement, dated February 10, 2005, between Park-City Investment (as investor) and the Company (as co-investor), we agreed to finance the development in the amount of approximately RUB 70.6 million in consideration for being granted a share in the project. Our share in this project as well as the amount of investment is to be determined by a separate agreement.

The Land Resources Department of Moscow and PIK Invest executed a short-term land lease on March 30, 2005 with respect to the property, which has now technically expired, but continues de-facto due to the parties’ continued performance. Under the land lease agreement, the lease is considered extended for an indefinite period unless a party refuses with one month notice.

As of April 30, 2007, we had not obtained construction permits for this project although we had obtained permits allowing us to perform pre-construction work at this site.

Centralny, Dolgoprudny

Dolgoprudny is a small town located in the Moscow region, approximately five kilometers from the MKAD to the north of Moscow. We intend to develop a “micro district” consisting of 14 multi-apartment residential buildings with an approximate net selling area of 302,931 square meters (PIK Share). As of January 1, 2007, three buildings had been completed and sold, one building had been completed and partially sold, and we had nine buildings in the course of development. The Centralny project is expected to be completed in 2009 and will consist of P3M, P3M-17/23, KOPE-M Parus and poured concrete buildings.

On December 17, 2001, the Construction Ministry for the Moscow Region, the Dolgoprudny city administration and Nonprofit Partnership “Union of the Moscow Region Builders “Mosoblstroykompleks” (“Mosoblstroykompleks”) entered into an investment contract (registered on February 4, 2002) for joint financing and development of the project called Micro District “Centralny.” Initially, under the investment contract, 18% of the property (including a portion of the off site engineering and communications infrastructure, the improvements to the Moscow Channel embankment, certain residential premises and social and cultural facilities and parking garages) has been allocated to the Dolgoprudny city administration, while 82% has been allocated to Mosoblstroykompleks.

During 2001-2003, Mosoblstroykompleks entered into a number of co-investment agreements with various parties. In October 2003, Limited Liability Company “Peredovye Tekhnologii v Stroitelstve” (“PTvS”) joined the investment contract as the general investor by executing (together with the Construction Ministry for the Moscow Region, the Dolgoprudny city administration and Mosoblstroykompleks) an amendment agreement that divided the Centralny project into three properties. Under the amended investment contract:

- Property 1: 7% of the total residential area, the residential area intended for relocation, a portion of the off site engineering and communications infrastructure, and the social and cultural facilities are allocated to the Dolgoprudny city administration, and 93% of the total residential area (but excluding the residential area intended for relocation of inhabitants of the housing facilities situated within the construction site and the social and cultural facilities and parking garages) are allocated to Mosoblstroykompleks;
- Property 2: 7% of the total residential area, a portion of the off site engineering and communications infrastructure and the social and cultural facilities are allocated to the Dolgoprudny city administration, and 93% of the total residential area, the social and cultural facilities and parking garages are allocated to PTvS; and
- Property 3: non-residential area (social and cultural structures) and engineering, communications and other structures allocated to the Dolgoprudny city administration.

On October 5, 2005, PTvS entered into a land lease agreement with the Ministry of Property Relations of the Moscow Region. During 2004-2006, PIK Region entered into several co-investment and assignment agreements, pursuant to which PIK Region acquired rights in respect of residential premises. We are therefore currently entitled to a share of residential premises of approximately 302,931 square meters of net selling area.

Under the investment contract, PIK Region is required to allocate to the city of Dolgoprudny four kindergartens, three schools, one clinic, a police station, an administration building and other facilities.

English Town, Moscow

The English Town residential development is located at Mytnaya, 13 which is between the Garden Ring Road and the Third Ring Road just to the south of central Moscow. This area is very popular among home buyers and more than 20 embassies are located in the area. We intend to develop one elite, poured concrete residential building with a net selling area of 70,362 square meters. This project is expected to be completed in 2009.

The Moscow city government issued an order relating to pre-design documentation to Closed Joint Stock Company “Avtokombinat No. 32 on January 19, 2004. Under the order,

Avtokombinat No. 32 is to be relocated from Mytnaya street to the industrial zone “Chertanovo.” As of March 31, 2007, the relocation had not yet begun. In addition, Avtokombinat No. 32 was granted a land lease by the Land Resources Department of Moscow City on July 26, 2006 with respect to the development. The term of the land lease agreement expires on December 31, 2007. However, this agreement was not registered with the relevant authorities and thus does not have legal force. We are not planning to register this agreement because we expect that the Moscow city government will issue a new order with respect to this project to, and sign an investment contract with, our subsidiary Limited Liability Company “Stroyekoresurs.”

On February 26, 2006, one of our group companies, Stroyekoresurs, entered into a co-investment agreement with Avtokombinat No. 32 and Limited Liability Company “SoftGrant” for the joint financing of this project pursuant to which Stroyekoresurs was allocated 70% of the total area of the residential and non-residential premises and parking for the project. On June 1, 2006, we entered into a preliminary co-investment contract with Stroyekoresurs for the joint financing and development of the project. On the same date, June 1, 2006, we entered into a co-investment agreement with Stroyekoresurs for the joint financing and development of the project, under which we were allocated 70% of the total area of the residential and non-residential premises and parking spaces for the project.

We expect that the new order of the Moscow city government for this project with respect to Stroyekoresurs and Avtokombinat No. 32 as well as the subsequent investment contract between the Moscow city government, Stroyekoresurs and Avtokombinat No. 32 will be executed in the near future.

Sovkhoznaya 2, Khimki

Our second development in Khimki is Sovkhoznaya 2. We intend to develop a “micro district” consisting of 36 multi-apartment residential buildings with a net selling area of approximately 356,671 square meters (PIK Share). As of January 1, 2007, we did not have any buildings in the course of development for the project. The Sovkhoznaya 2 project is expected to be completed in 2011 and will consist of P3M, P3M-17/23, KOPE-M Parus, KOPE-M Tower and poured concrete buildings.

Yubileyny, Khimki

Our third development in Khimki is Yubileyny. We intend to develop 14 multi-apartment residential buildings with a net selling area of 202,627 square meters. As of January 1, 2007, we had six buildings in the course of development. The Yubileyny project is expected to be completed in 2008 and will consist of P3M, P3M-17/23, KOPE-M Parus and KOPE-M Tower buildings.

On September 30, 2005, PIK Region entered into an investment contract with the Construction Ministry for the Moscow Region, the Administration of Khimki, Limited Liability Company “Stroysimvol” (as general investor) and Limited Liability Company “Regional Management Company.” On October 31, 2005, the Ministry of Property Relations of Moscow Region granted Stroysimvol a land lease in relation to this development (registered on February 8, 2006). Under the investment contract, PIK Region was allocated 76% of the total residential premises, 76% of the total non-residential premises and 86.5% of the parking area. The engineering systems, roads and social and cultural infrastructure of the development are allocated to the Administration of Khimki. The list of these structures will be set forth in an additional agreement to the investment contract, which had not been entered into as of April 30, 2007.

Projects Under Consideration

The discussion below of projects under consideration is forward-looking information and these acquisitions may not be achieved due to a number of factors. See “Cautionary Note Regarding Forward-Looking Statements” for a discussion of these factors. See also “Risk Factors” for a discussion of risks we face in conducting our business, which, if they materialize, may prevent us from completing the acquisitions and projects discussed below.

In addition, the current estimates and projections related to these projects are subject to change. In particular, these projects are subject to formal agreements, which have not yet been entered into. We cannot assure you that we will enter into such agreements or on the terms set out below.

Kaluga and Kaluga region

In March 2007, we entered into a framework agreement and in May 2007 we completed the acquisition of stakes in the legal entities that own facilities in Kaluga and Obninsk in the Kaluga region for the production of construction materials together with the rights to three projects located in Kaluga, Obninsk and the village of Likhun (also in the Kaluga region) for total consideration of approximately RUB 1.5 billion. The Kaluga region is adjacent to the Moscow region and is the site of a number of our developments, including industrial parks to house production facilities of multinational companies.

We aim to develop approximately 420,000 square meters of net selling area at the Kaluga land plot, and 57,000 square meters of net selling area at the Obninsk land plot. In addition, we aim to develop approximately 16 panel buildings with approximately 170,000 square meters of net selling area at the Likhun land plot.

Yaroslavsky, Mytishi

We are considering acquiring rights to a new project at the Yaroslavsky micro district of Mytishi, Moscow region. In May 2007, we executed a memorandum of understanding with regard to this project and we are currently negotiating the material terms and conditions of the acquisition. The Yaroslavsky project consists of a land plot of approximately 28.3 hectares. If we are successful in acquiring rights to this project, we aim to develop approximately 150,000 square meters of net selling area.

Myskhako, Novorossiysk

We are considering acquiring rights to a new project in the settlement of Myskhako located near the city of Novorossiysk. In March 2007, we executed a memorandum of understanding with regard to this project and we are currently negotiating the material terms and conditions of the acquisition. The Myskhako project consists of a land plot of approximately 28.0 hectares. If we are successful in acquiring rights to this project, we aim to develop approximately 27 poured concrete buildings with approximately 378,000 square meters of net selling area.

“Airport,” Perm

We are considering acquiring rights to a new project in Perm. In May 2007, we executed a memorandum of understanding with regard to this project and we are currently negotiating the material terms and conditions of the acquisition. The “Airport” project consists of a land plot of approximately 12.9 hectares. If we are successful in acquiring rights to this project, we aim to develop approximately 129,000 square meters of net selling area.

Marshala Zakharova 7, Moscow

In April 2007, we entered into a co-investment agreement with Limited Liability Company “Veistoun” under an investment agreement entered into between Veistoun and the Moscow city government in December, 2006 relating to the development of the project located at 7, Marshala Zakharova Street, Moscow. The project consists of a land plot of approximately 4.8 hectares. Under the co-investment agreement, we will participate in the development of residential premises with approximately 70,300 square meters of net selling area, an underground mall of approximately 3,600 square meters and an underground car parking of approximately 81,000 square meters. Under the co-investment agreement, we are to contribute to the project approximately RUB 668.0 million and, subject to completion of construction, the residential premises with approximately 10,000 square meters of net selling area will be allocated to us.

Perovskaya 66, Moscow

In February 2007, we entered into two share and purchase agreements for the acquisition of approximately 92.0% of shares of Open Joint Stock Company “Kuskovsky Ordena ‘Znak Pocheta’ Chemicals Plant” (“KCP”) for \$140.0 million and we are planning to complete this transaction in July 2007. KCP is the owner of 35 constructions on the land plot of approximately 15.3 hectares located at 66, Perovskaya Street, Moscow.

Pursuant to an investment contract dated February 13, 2006 between KCP and the Moscow city government, KCP, among other things, has the right to develop residential premises with the

total area of up to 188,100 square meters with approximately 1,490 car parking spaces, and social and cultural objects with total area of approximately 17,100 square meters. Upon completion of construction KCP will be entitled to 100% of the residential premises, non-residential premises and car parking, provided that KCP makes a payment to the budget of the city of Moscow for the social, engineering and transport infrastructure in the amount of approximately \$4.3 million.

Other Projects

We are currently in negotiations for the acquisition of land plots in Nizhny Novgorod, Perm, Yaroslavl, Krasnodar, the Moscow region and other regions of Russia. If we are successful in acquiring these land plots, we aim to develop up to 4.5 million square meters of residential housing on these plots.

Valuation of our Properties

We retained CBRE 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 January 1, 2007.

Each property has been valued on the basis of “Market Value” in accordance with the Practice Statement contained in the RICS Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors, or the Red Book. In the Red Book, “Market Value” 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.”

The properties consist of (1) properties held as investment, (2) properties in the course of development and (3) properties planned for future development. According to CBRE, as of January 1, 2007, the aggregate market value of our beneficial share of the properties was \$8,801,500,000, categorized as follows:

<u>Category</u>	<u>Number of Properties</u>	<u>Market Value of Our Beneficial Share</u>
		<i>(in US dollars)</i>
Properties held as investment	28	185,500,000
Properties in the course of development	184	2,920,000,000
Properties planned for future development	<u>201</u>	<u>5,696,000,000</u>
Totals	<u>413</u>	<u>8,801,500,000</u>

The valuations stated above represent the aggregate of the current values attributable to individual 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

CBRE based its valuation of the properties on the income approach and adopted a discounted cash flow method to arrive at a net present value of the property portfolio. A residual approach was also used to verify the values obtained through the discounted cash flow method. Each method has its own limitations, especially in Russia, 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.

Under the income approach, prospective cash flows from a property and the costs associated with being able to generate those cash flows are discounted back to the present using a market-derived discount rate. The resulting net present value is an indication of the market value. Specifically, with respect to properties in the course of development and properties held for future development, the market value is the net present value of all future income streams less the net present value of all future costs. The costs include all the development costs still outstanding for the property. Future incomes were based on current market conditions and anticipated future trends in rents and/or sales prices.

The discount rates adopted were built on a cumulative basis and contain relevant risk elements, including the risk free rate plus market, planning/permission, encumbrance, and construction risks. In most cases the rate varied in accordance with the project's completion stage and its scope.

The residual method was used, where applicable, to verify the market values resulting from the discounted cash flow analysis for properties expected to be sold in the near term. Within the residual method CBRE applied the developer's profit appropriate for each individual property based on a potential third party developer's/purchaser's likely expectations for the properties. CBRE also took into account comparable transactions where available and appropriate, which are also used as a cross check for the valuations derived from the income and residual approaches.

Certain Assumptions and Methodologies

The valuations are based on various assumptions and methodologies. We urge you to read the Valuation Report for a full discussion of these assumptions and methodologies. In general, CBRE has assumed a number of matters relating to the nature of the properties and the development process, including:

- there are no abnormal ground conditions, or archeological remains present, which might adversely affect the present or future occupation, development or value of any of the properties;
- there are no and will not be any structural or latent defects within the properties and no deleterious or hazardous materials have been or are being utilized in the construction of the properties;
- building works will be completed to a high quality standard in accordance with the plans and specifications;
- properties will be completed on time and the buildings will be commissioned in accordance with the local regulations upon completion;
- there are no adverse town planning, highway or other schemes or proposals that will have a detrimental effect on the valuation;
- all relevant planning consents and building permits for the properties and their respective present or proposed uses exist or will be granted without material cost or delay;
- all buildings currently comply, or upon completion will comply, with all statutory and local authority requirements, including building, fire, and health and safety regulations;
- properties will be completed in accordance with information provided by us and this information is in accordance with city planning and applicable in the event a potential buyer should proceed with the project;
- building contractors or other parties with whom we have entered into contracts are capable of meeting their obligations and there are no material undisclosed breaches of covenant;
- the properties possess good marketable titles free from any unusual encumbrances, restrictions or obligations;
- nothing would be revealed by any local search or replies to usual enquiries of the seller which would materially adversely affect the respective values of the properties;
- for the properties where only an investment contract with the proper authorities exists, property title will be issued upon completion of the development;
- land leases from the local authorities will be extended where required; and
- the properties are unlet and either currently on sale or planned to be offered for sale with vacant possession.

CBRE has also used various valuation methodologies intended to remove certain variables from the valuations. These valuation methodologies include, for example:

- where appropriate, CBRE considered our business plan to develop each property, but each valuation reflects CBRE's opinion of an appropriate development that could reasonably be

expected to form the basis of a bid for a property by a third party, i.e., the “Highest and Best Use” has been considered for each property. The “Highest and Best Use” is defined in Paragraph 3.4 of International Valuation Standards 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, CBRE’s valuations do not necessarily reflect our intended investment/development program;

- the stated market values of the properties are exclusive of any VAT;
- no account has been taken of any inter-company leases or arrangements, or of any mortgages, debentures or other charges;
- seller’s costs, such as advertising and agents’ fees, have been allowed for in CBRE’s valuation, as have purchaser costs, however no allowances have been made for any other extraordinary expenses of realization, nor for taxation that might arise in the event of a disposal;
- values associated with stand alone parking structures have been distributed to the appropriate residential buildings for which they are intended on the basis of weighted net selling area of these buildings; and
- machinery such as elevators, central heating and other normal service installations have been treated as an integral part of the building and are included in the valuations.

In addition, the valuations are based on the information which we have supplied to CBRE. CBRE has relied on such information as being correct and complete, without independent verification. Information provided by us and upon which CBRE relied includes:

- information regarding construction costs and construction phases for the property portfolio;
- copies of investment contracts;
- information on land lease agreements;
- information on building areas;
- net selling areas for the properties, which in some cases exceeded the approximate net selling areas set forth in investment contracts provided by us to CBRE;
- information related to development costs;
- engineering and design costs, which vary from project to project;
- information regarding encumbrances, including encumbrances related to liabilities to municipal and regional authorities; and
- for buildings in the property portfolio which are in the development stage, the stated percentages of work completed.

See also “Risk Factors—Risks Relating to Our Business—Real estate appraisals with respect to the properties and projects included in this prospectus may not reflect their actual market values because determining such values is an inherently subjective process” and “Risk Factors—Risks Relating to Our Business—The final building areas for projects in development may differ materially from the gross building areas and net selling areas set out in the Valuation Report.”

Licenses

Our revenues are derived from activities conducted pursuant to various licenses issued by Russian governmental authorities. Each of DSK-2, DSK-3, 100 KGI, PIK Region, PIK LLC, MFS-PIK, PIK Development, PIK Invest, PIK Podyom, PIK Profile and PIK Comfort holds a license for the construction of buildings. Licenses for the design of buildings are held by DSK-2, DSK-3, PIK Development, PIK Project and PIK Comfort. These licenses expire in 2007 to 2011. Our construction activities remain subject to licensing only until July 1, 2007, according to the Federal Law on Licensing of Certain Types of Activities; however this period may be extended to December 31, 2007.

Our raw materials subsidiaries hold all relevant licenses to conduct their activities, including extracting gravel and sand at various sites and transporting cargo throughout the Russian

Federation Our servicing and maintenance entity, PIK Comfort, holds a license necessary for the maintenance of heating systems. In addition, DSK-3 and PIK Comfort have licenses for maintenance of electricity networks and the operation of fire safety equipment.

Market and Competition

We believe that we are the only vertically integrated residential real estate developer in Moscow and the Moscow region that has the ability to manage and control all steps in the development and sale of a project and to provide a substantial amount of its own construction and raw materials for its projects. We do, however, compete with several companies which can be considered our main competition in the residential real estate market. Our main competitors in Moscow and the Moscow region are DSK-1 and SU-155. We also compete with formidable regional and local real estate developers.

According to Rosstat, our share of construction of residential housing (not including construction of individual homes) in Moscow and the Moscow region in 2006 was 14.7% and 8.3%, respectively, which includes concrete panel housing constructed/assembled by DSK-2 and DSK-3 for the Moscow city government.

Occupational Health and Safety

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 through the implementation of appropriate safety measures. Construction is a dangerous activity and we are subject to the general risk of accidents involving heavy equipment and machinery and performing work at dangerous heights. We believe that we follow Russian industry safety standards applicable to our respective operations.

Each production and construction facility in our group has a corporate occupational safety system to reduce industrial accidents, the level of industrial injuries and occupational sickness. We routinely monitor occupational safety at all of our facilities. All our equipment is certified by Russian authorities for compliance with work safety requirements under Russian law. We believe we are in compliance in all material respects with all safety laws and regulations applicable to our business.

Under Russian law, all companies must implement local procedures for health and safety, such as occupational, fire and electrical safety training programs and provide health and safety manuals. Each new employee at one of our facilities receives introductory training, including general health and safety training at licensed training centers on such facility's premises, a workstation assessment and fire and electrical safety training. We keep written records of all training that takes place. In addition, each facility has a permanent committee that annually reviews occupational, industrial and electrical safety awareness and takes appropriate actions to improve safety at the workplace.

We provide each employee at our facilities with appropriate work attire and protective equipment. We assess each workstation for conformity with statutory occupational safety standards. After a workstation becomes compliant with such standards, it is certified. All our employees are provided with mandatory medical insurance and those employed in hazardous or dangerous conditions are provided with mandatory social insurance against industrial injuries and occupational sickness.

We have had a number of industrial accidents at our DSK-2 and DSK-3 facilities. At DSK-2, we had 13 accidents in 2004 (including four severe injuries and one fatality), seven accidents in 2005 (including two severe injuries) and seven accidents in 2006 (including two severe injuries and two fatalities). At DSK-3, we had four accidents in 2005 and four accidents in 2006, with no severe injuries or fatalities. At PIK Development, we had two accidents in 2006 (including one fatality). While we strive to reduce injuries and fatalities by implementing high safety standards at our facilities, there can be no assurance that serious accidents in the future will not occur.

Environmental Issues

We are subject to various environmental laws and regulations which vary according to the location of our proposed developments as well as the environmental conditions and present and

former uses of such sites. The preliminary design specifications for each of our developments must be approved by various federal, regional and local bodies, including by the relevant environmental protection authorities. Any environmental issues arising during the course of development are addressed with the appropriate environmental authority. We also are required to carry out soil testing in order to obtain a construction permit.

In addition, each of our manufacturing, production and processing facilities has received a set of documents regulating environmental issues related to our production activities, including volumes of maximum permitted emissions (issued by Rostekhnadzor), estimated waste generation limits (issued by Rostekhnadzor) and production controls for regulated sanitary zones (approved by the Sanitary-Hygienic Service of the Russian Federation). We regularly monitor the environmental impact of our operations at each of these facilities. Our quality control systems include environmental protection procedures such as controls for observance of waste generation limits with respect to each production unit and controls for water contamination, noise pollution and air pollution in regulated sanitary zones. Each of our facilities also is given a budget to cover expenses related to scheduled and emergency actions taken to control any environmental damage. Our environmental management system has been developed in accordance with ISO standard 14000 and is designed to minimize environmental damage and waste disposal expenses, save energy and materials, reduce emergency incidences, improve our corporate reputation with the regulatory authorities, customers and the public, and to remove national and international trade barriers. DSK-2 and DSK-3, our main concrete panel production plants, have already been certified under ISO standard 14000 and we aim to complete the certification of our other production, processing and manufacturing sites during the course of 2007.

We believe that we are in material compliance with all environmental laws and regulations to which we are subject.

Employees

The following table sets forth the number of our employees in each of our business divisions as of December 31, 2004, 2005 and 2006.

	<u>Number of employees</u>		
	<u>As of December 31,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Management	136	117	262
Development and real estate, including	95	153	683
PIK LLC	—	25	92
PIK Region	95	128	591
Industrial and construction sector, including	8,396	8,662	10,937
panel manufacturing plants	6,943	6,512	6,645
Raw materials (non-metal materials)	1,639	1,707	1,863
Servicing and maintenance	98	177	476
Advertising	28	34	42
Total	<u>10,392</u>	<u>10,850</u>	<u>14,263</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 December 31, 2006, these included approximately 3,025 of our DSK-2 employees, approximately 3,120 of our DSK-3 employees, approximately 515 of our PIK Avtotrans employees, approximately 300 of our employees at 100 KGI and approximately 200 of our PIK Development employees. We have not experienced any work stoppages in the past and consider relations with our employees to be good.

Approximately 6,200 of our employees, including employees of DSK-2 and 100 KGI, are party to collective bargaining agreements. Most of the collective bargaining agreements are for periods of one to three years. Collective bargaining agreements, in addition to incorporating provisions of the labor code of the Russian Federation, usually provide employees with certain social benefits, such as vouchers for public holidays and subsidies for recreation for employees and their families.

We have developed an integrated, grade-based incentive program for certain categories of our employees, including engineers, technical personnel and members of management. This system emphasizes individual as well as team performance. This system is designed to recognize, for example, the contribution of each production facility within the group's aggregate performance, the contribution of each division within the production facility and of each employee within the production facility's respective divisions. We calculate the level of performance based on certain production and efficiency parameters for each division or employee which are reviewed annually. Under this program, compensation includes a base salary, a personal performance-based bonus and an annual group bonus payable depending on the consolidated results of our group. The bonus is a fixed percentage of each employee's salary, which varies depending on seniority.

We provide corporate training programs including courses and seminars relating to team work, project management skills and software training, among others. We also reimburse our employees for up to 80% of pre-approved, unsponsored training programs. We also provide English language lessons for certain of our employees upon the recommendation of their supervisors.

Intellectual Property

Our key intellectual property consists of several trademarks, including "PIK," "PIK Region" and the advertising slogan "KuPIKvartiru," which means "Purchase an Apartment" in Russian. As of December 31, 2006, each of these trademarks was registered in Russia.

In addition, DSK-2 has a non-exclusive patent license and connected use rights for a type of multilayer panel. The patent is valid for a period of 20 years from September 1, 1998 and DSK-2's license is valid for the term of the patent. 100 KGI is currently involved in disputes over its right to use series 111 concrete panels. See "Risk Factors—Risks Relating to Our Business—We may be prevented from continuing to use series 111 and series 222 concrete panels or forced to make obligatory payments to third parties for such use."

Insurance

We maintain insurance policies with some of the leading Russian and foreign insurance companies including Ingosstrakh, Industrial Insurance Group OSNOVA (an entity controlled by the group), UralSib Insurance Group, ROSNO, AIG Insurance and Reinsurance Company and ACE Insurance Company. We also work with Marsh Inc., an international broker, and other companies.

We maintain insurance against the principal risks associated with the construction and assembly of buildings and development projects, including against fire, flooding (including subsoil flooding), explosions, hurricanes, tornadoes, severe storms, terrorism, unlawful actions by third parties, defective materials, faulty construction, assembly or design, or collapse. We maintain this insurance under a package insurance policy covering all our construction projects, with each project individually insured beginning from the time of construction until the project is put into operation. Each project is also insured against damage to construction vehicles and equipment and civil liability in connection with the construction and assembly of building.

We also maintain property insurance covering our production facilities, warehouses and office premises and production and office equipment. Some, but not all, of our facilities and equipment is covered under "all risks" policies.

We carry car fleet insurance against theft and damage for all of our vehicles, as well as third party liability car insurance as required by Russian law. We also carry insurance relating to the use of dangerous industrial facilities as required under Russian law.

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. 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 the types of insurance coverage customary in more economically

developed countries for a business of our size and nature, and a significant event could result in substantial property loss and an inability to rebuild in a timely manner or at all.”

Legal Matters

We have been, and continue to be, the subject of legal proceedings and adjudications from time to time. Other than as set forth in this subsection, 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 which may have, or have had in the recent past, significant effects on our financial position or profitability.

In 2004, Closed Joint Stock Company “Corporation S.Holding” (“S.Holding”) registered several patents for using a new series of concrete panels, series 222, which are a slightly modernized version of series 111 and which have been used by our subsidiary 100 KGI since 1999. Series 111 concrete panels were first developed by the Russian Ministry of Defense and were widely used to construct buildings to house military personnel, but are now used by us to construct residential housing. In February 2006, S.Holding proposed that 100 KGI enter into a license agreement for the use of intellectual property owned by S.Holding. We believe that we have a right of prior use as provided for under Russian patent law with respect to series 111 panels and, by extension, to series 222 panels and, accordingly, we have filed several claims with the Russian courts seeking to have the courts recognize our right to continue such use without payment. In addition, we challenged the validity of S.Holding’s patents with the Patent Disputes Chamber on the grounds that such patents do not meet the “novelty” requirement. As of April 30, 2007, the Patent Disputes Chamber had invalidated some of S.Holding’s patents for series 111 and 222 panels. As of the date of the prospectus, S.Holding continues to challenge the invalidation of its patents in court.

REGULATION

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 “Register”). The rights and the transactions that are subject to state registration in the 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 Register is publicly available and can be utilized to confirm registered ownership rights. The 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 Register. Registration in the 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 Register is not comprehensive, as ownership or other rights acquired before 1998 will most likely not be included in the 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 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 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 Moscow city government, for instance, owns the majority of the underlying land in Moscow, and owners of buildings typically enter into lease agreements with the Moscow 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 Moscow and major cities. In addition, the Land Code generally provides that legal entities (excluding 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.

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 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 Moscow provide that, upon expiration of the lease, the tenant has a pre-emptive right to conclude a new land lease agreement with the 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 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 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—Distribution 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.

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

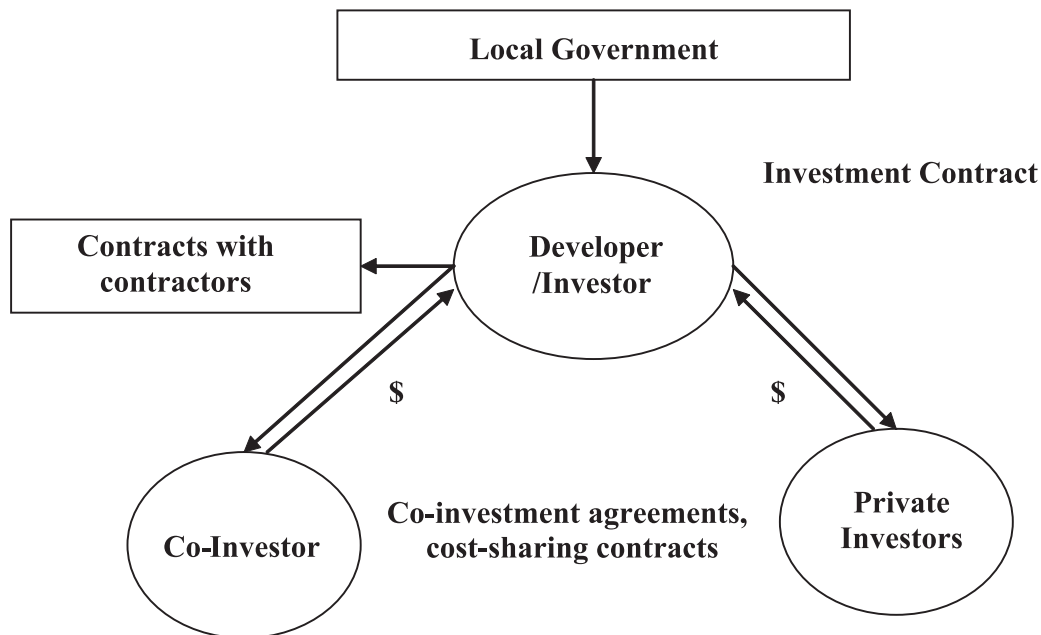
Construction and development in Russia is a complex multi-stage process, which involves compliance with many regulatory requirements, and obtaining authorizations from a large number of authorities at the federal, regional and local levels. Development in Russia is primarily governed by the Town-Planning Code of the Russian Federation (the “Town-Planning Code”), 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. From January 1, 2007 the requirement to obtain such licenses was, originally, abolished; however this term has been extended until July 1, 2007. 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.

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.

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). According to current practice, under an investment contract, the Moscow city government generally retains an interest of up to 50% in the completed building or structure, although the Moscow city government usually agrees 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 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—Real estate appraisals with respect to the properties and projects included in this prospectus may not reflect their actual market values because 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 either through an investment contract or through a long term land lease. 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, a long-term 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. The developer may be obliged to change the permitted use of the land plot for the purposes of the contemplated development.

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, 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 Register.

Construction in the City of Moscow

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. 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 then issues a Resolution on Construction 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.

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 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 Federal Law “On Participation in Cost Sharing Construction of Apartment Houses and Other Real Estate” (the “Cost Sharing Law”) that took effect in April 2005. 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.

Real Property Taxation

Corporate Property Tax

The property tax for organizations is established by the Tax Code of the Russian Federation (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 immovable property in 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 the city of 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 most fixed assets, including real estates properties. However, land and certain non-productive types of property are specifically excluded. The tax is payable on a quarterly basis.

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 Moscow, 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

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.

MANAGEMENT

Directors and Executive Officers

Our directors and executive officers are as follows:

<u>Name</u>	<u>Year of Birth</u>	<u>Position</u>
Yury Zhukov ⁽¹⁾	1969	Chairman
Kirill Pisarev ⁽¹⁾⁽²⁾	1969	President and Director
Artem Eyramdzhants ⁽²⁾⁽⁴⁾	1969	First Vice President and Director
Tatiana Tikhonova ⁽⁴⁾	1960	Vice President, Investments
Evgeny Luneev ⁽⁴⁾	1975	Vice President, Economics & Finance
Fedor Sapronov ⁽⁴⁾	1973	Director of Legal Department
Sergey Kanaev ⁽¹⁾	1969	General Director of PIK Region and Director
Will Andrich ⁽²⁾⁽³⁾⁽⁵⁾	1969	Director
Lee Timmins ⁽¹⁾⁽²⁾⁽⁵⁾	1961	Director
Anselm Schmucki ⁽²⁾⁽³⁾⁽⁵⁾	1969	Director

(1) Member of the Personnel and Compensation Committee of the Board of Directors.

(2) Member of the Strategy Committee of the Board of Directors.

(3) Member of the Audit Committee of the Board of Directors.

(4) Member of the Management Board.

(5) Independent Director according to the requirements of the Federal Service for Financial Markets.

Yury Zhukov has served as our Chairman and as a Director since December 2005. Mr. Zhukov currently serves as Chairman of the board of directors of DSK-2 and DSK-3, is a member of the board of directors of PIK Region and 160 DSK and a member of the management board of PIK Interior. Each of these companies is affiliated with PIK Group. From 1999 to 2004 Mr. Zhukov was an executive director of Zhilstroyindustriya, a construction investment company. Since 2001 Mr. Zhukov has served as director of London International Business Limited, an investment company. Since 1996 he has been a member of the board of directors of Housing Finance Bank. Mr. Zhukov graduated from the Moscow Institute of Electronic and Mathematics with a degree in Electronic Devices and Electronics in 2003 and from the Moscow Institute of Municipal Management and Construction with a degree in Governmental and Municipal Management in 2002. His business address is 24/27 Sadovaya-Kudrinskaya Street, Building 1, 123001 Moscow, Russian Federation.

Kirill Pisarev has served as our President since 1994 and as a Director since December 2005. Mr. Pisarev currently serves as Chairman of our management board. Since 1996 Mr. Pisarev has been chairman of the board of directors of Housing Finance Bank. Since 2001 he has served as director of London International Business Limited, an investment company. He is a member of a number of governmental and social organizations, such as the Housing Construction Board of the Chairman of the Federation Council and the Moscow Construction Union and is Vice President of the Russian Builders Association. Mr. Pisarev graduated from the State Finance Academy of the Russian Government with a degree in Finance and Credit in 1995. His business address is 24/27 Sadovaya-Kudrinskaya Street, Building 1, 123001 Moscow, Russian Federation.

Artem Eyramdzhants has served as our First Vice President since August 2006 and as a Director since December 2005. He has also been a member of our management board since March 2006. Mr. Eyramdzhants has been one of our managers since 1996 and is also a member of the board of directors of DSK-2, DSK-3, PIK Region and 100 KGI, each of which is affiliated with PIK Group. Since 2000 he has been a member of the board of directors of Housing Finance Bank. Mr. Eyramdzhants graduated from the State Finance Academy of the Russian Government with a degree in International Economic Relations in 1992. His business address is 24/27 Sadovaya-Kudrinskaya Street, Building 1, 123001 Moscow, Russian Federation.

Tatiana Tikhonova has served as our Vice President, Investments, since August 2006 and as a member of our management board since March 2006. Ms. Tikhonova has worked at PIK since 1994. She held the position of chief accountant from 1994 to 2003 and was director of our investment policy department in 2006. She is also a member of the board of directors of DSK-2 and DSK-3 and a member of the management board of PIK LLC and PIK Interior. Each of

these companies is affiliated with PIK Group. Ms. Tikhonova graduated from the Moscow Automobile and Road Institute with a degree in Economics and Organization of Motor Transport in 1983 and from the International Independent Environmental and Political Science University with a degree in jurisprudence in 2000. Her business address is 24/27 Sadovaya-Kudrinskaya Street, Building 1, 123001 Moscow, Russian Federation.

Evgeny Luneev has served as our Vice President, Economics and Finance, since August 2006 and as a member of our management board since March 2006. Mr Luneev is also a member of the board of directors of DSK-2 and PIK Region. From 1999 to 2002 he worked as a senior accountant and lead accountant at Haliburton International Inc. in the oil and gas sector and from 2002 to 2003 Mr. Luneev worked as financial controller at the Sputnik Group investment bank. From 2003 to 2004 he acted as financial controller and from 2004 to 2006 as finance director at CJSC National Timber Company in the timber sector dealing with economics and finance matters. Mr. Luneev graduated from the Moscow State Institute of International Relations with a degree in international economic relations in 1997 and also earned a Certified Public Accountant Certificate in the US. His business address is 24/27 Sadovaya-Kudrinskaya Street, Building 1, 123001 Moscow, Russian Federation.

Fedor Sapronov has served as the Director of our Legal Department since 2002 and as a member of our management board since March 2006. Mr. Sapronov is also Chairman of the board of directors of 160 DSK and is a member of the board of directors of DSK-3 and PIK Region. He has been employed by PIK since 1998. From 1995 to 1996 Mr. Sapronov worked for the military justice authorities and from 1996 to 1997 taught administrative, finance and civil law at the Russian Military University. From 1997 to 1998 he worked in the banking sector at Joint Stock Commercial Bank SBS AGRO. Mr. Sapronov is a member of a working group on the national project for Available and Comfortable Housing for Russian Citizens. Mr. Sapronov graduated from the Military University of the Russian Ministry of Defense with a degree in jurisprudence in 1995. His business address is 24/27 Sadovaya-Kudrinskaya Street, Building 1, 123001 Moscow, Russian Federation.

Sergey Kanaev has served as Executive Director of PIK Region since 1997, General Director of PIK Region since 1999 and as a Director since December 2005. Mr. Kanaev currently serves as Chairman of the Personnel and Compensation Committee of our Board of Directors and is a member of the board of directors of DSK-2, DSK-3, PIK Region, 100 KGI and Podmoskovye 160 DSK. From 1999 to 2004 Mr. Kanaev was the General Director of Zhilstroyekspluatatsia (now PIK Comfort) and from 2000 to 2005 he was a member of the board of directors of Housing Finance Bank. From 1991 to 1996 he worked at the USSR Ministry of Foreign Economic Relations (Foreign Economic Organization Vneshintorg). He is a member of the Presidium of the Chamber of Commerce and Industry of the Moscow Region. Mr. Kanaev graduated from the Moscow Economical Statistics Institute with a degree in Organization of Mechanized Economical Information Processing in 1993. His business address is 38/2 Staraya Basmannaya Street, 105066 Moscow, Russian Federation.

Will Andrich has served as our Director since March 2006. Mr. Andrich also serves as Chairman of our Audit Committee. Currently, Mr. Andrich is the president of Astor Capital Group. He has been working in international capital markets since 1997 in London, New York and San Francisco. From 1997 to 2000 Mr. Andrich worked at Morgan Stanley in the UK and the US, in 2001 at LCF Rothschild, a UK structured fund and from 2004 to 2005 at Savills, a UK investment and consultancy company. Mr. Andrich graduated from the University of California at Berkeley with a Masters in Business Administration and is a CFA charterholder. His business address is 8 Bolshoy Afanasievsky Pereulok, Building 2, 119019 Moscow, Russian Federation.

Lee Timmins has served as our Director since June 2006. Mr. Timmins also serves as Chairman of the Strategy Committee. Since 1987, Mr. Timmins has managed the implementation of projects in the US and Eastern Europe. He has worked for Hines since 1988 and has been the Head of the Hines Moscow Representative Office since 1993. Mr. Timmins graduated from the University of Texas in Austin, Texas with a degree in Business Administration and from Southern Methodist University in Dallas, Texas with a Masters degree in Business Administration. His business address is 6 Gasheka Street, 125047 Moscow, Russian Federation.

Anselm Schmucki has served as a Director since June 2006. Mr. Schmucki has eight years of experience in investment and finance at UBS and previously in teaching European law at the

University of St. Gallen in Switzerland. Mr. Schmucki is an executive director and Senior Representative of UBS AG in Moscow. Mr. Schmucki graduated from the University of St. Gallen in 1997. His business address is 2/2 Paveletskaya Square, 115054 Moscow, Russian Federation.

Directors are elected for one-year terms. The current terms of the Directors expire on the date of our next annual general shareholders' meeting, which will take place in June 2007.

Board of Directors

Our Board of Directors has seven members elected by a majority vote of shareholders at each annual General Meeting of Shareholders through cumulative voting. Directors may be re-elected an unlimited number of times. The Board of Directors is responsible for our overall management, except matters reserved for our shareholders. See "Description of Share Capital and Certain Requirements of Russian Legislation—General Meetings of Shareholders" for more information regarding the competence of our General Meeting of Shareholders.

Management Board

Our day-to-day activities are managed by the Management Board, which is led by Mr. Kirill Pisarev, the Chairman of the Management Board. The Management Board currently comprises four members: Artem Eyramdzhants, Tatiana Tikhonova, Evgeny Luneev and Fedor Sapronov. Members of the Management Board are re-elected annually by the Board of Directors from nominees submitted by our President. The Management Board reports to, and is responsible for the implementation of decisions taken by, our shareholders and Board of Directors. Among other things, the Management Board coordinates activities of our subsidiaries, develops and controls the implementation of our investment and financial projects, adopts certain of our internal bylaws and represents us in labor disputes.

Audit Committee

The Audit Committee currently comprises two members: Will Andrich and Anselm Schmucki. Mr. Andrich serves as Chairman of the Committee. The Audit Committee must be chaired by a non-executive director, who may not be the Chairman the board of directors. The Audit Committee convenes as often as necessary, but at least once every quarter. The Audit Committee is authorized to carry out the following functions relating to the control of our financial and business operations:

- coordinate with the Company's independent auditors and prepare recommendations for its board of directors in connection with the election and removal of the independent auditors and on the fees and scope of services to be provided by auditors;
- coordinate with the auditing commission and examine the auditing commission's conclusions on the verification of the Company's financial activities and annual accounts;
- coordinate with the internal control division and make recommendations for appointment of the division's managers, review its plan of annual checks and the division's reports;
- review the Company's standards and internal controls procedures and make appropriate reports and recommendations; and
- assess the Company's financial reports.

Strategy Committee

The Strategy Committee currently comprises five members: Lee Timmins, Kirill Pisarev, Artem Eyramdzhants, Will Andrich and Anselm Schmucki. Mr. Timmins serves as Chairman of the Committee. The Strategy Committee is responsible for developing recommendations to the Board of Directors with respect to our strategic development, long-term planning and investment policy.

Personnel and Compensation Committee

The Personnel and Compensation Committee currently comprises four members: Sergey Kanaev, Yury Zhukov, Kirill Pisarev and Lee Timmins. Mr. Kanaev serves as Chairman of the

Committee. The committee must be chaired by a non-executive director, who may not be the Chairman of the Board of Directors. The committee carries out the following functions:

- determines the criteria for appointment of candidates to the board of directors, members of the management board and the Company's President and considers potential candidates;
- makes recommendations as to the term of service and removal of the Company's President and members of the management board;
- makes recommendations with respect to service contracts for the Company's President and members of the management board;
- evaluates the activities of the Company's President and members of management board; and
- prepares proposals on the level of remuneration of the members of the management board as well as the Company's advisory committees, the Company's President, and members of the Company's board committees.

Review Commission

The Review Commission verifies the accuracy of our financial reporting under Russian law and generally supervises our financial activity. Members of the Review Commission are nominated and elected by the shareholders for a term of one year. A member of the Review Commission may not simultaneously serve as a member of our Board of Directors or accounting commission or as our President or Chief Accountant. The Review Commission has three members: (1) Valery Ropay, (2) Dmitry Nazarov, and (3) Elena Krutitskaya.

Remuneration of Directors and Executive Officers

The aggregate amount of remuneration paid by us for the period from January 1, 2006 to December 31, 2006 to the above named directors and executive officers as a group for services in all capacities provided to us during the year ended December 31, 2006 was approximately RUB 57.0 million in salary and bonuses. We do not have employment contracts with directors. Employment contracts with executive officers generally provide for a payment of up to one year's salary and bonus upon termination of employment by the Company for cause or upon resignation by the employee due to a material change by the company of the employee's responsibilities, authority or duties. We do not provide pension, retirement or similar benefits to our directors or executive officers.

Share Bonus and Option Plan

We intend to establish a share bonus and/or share option plan for members of our Board of Directors, senior management and other key personnel. We may use up to 2% of our shares for such plans. We believe that our plan will be an effective financial means of incentivising and retaining our top managers and ensuring that their interests are aligned with those of our shareholders.

Loans to Directors and Executive Officers

As of the date of this prospectus, there were no outstanding loans granted by us to our directors and executive officers and no guarantees provided for their benefit, with the exception of a guarantee issued on November 24, 2006 by PIK Group for the benefit of Mr. Luneev under a RUB 5.7 million loan agreement between Housing Finance Bank and Mr. Luneev.

Corporate Governance

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 "V" on MICEX since May 24, 2007 and to list "V" on RTS since April 26, 2007 and, as a result, we are required to comply with a number of corporate governance requirements as of the listing date. Such requirements include the: (1) obligation to have at least one independent director, (2) formation of an audit committee, (3) adoption of a bylaw on insider trading and (4) implementation of internal control procedures. We are in full compliance with these requirements. In addition, we observe the code of corporate conduct, as recommended by the FSFM.

Interests of Directors and Officers

Certain of our directors and executive officers have direct interests and hold positions in management bodies in affiliated and non-affiliated companies with which the Company has engaged in transactions, including those in the ordinary course of business. There are no potential conflicts of interest between any duties owed to the Company by our directors and executive officers referred to above and their private interests and/or other duties, except for potential conflicts of interest of Mr. Pisarev and Mr. Zhukov, our beneficial owners. See “Risk Factors—Risks Relating to Our Business—We have engaged and may continue to engage in transactions with related parties that may present conflicts of interest, potentially resulting in the conclusion of transactions on less favorable terms than could be obtained in arm’s-length transactions.” Under Russian legislation, certain transactions defined as “interested party transactions” require approval by our disinterested directors or shareholders. See “Description of Share Capital and Certain Requirements of Russian Legislation—Interested party transactions.”

Certain of our directors and executive officers have beneficial ownership interests in our Ordinary Shares. See “Principal and Selling Shareholders.” None of our directors or executive officers holds options with respect to our Ordinary Shares.

Litigation Statement about Directors and Officers

At the date of this prospectus, none of our directors or executive officers 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.

RELATED PARTY TRANSACTIONS

The following is a summary of our most significant transactions with related parties for the years ended 31 December 2004, 2005 and 2006. For further details of these transactions, see notes 22 and 28 to our audited consolidated financial statements appearing elsewhere in this prospectus.

General

In the ordinary course of our business, we have engaged, and continue to engage, in transactions with parties that are under common control with us or that are otherwise related parties. Transactions with entities under common control with us constitute transactions with parties that have the same beneficial owners as us. See “Management” and “Principal and Selling Shareholders.” Other than the transactions with entities that are under common control or otherwise constitute related parties to us described herein, we did not engage in any other material transactions with related parties during the periods under review.

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” for a discussion of the relevant procedures. We seek to conduct all transactions with entities that are under common control or otherwise constitute related parties on market terms and in accordance with relevant Russian and other legislation. However, there can be no assurance that any or all of these transactions have been or will be conducted on market terms. See “Risk Factors—We have engaged in and may continue to engage in transactions with related parties that may present conflicts of interest, potentially resulting in the conclusion of transactions on less favorable terms than could be obtained in arm’s length transactions.”

Significant transactions with related parties during the years ended December 31, 2004, 2005 and 2006 and to the date of this prospectus are set out below:

Transactions with Housing Finance Bank

We have a number of loans and previously had promissory notes outstanding with Housing Finance Bank, which is controlled by our shareholders.

	Transaction value 2004	Outstanding balance 2004	Transaction value 2005	Outstanding balance 2005	Transaction value 2006	Outstanding balance 2006
	<i>(in RUB thousands)</i>					
Promissory notes	—	—	—	162,581	—	18,280
Loans payable	—	(37,806)	—	(319,391)	—	(26,777)
Loans received during the year	1,645,561	—	1,460,458	—	1,040,655	—
Loans repaid during the year	1,710,828	—	1,178,873	—	1,333,569	—

These promissory notes and loans were used for financing of our operating activities. The loans from Housing Finance Bank bear interest at a rate of 14% per annum and are repayable upon demand.

In November 2005, we provided a guarantee to Housing Finance Bank relating to its bond issue of RUB 500 million. As of December 31, 2006, the nominal value of bonds that had not been redeemed was RUB 29.4 million.

On December 22, 2006, we issued a guarantee in favor of Morgan Stanley Bank International Limited, an affiliate of one of the Joint Global Coordinators of the Offering, in connection with a credit agreement entered into between Housing Finance Bank, as borrower, and Morgan Stanley Bank International Limited, as lender. The amount of the guarantee is equal to the loan principal of \$50.0 million plus interest on the loan in the amount of 8% per annum for the period until April 30, 2007 inclusive, 9.5% per annum for the period from May 1, 2007 until August 31, 2007 inclusive, and 11% per annum for the period from September 1, 2007 until expiration of the term of the loan on December 22, 2007.

Transactions with PSG Osnova

During the years ended December 31, 2004, 2005 and 2006, Limited Liability Company “PSG Osnova,” an insurance company controlled by our shareholders, provided us with

insurance and other services. A summary of transactions and balances of settlements with PSG Osnova is as follows:

	Transaction value 2004	Outstanding balance 2004	Transaction value 2005	Outstanding balance 2005	Transaction value 2006	Outstanding balance 2006
	<i>(in RUB thousands)</i>					
Insurance expenses for the year	(68,801)	—	(127,534)	—	(28,575)	—
Trade and other payables	—	(224,238)	—	(220,308)	—	(6,522)
Loans payable	—	—	(135,000)	(135,000)	—	(135,000)

In addition, PSG Osnova has insured the financial risks of the customers who made prepayments to us for certain real estate properties under construction. The insurance premium collected by PSG Osnova in the years ended December 31, 2004, 2005 and 2006 amounted to RUB 433.1 million, RUB 538.7 million, and nil, respectively.

Transactions with Related Parties under Co-investment Agreements

In June 2005 we entered into a co-investment agreement with LLC “Stroyekoresurs,” which is controlled by our shareholders, for development of a land plot in the center of Moscow. At December 31, 2006, the amount of RUB 280 million are included in the balance of advances to the builders, as the development rights for the plot are registered with the related party.

In May 2005 we made payment of RUB 1.5 billion to our associate, CJSC Park-City Investments, for the purpose of providing funds for commencement of development of a land plot in the center of Moscow. As at December 31, 2005 the whole amount was outstanding and included in the prepayments for real estate property, intended for sale, within inventories, as the development rights for the plot are registered with Limited Liability Company “Kompaniya Reabilitatsii Promyshlennyh Territoriy,” another related party. In 2006 CJSC Park-City Investments repaid RUB 1.4 billion. At December 31, 2006, the amount of RUB 70.6 million are included in the balance of advances to the builders, as the development rights for the plot are registered with the related party.

Sales to and Purchases from Related Parties

In 2006 we purchased finished goods from Limited Liability Company “Resurs-Nerud,” a company controlled by our shareholders, for RUB 190.1 million. In addition, in 2006 we sold raw materials and rendered processing services to Limited Liability Company “Resurs-Nerud” in the amount of RUB 63.4 million and RUB 104.7 million, respectively.

Loans Receivable from Related Parties

In 2005 we granted a loan in the principal amount of RUB 86.0 million to a member of management which bears interest at 8.7% per annum and is due August 15, 2007. As of December 31, 2006, RUB 15.0 million remained outstanding under this loan.

In January 2006 we granted a loan in the principal amount of RUB 706.9 million to Limited Liability Company “Kvinturin,” a development company controlled by our shareholders, which bears interest at 13% per annum and is due December 29, 2007.

In March 2006 we granted a loan in the principal amount of RUB 305.1 million to Limited Liability Company “Kvinturin” which bears interest at 10% per annum and was due on March 12, 2007. As of the date of this prospectus, this loan had not been repaid.

Loans Payable to Related Parties

In 2004 and 2005, three of our subsidiaries issued promissory notes to PSG Osnova, a company controlled by our shareholders, in the aggregate principal amount of RUB 184.7 million. These notes do not bear interest and are payable upon demand but no earlier than September 20, 2007.

In 2006 Avtorita, a special purpose entity controlled by the group pursuant to a trust agreement, obtained a loan from London International Business Limited, a company controlled by our shareholders, in the principal amount of \$3.97 million which bears interest at 3% per annum and is due in 2009.

In 2006 the Company issued a promissory note to Limited Liability Company “Kvinturin,” a company controlled by our shareholders, in the principal amount of RUB 22.8 million which bears interest at 11% per annum and is due in 2008.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth information regarding the current ownership of the Company's Ordinary Shares as reflected in its share register, and as adjusted to reflect the sale of Shares in this Offering (assuming no exercise of the Joint Global Coordinators' Over-allotment Option):

<u>Name of Owner</u>	<u>Ownership Before the Offering</u>		<u>Shares Offered</u>	<u>Ownership After the Offering</u>	
	<u>Number</u>	<u>%</u>		<u>Number</u>	<u>%</u>
FMC Realtors Holding Inc.	228,130,192	50	18,500,000	209,630,192	42.5
IBG Development Group Inc.	228,130,192	50	18,500,000	209,630,192	42.5
Total	<u>456,260,384</u>	<u>100</u>	<u>37,000,000</u>	<u>419,260,384</u>	<u>85.0</u>

FMC Realtors Holding Inc. and IBG Development Group Inc. are each incorporated under the laws of the British Virgin Islands, and 100% indirectly owned by Kirill V. Pisarev and Yury V. Zhukov, respectively. See "Management" and "Related Party Transactions."

None of the Company's shareholders has voting rights different from any other holders of its shares. We are not aware of any arrangements that may result in a change of control of the Company.

FMC Realtors Holding Inc. ("FMC") was incorporated in the British Virgin Islands on August 12, 2004 with the registration number 610236 under the International Business Companies Ordinance (No. 8 of 1984) as an International Business Company. The principal legislation under which FMC operates is the International Business Companies Ordinance (No. 8 of 1984) and the regulations and orders promulgated thereunder. The registered office and principal place of business of FMC is at the offices of Totalserve Trust Company Limited, Trust Offices, P.O. Box 3540, Road Town, Tortola, British Virgin Islands. FMC is ultimately controlled by Mr. Kirill Pisarev, the Company's President, who holds 50,000 shares constituting 100% of the issued share capital of FMC.

IBG Development Group Inc. ("IBG") was incorporated in the British Virgin Islands on August 12, 2004 with the registration number 610248 under the International Business Companies Ordinance (No. 8 of 1984) as an International Business Company. The principal legislation under which IBG operates is the International Business Companies Ordinance (No. 8 of 1984) and the regulations and orders promulgated thereunder. The registered office and principal place of business of IBG is at the offices of Totalserve Trust Company Limited, Trust Offices, P.O. Box 3540, Road Town, Tortola, British Virgin Islands. IBG is ultimately controlled by Mr. Yury Zhukov, the Chairman of the Company's Board of Directors, who holds 50,000 shares constituting 100% of the issued share capital of IBG.

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LEGISLATION

We describe below our shares, the material provisions of our charter in effect on the date of this prospectus and certain requirements of Russian legislation. This description does not purport to be complete and is qualified in its entirety by reference to our charter and applicable Russian laws. References in this section to “we,” “us” and “our” refer to PIK Group only.

GDR holders will be able to exercise their rights with respect to the Ordinary Shares underlying the GDRs only in accordance with the provisions of the Deposit Agreements and the relevant requirements of Russian law. See “Description of the Global Depositary Receipts” for more information.

Our Purpose

Article 2.1 of our charter provides that our purpose is to earn profit in our own interests and in the interests of our shareholders.

Description of Share Capital

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. Under Russian legislation, charter capital refers to the aggregate nominal value of the issued and outstanding shares. Our charter capital consists of 456,260,384 Ordinary Shares, each with a nominal value of 62.5 rubles, which are fully paid, issued and outstanding. In addition, we are authorized by our charter to issue an additional 400,000,000 Ordinary Shares. No preferred shares are authorized or outstanding. Preferred shares may only be issued if amendments have been made to our charter pursuant to a resolution of the general meeting of shareholders.

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. Currently, we do not have any treasury shares. Any of our shares that are owned by our subsidiaries are not considered treasury shares under Russian law (i.e., they are considered outstanding shares and unless the context requires otherwise, such shares are considered outstanding for purposes of the ownership percentages presented in this prospectus), and our subsidiaries are able to vote such shares and dispose of such shares without any further corporate actions by our shareholders or board of directors. Our wholly-owned subsidiary PIK Region currently holds 127,680 of our Ordinary Shares which represents 0.028% of our charter capital.

Currently, we have fewer than 1,000 holders of voting shares, which determines the applicability of certain provisions of the Joint Stock Companies Law, as described below. We expect that immediately following this offering we will continue to have fewer than 1,000 holders of voting shares, in particular due to the status of the Depositary as the holder of all of the Ordinary Shares underlying the GDRs.

Our Ordinary Shares are listed on MICEX and RTS, in each case under the symbol “PIKK.” The newly issued Ordinary shares will be eligible for trading on MICEX under a temporary, separate ticker symbol “PIKK-003D” until the state registration number for the newly issued Ordinary Shares is consolidated with the state registration number for the previously issued Ordinary Shares, following which all the Ordinary Shares will be traded on MICEX under the general symbol “PIKK.”

Rights Attaching to Ordinary Shares

Holders of our Ordinary Shares have the right to vote at all shareholders’ meetings. As required by the Joint Stock Companies Law and our charter, all of our shares have the same nominal value and grant to their holders identical rights. Each fully paid share, except for treasury shares, gives its holder the right to:

- freely transfer the shares without our consent and the consent of other shareholders;
- receive dividends;

- participate in shareholders' meetings and vote on all matters within shareholders' competence;
- transfer voting rights to its representative on the basis of a power of attorney;
- exercise its pre-emptive right in certain circumstances, as determined by the Joint Stock Companies Law;
- participate in the election and dismissal of members of the board of directors and the review commission;
- if holding, alone or with other holders, 2% or more of the voting stock, within 30 days after the end of our fiscal year, make proposals for the agenda of the annual shareholders' meeting and nominate candidates to the board of directors, collective and sole executive bodies, the review commission and the counting commission;
- if holding, alone or with other holders, 10% or more of the voting stock, demand from the board of directors the calling of an extraordinary shareholders' meeting or an unscheduled audit by the review commission or by an external auditor;
- demand, under the following circumstances, the repurchase by us of all or some of the shares owned by it, as long as such holder voted against or did not participate in the voting on the decision approving the following:
 - any reorganization;
 - the conclusion of a major transaction, as defined under Russian law; and
 - any amendment of our charter or approval of a restated version of our charter in a manner that restricts the holder's rights;
- upon liquidation, receive a proportionate amount of our property after our obligations are fulfilled;
- have access to certain company documents, receive copies for a reasonable fee and, if holding alone or with other holders, 25% or more of the voting stock, have free access to accounting documents and minutes of the management board meetings; and
- exercise other rights of a shareholder provided by our charter, Russian legislation and decisions of shareholders' meetings approved in accordance with its competence.

Pre-emptive Rights

The Joint Stock Companies Law and our charter provide 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) in an amount proportionate to their existing shareholdings during a closed subscription if the shareholders voted against or did not participate in the voting on the decision approving such subscription. The pre-emptive right does not apply to a closed subscription to existing shareholders, provided that such shareholders may each acquire a whole number of shares (or securities convertible into shares) being placed in an amount proportionate to their existing shareholdings. We must provide shareholders with written notice of the opportunity to exercise their pre-emptive right to purchase shares and indicate, among other things, the period during which shareholders can exercise their pre-emptive rights. As a rule, such period may not be less than 45 days from the date when notification is sent to shareholders, and under certain circumstances this period may be shortened to 20 days. During this period we may only place those shares (or securities convertible into shares) that are subject to the pre-emptive rights and only to those shareholders who would like to exercise their pre-emptive rights. Upon expiration of the pre-emptive right period, we may place the remaining portion of the shares being placed (or securities convertible into shares) to other potential acquirers as specified in the share issuance documents.

Dividends

The Joint Stock Companies Law and our charter set forth the procedure for determining the dividends that we may distribute to our shareholders. Under our charter, we may declare

dividends based on our first quarter, six-month, nine-month or annual results. The amount of dividends must be recommended to a shareholders' meeting by a majority vote of our board of directors and approved by the shareholders' meeting by a majority vote. The dividend amount approved at the shareholders' meeting may not be more than the amount recommended by the board of directors. A decision on first quarter, six-month or nine-month dividends must be taken within three months after the end of the respective quarter at a general shareholders' meeting, and a decision on annual dividends must be taken at the annual general shareholders' meeting. We may only pay dividends to shareholders entitled to participate in the shareholders' meeting approving the dividends. See “—General Meetings of Shareholders—Notice and Participation.” Dividends are not paid on treasury shares.

The Joint Stock Companies Law allows dividends to be declared only out of our net profits calculated under Russian accounting standards and as long as the following conditions have been met:

- our charter capital has been paid in full;
- we have repurchased all shares from our shareholders having the right to demand repurchase;
- on the date of adoption of the decision to pay dividends, the value of our net assets (calculated under Russian accounting standards) is not, and would not become as a result of the proposed dividend payment, less than the sum of our charter capital, our reserve fund and the difference between the liquidation value and the nominal value of our issued and outstanding preferred shares (if any);
- on the date of adoption of the decision to pay dividends we are not insolvent and would not become insolvent as a result of the proposed dividend payment; or
- such declaration of dividends is not prohibited by Russian legislation.

In addition, we are prohibited from paying dividends, even if such dividends have been declared, if on the date of the dividend payment:

- we are insolvent or would become insolvent as a result of the proposed dividend payment;
- the value of our net assets (calculated under Russian accounting standards) is, or would become as a result of the proposed dividend payment, less than the sum of our charter capital, our reserve fund and the difference between the liquidation value and the nominal value of our issued and outstanding preferred shares (if any); or
- such payment is otherwise prohibited by Russian legislation.

We pay dividends within the time period which is 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 pay dividends in cash or in non-cash form. Non-cash dividends may be paid only if (i) our board of directors recommends the assets that may be distributed as dividends and (ii) the shareholders' meeting approves the payment of dividends in such non-cash form.

Distribution to Shareholders on Liquidation

Under Russian legislation, a liquidation of a company results in its termination without the transfer of rights and obligations 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 of a shareholders' meeting; or
- by a court order.

Following a decision to liquidate us, the right to manage our affairs would pass to a liquidation commission appointed by a shareholders' meeting (in case of a voluntary liquidation) or by the court (in case of a compulsory liquidation). Our creditors may file claims within a period to be determined by the liquidation commission, but no less than two months from the date of publication of liquidation notice by the liquidation commission.

The Civil Code of the Russian Federation (the “Civil Code”) sets forth the following order of priority between the creditors during liquidation:

- (1) individuals owed compensation for injuries, deaths or moral damages;
- (2) employees entitled to salary and severance payments, as well as remuneration under copyright agreements;
- (3) federal and local governmental entities claiming taxes and similar payments to the federal and local budgets and to non-budgetary funds; and
- (4) other creditors in accordance with Russian legislation.

Claims of creditors in obligations secured by a pledge of our property (“secured claims”) are satisfied from the sale proceeds of the pledged property prior to claims of any other creditors, except for the creditors of priorities (1) and (2) above whose claims arose before the respective pledge agreements had been entered into. To the extent that the proceeds of sale of the pledged property are not sufficient to satisfy secured claims, the latter are satisfied simultaneously with claims of the creditors of priority (4) above.

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
- distribution of the remaining assets of the company among the 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 in a Russian joint stock company are not liable for the obligations of such company and bear only the risk of loss of their investment. This may not be the case, however, when one company (an “effective parent”) is capable of determining decisions made by another company (an “effective subsidiary”). If the effective subsidiary is a joint stock company, the effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary if (i) the effective parent caused the effective subsidiary to conclude the transaction; and (ii) the ability of the effective parent to determine decisions made by the effective subsidiary is provided for in the charter of the effective subsidiary or in a contract with the effective subsidiary. If the effective subsidiary is a limited liability company, the effective parent bears joint and several responsibility if the effective parent caused the effective subsidiary to conclude the transaction (regardless of how the effective parent’s ability to determine decisions of the effective subsidiary arises).

Accordingly, a shareholder of an effective parent is not itself liable for the debts of the effective parent’s effective subsidiary, unless that shareholder is itself an effective parent of the effective parent. Our shareholders will not be personally liable for our debts or those of our effective subsidiaries, unless such shareholders control our business and/or our effective subsidiaries, and the conditions set forth above are met.

In addition, an effective parent may be held secondarily liable for the debts of an effective subsidiary if the latter becomes insolvent or bankrupt resulting from the action or inaction of the former. This is the case no matter how the effective parent’s capability to determine decisions of the effective subsidiary arises, such as through ownership of voting securities or by contract. If the effective subsidiary is a joint stock company, then the effective parent will have secondary liability only if the effective parent caused the effective subsidiary to take any action or fail to take any action, knowing that such action or failure to take action would result in insolvency of the effective subsidiary. If the effective subsidiary is a limited liability company, then the effective parent will be held secondarily liable if the effective subsidiary’s insolvency is caused by the willful misconduct or negligence of such effective parent.

Shareholders of an effective subsidiary that is a joint stock company may claim compensation for the effective subsidiary's losses from the effective parent if: (i) the effective parent caused the effective subsidiary to take any action or fail to take any action that resulted in a loss and (ii) the effective parent knew that such action or failure to take such action would result in an effective subsidiary's loss. Participants of an effective subsidiary that is a limited liability company may claim compensation for the effective subsidiary's losses from the effective parent if the effective parent, through its willful misconduct or negligence, caused the effective subsidiary to take any action that resulted in a loss.

Share Acquisition above Certain Thresholds and Anti-takeover Protection

A person intending to acquire more than 30% of our voting shares (taking into account those it already holds together with its affiliates) has the right to make a public offer to our other shareholders (a "voluntary offer"). Within 35 days of acquiring, by any means, more than 30%, 50% or 75% of such shares, the acquirer must make a public offer to purchase the remaining shares from our shareholders (a "mandatory offer").

The acquirer's payment obligations arising from both voluntary and mandatory offers shall be secured in each case by an irrevocable bank guarantee effective within at least six months from the expiration date of the relevant acceptance period.

At any time after we receive a voluntary or a mandatory offer and until 25 days prior to the expiration of the relevant acceptance period, any person has the right to make a competing offer (that satisfies the requirements for voluntary or mandatory offers, respectively) to purchase the number of shares and at a price greater than or equal to that offered in the relevant prior voluntary or mandatory offer. Any shareholder may revoke its previous acceptance of the prior offer and accept the competing offer. A copy of the competing offer must be sent to the person who made the prior voluntary or mandatory offer so that such person may amend its offer by increasing the purchase price and/or shortening the settlement period.

In addition, once a voluntary or mandatory offer has been made and until expiration of a 20 day period following expiration of the period for acceptance of a voluntary or mandatory offer, only our shareholders' meeting (and not our board of directors) will have the power to make decisions on our increase in charter capital through additional share issuance, on approval of interested-party transactions and certain other transactions, and on certain other significant matters.

If, as a result of either the voluntary or the mandatory offer, the acquirer purchases more than 95% of the voting shares, it will have an obligation to:

- notify all the other shareholders (within 35 days after the acquisition of shares above such threshold) of their right to sell their shares and other securities convertible into such shares; and
- purchase their shares upon request of each minority shareholder.

In addition, instead of giving such notice, the acquirer will have the right to deliver a buy-out demand, which is binding on the minority shareholders, for them to sell their shares. An offer of the kind described in the preceding paragraph must be accompanied by a bank guarantee of payment. Since we are a publicly traded company, prior notices of the offers must be filed with the FSFM, and the latter may require revisions to be made to the terms of the offer (including price) in order to comply with the statutory provisions.

As a general rule, this new buy-out mechanism became effective as of July 1, 2006 and will be available to persons that acquired such shares pursuant to a voluntary or a mandatory offer after such date. In addition, for one year after August 12, 2006, such mechanism is available to the majority shareholders that owned, as of July 1, 2006 more than 95% of the voting shares or, alternatively, 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.

See also "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—Because the Depositary may be considered the owner of the Ordinary Shares underlying the

GDRs, these Ordinary Shares may be arrested or seized in legal proceedings in Russia against the Depositary” and “Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—Following the offering you may not be able to deposit our Ordinary 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 Ordinary Shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the Ordinary Shares and GDRs offered in the Offering.”

Charter Capital Increase

We may increase our charter capital by increasing the nominal value of previously issued shares or by issuing new shares.

According to the Joint Stock Companies Law and our charter, a decision on increasing the nominal value of issued shares requires a simple majority vote of a shareholders’ meeting.

A decision to issue shares or securities convertible into shares by closed subscription, or to issue ordinary shares or securities convertible into ordinary shares constituting more than 25% of the number of issued ordinary shares by open subscription, requires a three-quarters majority vote of a shareholders’ meeting. Otherwise, as provided in our charter, a decision to increase our charter capital by issuance of additional shares requires a unanimous decision of our board of directors. In addition, the issuance of shares above the number of authorized and non-issued shares provided in our charter necessitates a charter amendment, which requires a three-quarters majority vote of a shareholders’ meeting.

The Joint Stock Companies Law requires that the placement price of newly issued shares be determined by the board of directors based on the market value, but may not be less than their nominal value. The placement price for existing shareholders exercising a pre-emptive right to purchase shares may be less than the price paid by third parties, but in any event no more than 10% below the price paid by third parties. Fees of an intermediary participating in the placement of shares cannot exceed 10% of the share price. The board of directors may, but is not required to, appoint an independent appraiser to set the placement price of the shares. There is a specific requirement that in determining the placement price of securities, for which prices are regularly published, the board of directors shall take into account such prices. The board of directors shall value any in-kind contributions for new shares, based on the appraisal report of an independent appraiser.

Russian securities regulations establish information disclosure requirements and detailed procedures for each stage of the share issuance, including:

- adoption of a resolution on charter capital increase by placement of additional shares;
- adoption of a decision on issuance;
- registration of the share issuance;
- placement of the newly issued shares; and
- registration of the placement report or, as the case may be, filing the placement notification. See “Registration of Placement Report.”

Charter Capital Decrease; Share Repurchases

We have the right to, and under certain circumstances, are required to, decrease our charter capital. The Joint Stock Companies Law does not allow us to reduce our charter capital below the minimum charter capital required by law, which currently is RUB 100,000 for an open joint stock company. The Joint Stock Companies Law requires that any decisions to reduce our charter capital, through a reduction of the nominal value of the shares or through the repurchase and cancellation of our shares, are to be made by a general shareholders’ meeting. The shares repurchased pursuant to a resolution of the shareholders’ meeting to decrease the overall number of shares, are cancelled on their redemption.

Additionally, within 30 days of a decision to reduce our charter capital, we must notify our creditors in writing and publish this notification. Our creditors would then have a right to demand, within 30 days of publication or receipt of such notice, repayment of all amounts due to them, as well as compensation for damages.

The Joint Stock Companies Law allows our shareholders or our board of directors to authorize the repurchase by us of up to 10% of our outstanding shares in exchange for cash. The repurchased shares must be resold at not less than market price but, in any case, at no less than the nominal value of shares within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease the charter capital.

The Joint Stock Companies Law allows us to decrease our charter capital if the following conditions have been met:

- our charter capital has been paid in full;
- we have repurchased all shares from our shareholders who have exercised their right to demand repurchase of their shares;
- on the date of adoption of the resolution to decrease the charter capital we are not insolvent and would not become insolvent as a result of the proposed decrease of the charter capital;
- on the date of adoption of the resolution to decrease the charter capital the value of our net assets (calculated under Russian accounting standards) is not, and would not become as a result of the proposed decrease of the charter capital, less than the sum of our charter capital, the reserve fund and the difference between the liquidation value and the nominal value of the issued and (if any) outstanding preferred shares;
- we have paid all declared and unpaid dividends; and
- such decrease of the charter capital is not prohibited by Russian legislation.

The Joint Stock Companies Law allows us to repurchase our shares only if at the time of repurchase the following conditions have been met:

- our charter capital has been paid in full;
- we are not insolvent and would not become insolvent as a result of the repurchase;
- on the date of repurchase the value of our net assets (calculated under Russian accounting standards) is not, and would not become as a result of the proposed repurchase, less than the sum of our charter capital, our reserve fund and the difference between the liquidation value and the nominal value of our issued and outstanding preferred shares (if any); and
- we have repurchased all shares from our shareholders having the right to demand repurchase of their shares under legislation protecting the rights of minority shareholders, as described immediately below.

Russian legislation provides that our shareholders may demand repurchase of all or some of their shares as long as the shareholder demanding the repurchase voted against or did not participate in the voting on a resolution approving any of the following:

- our reorganization;
- conclusion of a major transaction, the value of which exceeds 50% of the book value of our assets; or
- amendment of our charter or approval of a restated version of our charter in a manner that restricts shareholders' rights.

We may spend up to 10% of our net assets (calculated under Russian accounting standards) for a share repurchase demanded by our shareholders. If the value of our shares in respect of which our shareholders have exercised their rights 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 of our shares are ordinary registered non-documentary shares. Russian legislation requires that a joint stock company procure the maintenance of a register of its shareholders. Moreover, the shareholders' register of a joint stock company having more than 50 shareholders must be maintained by a licensed registrar. Ownership of our shares is evidenced solely by entries made in the shareholders' register or in accounts with a Russian licensed depository. Any of our shareholders may obtain an extract from the register certifying the number of shares that such shareholder owns. Our shareholders' register is maintained by an independent licensed registrar OJSC "Registrar R.O.S.T." located at 18, Block 13 Stromynka Street, Moscow.

The purchase, sale or other transfer of our shares is accomplished through registration of the transfer in our shareholders' register, or registration of the transfer with a licensed Russian depositary if shares are held by such depositary in the capacity of a nominee holder.

As a general rule under Russian law, an acquirer of shares is responsible for notifying a registrar or a depositary in a timely manner regarding the share transfer. The registrar or depositary may not require any documents in addition to those required by Russian legislation in order to record a transfer of 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, may be challenged in court.

Reserve Fund

Under Russian law, each joint stock company is required to establish a reserve fund to be used solely for purposes of covering our losses, redemption of bonds and repurchase of our shares in cases when other funds are not available. Our charter provides for a reserve fund of 5% of our charter capital, funded through mandatory annual transfers of at least 5% of 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;
- 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.

Governance Bodies

Our management structure consists of the general meeting of shareholders, the board of directors, the management board and the president, the latter two of which are responsible for our day-to-day management.

General Meetings of Shareholders

Competence and Procedure

The general shareholders' meeting is our highest management body. The general shareholders' meeting must be convened at least once a year. The scope of authority of a general shareholders' meeting is limited to the issues specified by the Joint Stock Companies Law and our charter. The issues that the shareholders have the power to decide are, *inter alia*:

- amendments to our charter;
- our reorganization or liquidation, appointment of a liquidation commission and approval of interim and final liquidation balance sheets;
- determination of the number of members of our board of directors, election and dismissal of members of our board of directors;
- determination of the number, nominal value and class/type of authorized shares and the rights granted by such shares;
- changes in our charter capital (other than those specifically delegated to the competence of our board of directors);
- appointment and dismissal of members of our revision commission;
- approval of our external auditor;
- adoption of our annual reports and financial statements;
- distribution of profits, including approval of dividends;
- split and consolidation of our shares;
- approval of certain interested-party transactions and major transactions;
- repurchase by us of issued shares in cases specified in the Joint Stock Companies Law and our charter;
- approval of our participation in financial and industrial groups, associations and other unions of commercial organizations;
- approval of certain internal documents and corporate records; and
- other issues as provided for by the Joint Stock Companies Law and our charter.

Voting at a shareholders' meeting is generally based on the principle of one vote per Ordinary Share, except for the election of the board of directors, which is effected through cumulative voting. Resolutions are generally passed by a simple majority vote of the voting shareholders present at a shareholders' meeting. However, Russian law and our charter require a three-quarters majority vote of the voting shareholders present at a shareholders' meeting to approve the following:

- amendments to our charter;
- our reorganization or liquidation, appointment of a liquidation commission and approval of interim and final liquidation balance sheets;
- determination of the number, nominal value and class/type of authorized shares and the rights granted by such shares;
- any issuance of shares or securities convertible into shares by closed subscription;
- issuance by open subscription of Ordinary Shares or securities convertible into Ordinary Shares, in each case, constituting more than 25% of the number of issued and outstanding Ordinary Shares;
- decrease of our charter capital by means of change in the nominal value of our shares;
- repurchase by us of our issued shares in cases specified the Joint Stock Companies Law and our charter; and
- major transactions involving assets in excess of 50% of the book value of our assets.

The quorum requirement for our shareholders' meeting is satisfied 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 shareholders' meeting with the same agenda may (and, in case of an annual 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.

Under the Joint Stock Companies Law certain shareholders' resolutions may provide that they remain valid for a specific period of time with respect to a company's reorganization or spin-off, an increase or decrease in charter capital or a subdivision or consolidation of shares (the "Validity Period"). However, in the event such shareholders' resolutions are not acted upon within the Validity Period and/or the effective Validity Period for such resolutions has expired, such resolutions become void and, subject to provisions of the Joint Stock Companies Law, are no longer enforceable.

General shareholders' meetings may be either annual or extraordinary. The annual shareholders' meeting must be convened by our board of directors between March 1 and June 30 of each year, and the agenda must include the following issues:

- election of members of our board of directors;
- appointment of members of our Review Commission;
- approval of our annual reports and financial statements, including the balance sheet and profit and loss statement;
- approval of our external auditor; and
- approval of distribution of our profits, including approval of annual dividends (if any).

A shareholder or a group of shareholders owning in aggregate at least 2% of our voting shares may introduce proposals for the agenda of the annual shareholders' meeting and may nominate candidates for our board of directors and our revision commission. Any agenda proposals or nominations must be provided to us no later than 30 calendar days after the end of the preceding financial year.

Extraordinary shareholders' meetings may be convened by our board of directors on its own initiative, or at the request of our revision commission, our external auditor or our shareholder (group of shareholders) owning in the aggregate at least 10% of our voting shares as of the date of the request.

A general shareholders' meeting may be held in the form of a meeting or by absentee ballot. The form of meeting contemplates the adoption of resolutions by the general shareholders' meeting through attendance of the shareholders or their authorized representatives for the purpose of discussing and voting on issues on the agenda, provided that if a ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to us without personally attending the meeting. A general shareholders' meeting by absentee ballot envisages that shareholders' opinions on issues on the agenda will be determined by means of a written poll.

The following issues cannot be decided by a shareholders' meeting by absentee ballot:

- election of members of our board of directors;
- appointment of members of our revision commission;
- approval of our annual reports and financial statements, including the balance sheet and profit and loss statement;
- approval of our external auditor; and
- approval of distribution of our profits, including approval of annual dividends (if any).

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 the form of a meeting or by absentee ballot, no less than 30 days prior to the date of the general shareholders' meeting (except for instances specified below), and such notification must specify the agenda of the meeting. However, in case of an extraordinary shareholders' meeting to (i) elect our board of directors or (ii) decide on the

our reorganization by way of merger, spin-off or split-up and election of members of the board of directors of the reorganized company, shareholders must be notified at least 70 days prior to the date of the meeting. Only the items on the agenda may be voted upon at a general shareholders' meeting.

The list of persons entitled to participate in a general shareholders' meeting is compiled on the basis of data in our shareholders' register as of the date established by our board of directors, which date may neither be earlier than the date of adoption of the board resolution to hold a general shareholders' meeting, nor more than 50 days before the date of the meeting (or, in case of an extraordinary shareholders' meeting to elect the board of directors, not more than 65 days before the date of the meeting).

Generally, the right to participate in a general shareholders' meeting may be exercised by shareholders 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

The Joint Stock Companies Law requires at least a five-member board of directors for all joint stock companies, 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 natural persons (as opposed to legal entities) are entitled to be members of the board of directors. Members of our board of directors are not required to be our shareholders. According to our charter, the actual number of members of our board of directors is determined by resolution of a shareholders' meeting.

Our board of directors elects its chairman from its members and has the right to remove the chairman at any time. However, our president may not be elected as the chairman of our board of directors. The chairman of our board of directors organizes its work, calls and presides over meetings of the board of directors and performs other functions provided by Russian law, our charter and internal documents.

Our current board of directors consists of seven members.

According to the Joint Stock Companies Law, our entire board of directors must be elected at each annual general shareholders' meeting through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by a total number of directors to be elected, 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 board of directors may be removed as a group at any time without cause by a majority vote of a shareholders' meeting.

Pursuant to the Joint Stock Companies Law and our charter, the board of directors directs our general management, except for adoption of such decisions that fall within the exclusive competence of the general shareholders' meeting. In particular, our board of directors has the powers to decide, among others, the following issues:

- determination of our business priorities;
- convening of our annual and extraordinary shareholders' meetings, except in certain circumstances 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 shareholders' meeting and other issues in connection with preparation for, and holding of, general meetings of shareholders;
- adoption of a resolution on placement by way of open subscription of ordinary shares and securities convertible into ordinary shares, constituting 25% or less of the previously issued and outstanding ordinary shares;

- placement of our bonds and other securities, as provided in the Joint Stock Companies Law and our charter;
- 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;
- repurchase of our shares, bonds and other securities in certain cases provided for by the Joint Stock Companies Law;
- election, determination of the term of the powers and dismissal of the members of our management board and our president;
- recommendation on the amount of remuneration to be paid to members of our revision commission;
- determination of the amount of the fees payable for the services of an external auditor;
- recommendation on the amount of a dividend and its payment procedure;
- the use of our reserve fund and other funds;
- creation of our branches and representative offices;
- approval of our internal documents, except for those requiring approval of our general shareholders' meeting;
- approval of major and interested-party transactions in cases provided for by the Joint Stock Companies Law;
- approval of our participation (termination of participation) in other companies, except for participation in financial and industrial groups, associations and other unions of commercial organizations;
- appointment of our shareholder registrar;
- 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 our 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 management board;
- a member of our revision commission;
- external auditor; or
- our president.

A meeting of our board of directors has a quorum if not fewer than four out of seven members are present. Generally, a majority vote of the directors present at the meeting is required to adopt a resolution. Certain decisions, such as increases of our charter capital and approvals of major transactions, require a unanimous vote of all the board members. A majority vote of the disinterested and independent directors is required for approval of an interested party transaction by our board of directors, in cases provided for by the Joint Stock Companies Law and our charter. According to our charter, in case of a deadlock the chairman of our board of directors has a casting vote.

Management Board

Our management board is a collective executive body responsible for our day-to-day management. Our charter provides that our board of directors elects the members of our management board and determines the term of their powers. Our board of directors may at any time terminate the powers of any member of the management board. Under the Joint Stock Companies Law no more than 25% of the members of the board of directors are allowed to be members of the management board. According to our charter, the duties of our management board include, among other things:

- appointment of the heads of our branches and representative offices;
- approval of our representatives in shareholders' meetings of other companies in which we participate;
- recommendations regarding the candidates for executive bodies and boards of directors of other companies in which we participate;
- approval of our internal regulations, except for those requiring approval of our general shareholders' meeting or our board of directors;
- making proposals with respect to our main activities, our annual budget, our short-term and medium-term budgets, our strategy and plans for our development;
- implementation of resolutions of our general meeting of shareholders and our board of directors;
- oversight over activities of our subdivisions and units;
- determination of our accounting policy, improvements in accounting and management accounts, application of IFRS;
- approval of terms of collective agreement; and
- other issues provided for in our charter, resolution of our board of directors and proposals of our president.

Meetings of the management board are called by its chairman on his or her own initiative, or at the request of a member of the management board. Our charter requires a majority vote of the members of the management board present for an action to pass, provided that two-thirds of the elected members are present at the meeting. Members of our management board are not required to be our shareholders. The current management board was elected on March 7, 2007 and consists of four members.

President

Pursuant to our charter, our day-to-day activities, except for the matters falling within the competence of our general shareholders' meeting, our board of directors or our management board, are managed by our president (the general director) who acts as our sole executive body and the chairman of our management board.

The president is responsible for implementing the decisions of our general shareholders' meeting, our board of directors and our management board. The president has the powers to, among other things, act on our behalf without a power of attorney, including representing our interests, entering into transactions, disposing of assets, opening bank accounts, approving staffing structure and issuing internal orders and directives.

The president is elected by our board of directors. The board of directors may at any time resolve to terminate his or her powers. The president may not serve as the chairman of our board of directors. Upon a decision taken at our general shareholders' meeting, the functions of the president may be transferred to a management company.

Our current president is Mr. Kirill V. Pisarev, who serves in this capacity pursuant to an employment agreement.

Corporate Governance

Our shares were listed on MICEX on May 24, 2007 and on RTS on April 26, 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;
- adoption of an internal regulation on the use of insider information; 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.

Revision Commission

Our revision commission, whose activities are governed by our charter and our internal regulations, oversees and coordinates audits of our financial and economic activity. The principal duties of the revision commission are ensuring that:

- our operations comply with applicable laws and do not infringe shareholders' rights; and
- our accounts and reports do not contain any material misstatements.

The members of our revision commission must be elected at each annual general shareholders' meeting. Members of our board of directors and the president may not serve on our revision commission.

Certain Requirements of Russian Legislation

Interested-party transactions

Under the Joint Stock Companies Law certain transactions defined as "interested-party transactions" require approval by disinterested directors, disinterested independent directors or disinterested shareholders of a company. Under Russian law, an "interested party" includes: (i) a member of the board of directors of the company, (ii) a person performing functions of the sole executive body (including a managing company or a manager who performs functions of the sole executive body of the company under a contract), (iii) a member of the collective executive body of the company, (iv) a shareholder, who owns, together with any of its affiliates, at least 20% of the company's voting shares, (v) any person able to issue mandatory instructions to the company, or (vi) any of such persons' spouse, parents, children, adoptive parents or children, brothers or sisters or their affiliates who:

- 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;
- holds offices in any management body of a 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; or
- falls under other categories provided for by the company's charter.

The Joint Stock Companies Law requires that an "interested party transaction" by a company with more than 1,000 shareholders be approved by a majority vote of the independent directors who are not interested in the transaction. An "independent director" is a person who is not, and within the year preceding the decision was not, the general director, a member of any executive body or an affiliate of the company except for being its director, or a member of any management body of the company's management organization or a person whose spouse, parents, children, adoptive parents or children, brothers or sisters have held positions on management bodies of a company or the managing organization or have been the manager of such company. For companies with 1,000 or fewer shareholders, an interested party transaction must be approved by a majority vote of the directors who are not interested in the transaction if the number of these directors is sufficient to constitute a quorum.

An interested party transaction must be approved by a decision of a majority of disinterested shareholders holding voting shares if:

- the value of such transaction, or series of interrelated transactions, is 2% or more of the book value of the company's assets as of the last reporting date, determined in accordance with Russian accounting standards;
- the transaction, or series of interrelated transactions, involves a placement by subscription or disposal of ordinary shares in an amount exceeding 2% of the company's issued ordinary shares and ordinary shares in which issued convertible securities may be converted;
- the transaction, or series of interrelated transactions, involves a placement by subscription of: (i) issued securities that may be converted into ordinary shares constituting more than 2% of the company's issued ordinary shares; and (ii) ordinary shares into which issued convertible securities may be converted;

- all the members of the board of directors of a company with more than 1,000 shareholders holding voting shares are interested parties, and/or if none of them is an independent director; or
- the number of disinterested directors of a company with 1,000 or fewer shareholders holding voting shares is not sufficient to constitute a quorum.

Approval of an interested party transaction by a majority of disinterested shareholders may not be required if such transaction is substantially similar to transactions concluded by the company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction. This exemption is effective only within a period from the date when such party became an interested party with respect to the transaction and until the next annual shareholders' meeting.

Interested-party transactions do not need to be approved in the following instances:

- the company has only one shareholder that simultaneously performs the function 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 or securities convertible into shares;
- the transactions arise from the repurchase, whether mandatory or not, by the company of its issued shares;
- the company merges with or into another company; or
- the company is statutorily required to enter into the transactions and settlement under such transactions is made based on fixed tariffs established by the respective state authority.

An interested party transaction entered into in breach of the above rules may be invalidated by a court pursuant to an action brought by the company or any of its shareholders.

Major Transactions

The Joint Stock Companies Law defines a "major transaction" as a transaction, or series of interrelated transactions, involving the acquisition or disposal, or the possibility of disposal of property having a value of 25% or more of the book value of the assets of the company as determined in accordance with Russian accounting standards, with the exception of transactions conducted in the ordinary course of business or transactions involving a placement of ordinary shares through a subscription (sale) of ordinary shares or with a placement of 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 statements for the most recent reporting date, require unanimous approval by all members of the board of directors or, failing such approval, a simple majority vote of a 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 shareholders present at a shareholders' meeting.

Any major transaction entered into in breach of the above rules may be invalidated by a court pursuant to an action brought by the company or any of its shareholders.

Approval of the Russian Anti-Monopoly Authorities

As of October 26, 2006, the new Federal Law on the Protection of Competition (the "Competition Law") came into effect. A summary of the relevant provisions of the Competition Law is set out below, although investors should note that it is currently not entirely clear how such provisions will be applied in practice.

The Competition Law requires mandatory pre-approval by the anti-monopoly authorities of the following actions:

- (i) an acquisition by a person (or its group) of more than 25% of the voting shares of a joint stock company (or a one-third 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 (or up to more than a half and more than a two-thirds 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 (or its group) together with a target (or its group) exceeds RUB 3 billion 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 billion and at the same time the total asset value of the target (or its group) exceeds RUB 150 million; or if 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% in a Particular Commodity Market (the "Register");
- (ii) 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 billion; or total annual revenues of such entities (groups of persons to which they belong) for the preceding calendar year exceed RUB 6 billion or if one of these entities is included in the Register;
- (iii) foundation of an entity, if its charter capital is paid by the shares (or participation interest) and/or the assets of another entity and the newly founded entity acquires the rights in respect of such shares (or participation interest) and/or assets as specified in item (i) above, provided that the aggregate asset value of the founders (or group of persons to which they belong) and the entities (or groups of persons to which they belong) whose shares (or participation interest) and/or assets are contributed to the charter capital of the newly founded entity exceeds RUB 3 billion; or total annual revenues of the founders (or group of persons to which they belong) and the entities (or groups of persons to which they belong) whose shares (or participation interest) and/or assets are contributed to the charter capital of the newly founded entity for the preceding calendar year exceed RUB 6 billion, or if an entity whose shares (or participation interest) and/or assets are contributed to the charter capital of the newly founded entity, is included in the Register.

The Competition Law provides for a mandatory post-transaction notification (within 45 days of the closing) to the anti-monopoly authorities in connection with actions specified in item (i) above if the aggregate asset value or total annual revenues of an acquirer (or its group) and a target (or its group) for the preceding calendar year exceed RUB 200 million and, at the same time, the total asset value of the target (or its group) exceeds RUB 30 million, or if 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 (ii) above if their aggregate asset value or total annual revenues for the preceding calendar year exceed RUB 200 million.

Currency Control

Pursuant to the Federal Law No. 173-FZ "On Currency Regulation and Currency Control," dated 10 December 2003, as amended (the "Currency Law"), currency operations with such instruments as GDRs and ordinary shares may be conducted between (i) residents and non-residents and (ii) non-residents both in rubles and in foreign currencies, subject to compliance with securities and anti-monopoly laws and regulations.

Non-residents may receive dividends declared by Russian companies both in foreign currencies (confirmed by the CBR in its Information Letter No. 31, dated March 31, 2005) and rubles. Dividends paid in rubles may be freely converted by non-residents through Russian authorized banks and remitted outside of Russia.

Notification of Foreign Ownership

Foreign persons and foreign companies, regardless of whether they are registered with the Russian tax authorities, that 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 persons 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 the foreign ownership of our Ordinary Shares or GDRs.

Certain Russian law considerations for the Offering

Offering Outside the Russian Federation

Russian law requires that a permit from the FSFM must 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 May 8, 2007, the FSFM approved the placement and circulation of up to 107,940,000 Ordinary Shares of the Company, representing 20.9% of our Ordinary Shares following the Offering, in the form of GDRs, assuming full placement of the newly issued Ordinary Shares by the Company. See "Risk Factors—Risks Relating to the Offering, Ordinary Shares and GDRs—Following the offering you may not be able to deposit our Ordinary 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 Ordinary Shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the Ordinary Shares and GDRs offered in the Offering."

Notification of the FSFM

Pursuant to Russian securities legislation, each holder of ordinary shares must notify the company and the FSFM of the acquisition of 5% or more of the ordinary shares and any subsequent change in the number of the ordinary shares above or below the 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% threshold. The notification should contain the name of the shareholder, the name of the company, the state registration number of the ordinary share issuance and the number of ordinary shares acquired. As a general rule, such notifications must be given within five days after the ordinary shares have been transferred to such shareholder's securities account (or a deposit account).

DESCRIPTION OF CERTAIN INDEBTEDNESS

Deutsche Bank Term Facility

General

On March 23, 2007, the Company entered into a facility agreement with Deutsche Bank AG, London Branch, acting as agent and lender (the “Facility Agreement”) in the aggregate principal amount of RUB 3.0 million. The facility matures on the date falling 12 months after the date on which the loan is made. As at the date of this prospectus, we had RUB 3.0 billion outstanding under this facility.

Interest Rate

Funds drawn under the facility bear interest at a rate of 8.5% per annum for the first six months from the date on which the loan is made and 9.5% per annum thereafter. Each interest period for the loan is three months, the first of which commences on the date on which the loan is made. We may voluntarily prepay the loan only on the last day of a set interest period.

Events of Default

The Facility Agreement contains certain events of default with certain grace periods and thresholds, including but not limited to:

- non-payment;
- non-compliance with certain financial covenants specified in the Facility Agreement;
- any representation or statement proving to be incorrect or misleading;
- where any of our financial indebtedness or that of any material subsidiary becomes payable due to an event of default, or is not paid when due, or if any creditor becomes entitled to declare any financial indebtedness due and payable prior to its specified maturity, excluding indebtedness under \$5 million;
- insolvency of the Company or a material subsidiary, including action or proceedings taken that are reasonably likely to result in insolvency proceedings;
- a decrease in the percentage of our ownership in the issued and voting share capital of a material subsidiary;
- qualification by the auditors of our audited consolidated financial statements in a manner that may have a material adverse effect; or
- the occurrence of any event which has a material adverse effect on our business, operations, assets or condition, our ability to perform our obligations under the Facility Agreement and related finance documents (together, the “Finance Documents”) or the validity or enforceability of the Finance Documents or the rights or the remedies of any finance party under the Finance Documents.

Security

Our obligations under the facility are secured by financial guarantees of PIK Region, PIK Development, MFS-PIK, 160 DSK, PIK Profile, PIK Avtotrans, PIK Comfort, PIK Technology, PIK Design, Limited Liability Company “PIK Holding” (since renamed as Limited Liability Company “PIK Razvitie Territory”), Limited Liability Company “PP Eksplit,” Limited Liability Company “SPTK” and Limited Liability Company “DrevProfil.”

Covenants and Other Matters

The credit facility requires us to comply with certain general, information and financial covenants, including:

- submitting financial information;
- promptly providing notification of any default; and

- ensuring that the ratio of total group debt to EBITDA does not exceed 4.0 to 1 on December 31, 2006 and 2.9 to 1 on December 31, 2007, and the ratio of EBITDA to gross interest (gross interest being accrued interest and other finance payments in respect of group indebtedness) is not lower than 2.5 to 1 on December 31, 2006 and 5.0 to 1 on December 31, 2007.

The credit facility also includes certain negative covenants restricting or limiting our ability to, among other things:

- create or permit to subsist any security over any of our present or future revenues or assets;
- sell, transfer or otherwise dispose of any of our receivables on recourse terms (this provision does not apply to the existing security);
- enter into transactions, whether voluntary or involuntary, to sell, lease, transfer or otherwise dispose of any asset. This does not apply to any sale, lease, transfer or other disposal of trading stock or cash made by a member of the group in the ordinary course of trading of the disposing entity;
- acquire any company, business, assets or undertaking. This provision does not apply to acquisitions not exceeding \$0.5 billion and any other acquisitions approved by the majority lenders under the facility;
- carry out a corporate reorganization without prior written consent of the majority lenders, if it could have a material adverse effect;
- make any loans or grant any credit or guarantee or indemnity (save for some exceptions);
- pay, make or declare any dividend or other distribution or make any other payment to any of our shareholders (with the exception of an amount not exceeding 30% of the aggregate amount available for distribution);
- enter into, invest in or acquire any shares, stocks, securities or other interest in any joint venture. This does not apply to any joint venture where the transfer of assets or lending does not exceed \$0.5 billion;
- enter into any transaction with any of our shareholders or any of our affiliates except on arm's length terms and for full market value;
- incur or allow to remain outstanding any financial indebtedness, except to the extent that (i) it is made available to us by our shareholders; (ii) incurred in the ordinary course of business, and does not exceed \$0.5 billion; or (iii) does not exceed \$0.2 billion;
- enter into treasury transactions for speculative purposes; or
- change our auditors.

Volgogradsky Credit Facility

General

On July 17, 2006, the Company entered into a non-revolving credit facility agreement with Sberbank in connection with the Volgogradsky development project in order to finance the purchase of a 100% interest in CJSC VIKTOR and to finance the second stage of construction of the "Kuzminki" development in the Volgogradsky area of Moscow (Okskaya Street). The credit facility was made available to us in an aggregate amount equivalent to \$86.0 million. The facility terminates on June 29, 2009. As of April 30, 2007, we had \$66.8 million outstanding under this facility.

Interest Rate

Funds drawn under the facility bear interest at a rate of 10% per annum. In the event that Sberbank increases the interest rate the Company is entitled to repay the debt at the prior rate within 30 days of such increase.

Events of Default

The credit agreement contains certain events of default with certain grace periods and thresholds, including but not limited to:

- breach of the repayment schedule;
- non-performance or undue performance of obligations under other credit agreements with Sberbank;
- initiation of bankruptcy against the Company;
- approval of a resolution for reorganization, liquidation or any changes in the charter capital of the Company; and
- breach of certain other provisions of the credit agreement.

Security

Our obligations under the facility are secured by a pledge of our property rights in apartments in the Volgogradsky urban district, with a minimum floor space of not less than 135,734.4 square meters and a value of not less than \$247.1 million as well as 100% of the share capital of CJSC VIKTOR.

Covenants and Other Matters

The credit facility requires us to comply with certain general, information and financial covenants, including:

- notifying the bank of changes in constitutional documents, executive bodies and holdings of more than 20% of our shares;
- making all payments connected with the construction, sale and exploitation of apartments in the Volgogradsky district through accounts with Sberbank;
- transferring funds received in respect of apartments sales in the Volgogradsky district to Sberbank in an amount not less than the pledge value of apartments sold, such amounts to constitute repayments under the credit agreement;
- providing monthly reports on the development of the premises in the Volgogradsky district;
- entering into a mortgage agreement with Sberbank with respect to the premises in the Volgogradsky district; and
- notifying Sberbank in the event that we become the owner of 5% or more of the voting shares of Sberbank.

The credit facility also includes certain negative covenants restricting or limiting our ability to, among other things:

- enter into contracts with respect to apartments in the Volgogradsky urban district without prior written consent from Sberbank; and
- seek monetary funds from co-investors in the Volgogradsky project without the written consent of Sberbank under any agreement pursuant to which we would be obliged to transfer ownership of any premises to such investors after construction is completed.

DSK-3 Credit Facility

General

On June 17, 2005, we entered into a non-revolving credit facility agreement with Sberbank in order to finance the acquisition of DSK-3. The credit facility was made available to us in an aggregate amount equivalent to \$210.0 million. The facility terminates on June 16, 2010. As of April 30, 2007, we had \$205.0 million outstanding under this facility.

Interest Rate

Funds drawn under the facility bear interest at a variable rate of up to 11.5% per annum.

Events of Default

The credit agreement contains certain events of default with certain grace periods and thresholds, including but not limited to:

- breach of the repayment schedule;
- non-performance or undue performance of obligations under other credit agreements with Sberbank;
- initiation of bankruptcy against the Company;
- approval of a resolution for reorganization, liquidation or decrease in charter capital without the written consent of Sberbank; and
- breach of certain other provisions of the credit agreement (including issuance of additional shares, consolidation or shares split without prior written consent of Sberbank).

Security

Our obligations under the facility are secured by a pledge with a value of \$78.1 million of our property rights to acquire apartments with a total floor space of not less than approximately 42,800 square meters of residential premises and not less than 486 parking spaces in Novo-Peredelkino, Moscow; a pledge with a value of \$102.6 million by PIK Region of property rights to acquire apartments with the total floor space of approximately 328,600 square meters of residential premises in Novo-Kurkino, Khimki, districts 6, 7 and 8; a pledge with a total value of \$1.3 million by the Company of 1,747,081 ordinary shares of DSK-3, which is equal to 81.24% of the charter capital of DSK-3 (nominal value of one ruble per share). PIK Region and DSK-3 also gave sureties for the loan.

Covenants and Other Matters

The credit facility requires us to comply with certain general, information and financial covenants, including:

- agreeing all advertising arrangements with respect to the project with Sberbank;
- providing Sberbank with monthly reports on the speed and volume of receipt of property ownership rights for apartments;
- providing Sberbank with the monthly reports on the amount of funds invested in the construction of the project;
- making any payments connected with the sale and use of the development through accounts at Sberbank; and
- obtaining Sberbank's approval for any borrowings, individually in excess of \$10 million and in aggregate in excess of \$50 million.

General Credit Facility No. 3701

General

On November 10, 2006, the Company entered into a non-revolving credit facility agreement with Sberbank for an aggregate amount of RUB 2.7 billion. The facility was for the purpose of payment for design and exploration works, equipment, tax payments, salary and for purchase of promissory notes of subsidiary companies. With effect from May 11, 2007 the limit is to decrease gradually. The facility terminates November 9, 2007. As of April 30, 2007, we had RUB 2.7 billion outstanding under this facility.

Interest Rate

Funds drawn under the facility bear interest at a variable rate of up to 9% per annum depending on certain calculations connected to the amount of funds deposited by the Company in Sberbank accounts.

Events of Default

The credit agreement contains certain events of default with certain grace periods and thresholds, including but not limited to adoption of a resolution for reorganization, liquidation

or decrease of charter capital if there is a risk of liquidation or if we have payments overdue on other credit agreements with Sberbank.

Covenants and Other Matters

The credit facility requires us to comply with certain general, information and financial covenants, including providing Sberbank with quarterly reports on the following:

- description of credit and debt receivables indicating names of creditors, debtors and amounts due;
- description of short- and long-term financial investments;
- description of short- and long-term debt;
- description of security received and provided;
- copies of amendments to constitutional documents;
- information on changes in the composition of executive bodies; and
- changes in holdings of more than 20% of our shares.

We must also maintain monthly income and funds from realization of securities of at least RUB 437.4 million in our accounts with Sberbank.

General Credit Facility No. 3680

General

On September 8, 2006, the Company entered into a non-revolving credit facility agreement with Sberbank in the aggregate principal amount of RUB 2.3 billion for the purpose of repaying debt under credit agreements with other banks and granting loans to PIK Region, PIK Development and PIK Comfort. The facility terminates on March 6, 2008. A partial pre-term repayment of RUB 20.3 million was made on September 19, 2006. As of April 30, 2007, we had RUB 2.3 billion outstanding under this facility.

Interest Rate

Funds drawn under the facility bear interest at a rate of 8% per annum.

Events of Default

The credit agreement contains certain events of default with certain grace periods and thresholds, including but not limited to adoption of a resolution on reorganization, liquidation or decrease of charter capital, if there is a risk of liquidation, if we have payments overdue on other credit agreements with Sberbank and on initiation of bankruptcy proceedings by third parties.

Security

Our obligations under the facility are secured by sureties of PIK Region, PIK Development and PIK Comfort, a pledge of securities and participation interests in the charter capitals of companies in our group, a pledge of movable property owned by companies our group and a pledge of real estate owned by companies in our group. The total value under the security agreements must cover the principal debt and interest for a period of three months.

Covenants and Other Matters

The credit facility requires us to comply with certain general, information and financial covenants, including:

- notifying Sberbank of changes in the composition and powers of officials; and
- providing accounting documentation and information on the management bodies of the company, as well as on changes in holdings of more than 20% of our shares.

City-Development Credit Facility

General

On March 22, 2006, the Company entered into a loan facility agreement with Sberbank in the aggregate principal amount of RUB 2.3 billion. The facility was for the purpose of acquiring a

100% share in the charter capital of City-Development LLC, the company owning the shares of Open Joint Stock Company “Krasnopresnensky Sakharorafinadny Zavod.” The credit facility was made available to us in an aggregate amount of RUB 2.3 billion. The facility was due to terminate on September 29, 2006, but was extended to March 27, 2008. As of April 30, 2007, we had RUB 2,3 billion outstanding under this facility.

Interest Rate

Funds drawn under the facility bear interest at a rate of 9% per annum.

Events of Default

The credit agreement contains certain events of default with certain grace periods and thresholds, including but not limited to adoption of a resolution on reorganization, liquidation or decrease of charter capital if there is a risk of liquidation, if we have payments overdue on other credit agreements with Sberbank and on initiation of bankruptcy proceedings by third parties.

Security

Our obligations under the facility are secured by a subsequent pledge of shares in DSK-3 and DSK-2.

Covenants and Other Matters

The credit facility requires us to comply with certain general, information and financial covenants, including notifying Sberbank of changes in the composition and powers of officials. We must also maintain monthly income of at least RUB 230 million in our accounts with Sberbank.

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 New York offices are located at 60 Wall Street, New York, New York 10005, United States and its principal London offices are located at Winchester House, 1 Great Winchester Street, London, EC2N 2DB, United Kingdom. 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.

The Depositary has appointed Deutsche Bank Ltd. as the custodian (the "Custodian") for the safekeeping of the deposited securities, cash or other property on deposit. The Custodian's principal office is at 4 Schepkina Street, Moscow 129090, Russian Federation.

There are two separate deposit agreements, one for the Rule 144A GDRs ("Rule 144A Deposit Agreement"), and one for the Regulation S GDRs ("Regulation S Deposit Agreement" and together with the Rule 144A Deposit Agreement, the "Deposit Agreements"), each of which is 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.

One GDR represents 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.

If you become an owner of GDRs, you will 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.

Registration of Placement Report

Prior to receipt by the Depositary of written notice from us that the placement report with respect to the newly issued Shares being offered by the Company has been registered, all GDRs will be issued on a provisional basis and GDR holders will not be entitled to instruct the Depositary to exercise any voting rights as a shareholder, and neither the Depositary nor the Custodian will exercise any voting rights as a shareholder. GDR holders may not withdraw the Shares or other property on deposit with the Depositary in respect of the GDRs sold in the Offering prior to the registration of the placement report. Such limitation on withdrawal and voting of the underlying Ordinary Shares will not prohibit trading in the GDRs.

See “Registration of Placement Report” and “Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—GDR holders will not be able to withdraw the Shares underlying the GDRs or instruct the Depository to vote the Shares evidenced by their GDRs prior to the registration of a placement report for the newly issued Ordinary Shares, and the failure to register this placement report could result in any newly issued Ordinary Shares underlying the GDRs being cancelled, reliance by GDR holders on us and the Underwriters to return the offering proceeds and a small public float based solely on the Shares sold by the Selling Shareholders.”

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;”
- 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 Depository 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

The Depository will make arrangements with DTC to act as securities depository for the Rule 144A GDRs. All Rule 144A GDRs issued in the Offering will be registered 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 depository cannot be appointed.

DTC may discontinue providing its services as securities depository with respect to the Rule 144A GDRs at any time by giving reasonable notice to the Depository. Under such circumstances and in the event a successor securities depository 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

The Depository will make arrangements with Euroclear and Clearstream to act as securities depositories for the Regulation S GDRs. All Regulation S GDRs issued in the Offering will be registered in the name of a nominee of Deutsche Bank AG, London Branch, the common depository 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 and the Depositary will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement arrangements cannot be made, the Depositary will 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:

Restrictions upon the Transfer of GDRs

<u>Rule 144A GDRs</u>	<u>Regulation S GDRs</u>
The Rule 144A GDRs may be reoffered, resold, pledged or otherwise transferred only:	None.
(1) outside the United States in accordance with Regulation S;	
or	
(2) to a QIB in a transaction meeting the requirements of Rule 144A;	
or	
(3) pursuant to Rule 144 under the Securities Act, if available;	
or	
(4) pursuant to an effective registration statement under the Securities Act.	

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

So long as the placement report has been registered with the FSFM as described under “—Registration of Placement Report,” 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

So long as the placement report has been registered with the FSFM as described under “—Registration of Placement Report,” 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

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.

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, subject to prior consultation with the Company to the extent reasonably practicable, 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—Approval of the Russian Anti-Monopoly Authorities.”

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 2000, 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.

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 Depositary 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 Depositary 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 Depositary it is practicable and lawful. See “—Foreign Currency Conversion” below for actions the Depositary is entitled to take if conversion, transfer and distribution cannot be so made by the Depositary.

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 Depositary 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 Depositary 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 Depositary 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 Depositary 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 Depositary 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 Depositary 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 Depositary in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional GDRs to GDR holders.

The Depositary 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 Depositary 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 Depositary has determined that it is lawful and 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 Depositary is not obligated to establish procedures to facilitate the distribution and exercise by holders of rights to purchase new shares other than in the form of GDRs.

If (1) we do not request that the rights be distributed to you in a timely manner or we request that the rights not be distributed to you, (2) we fail to deliver satisfactory documentation to the Depositary, such as opinions of counsel as to compliance with applicable law, or (3) any rights made available are not exercised 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, subject to prior consultation with us to the extent reasonably practicable, 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, subject to prior consultation with us to the extent reasonably practicable, 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. 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.

Redemption

Whenever we decide to redeem any of the securities on deposit with the Custodian, we will give timely prior notice to the Depositary. If the Depositary 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 Depositary will mail notice of the redemption to the holders.

The Depositary will instruct the Custodian to surrender the Shares being redeemed against payment of the applicable redemption price. The Depositary 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 Depositary. See “—Foreign Currency Conversion” below for actions the Depositary is entitled to take if conversion, transfer and distribution of funds by the Depositary is not practicable or lawful. You will have to pay fees and charges of, and the expenses incurred by, the Depositary, 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 Depositary 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 Depositary 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 Depositary in such circumstances may with our approval, and shall if we so request and provide to the Depositary 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 Depositary may not lawfully distribute such securities to you, the Depositary 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 Depositary 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 Depositary, and any taxes and other governmental charges upon the sale of such securities.

The Depositary 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 Depositary may create GDRs on your behalf if you or your broker deposit shares with the Custodian. The Depositary 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 GDRs, the Shares and the Trading Market—Following the Offering you may not be able to deposit our Ordinary 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 Ordinary Shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the Ordinary Shares and GDRs offered in the Offering.”

The issuance of GDRs may be delayed until the Depositary or the Custodian receives confirmation that all required approvals have been given and that the Shares have been duly transferred to the Custodian. The Depositary will only deliver GDRs in whole numbers.

When you make a deposit of Shares, you will be responsible for transferring good and valid title to the deposited Shares to the Depositary, as evidenced by documents satisfactory to the Depositary 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 Depositary 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 Depositary 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 PIK Group and you are not acting on behalf of PIK 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 Depositary upon request.

When you deposit Shares to receive Regulation S GDRs, you will be required to provide the Depositary 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;
- you are not an affiliate of PIK Group and you are not acting on behalf of PIK 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

The GDRs representing Shares offered and sold pursuant to the terms of this prospectus have been issued on a provisional basis until we notify the Depositary in writing that the FSFM has registered the placement report in respect of the newly issued Shares we are offering in the form of GDRs. Until such time, the GDRs representing such Shares will not be eligible for cancellation and withdrawal of underlying Shares will not be permitted and the Depositary will refuse to honor any GDR cancellation requests. See “—Registration of Placement Report.”

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.

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 cancelled, 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 cancelled 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
 - 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, to the extent reasonably necessary to satisfy the requirements of Russian law, 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 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 other than when such GDRs shall be deemed to be issued on a provisional basis. See “—Registration of Placement Report.” The voting rights of holders of shares are described in “Description of Share Capital and Certain Requirements of Russian Legislation.”

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 GDRs, the Shares and the Trading Market—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 GDRs, the Shares and the Trading Market—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.”

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 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 cancelled (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);
- (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;
- (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 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.

Books of Depositary

The Depositary will maintain GDR holder records at its principal office in New York and, if no book-entry settlement system is available for the relevant GDRs, at its principal office in London as well. 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 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;
- 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 (a) out of the information included in this prospectus under the caption "Information Relating to the Depositary" or (b) out of acts performed or omitted by the Depositary or the Custodian 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.

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, except to the extent contained under the caption “Information Relating to the Depositary” in this prospectus, (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, 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 or release Shares before receiving GDRs for cancellation, 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 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 Open Joint-stock Company "R.O.S.T. Registrar" 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 notify the Depositary (1) of any material and uncured breaches by the share registrar of the terms of the Deposit Agreements and (2) any time the share registrar will no longer be able materially to comply with, or has engaged in conduct that indicates it will not materially comply with, the provisions of the Deposit Agreements relating to it;
- 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) 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 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.

US Securities Act and Other Legends

Legends for Rule 144A GDRs

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION (“DTC”), TO THE DEPOSITARY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

DEUTSCHE BANK TRUST COMPANY AMERICAS, A BANKING CORPORATION ORGANIZED AND EXISTING UNDER THE LAWS OF THE STATE OF NEW YORK, UNITED STATES OF AMERICA, AS DEPOSITARY (THE “DEPOSITARY”), HEREBY CERTIFIES THAT CEDE & CO., AS NOMINEE OF THE DEPOSITORY TRUST COMPANY (“DTC”), IS THE RECORD OWNER OF THE NUMBER OF RULE 144A GDRS INDICATED ON THE RECORDS OF THE DEPOSITARY, REPRESENTING DEPOSITED VALIDLY ISSUED AND FULLY PAID SHARES, OR EVIDENCE OF RIGHTS TO RECEIVE SUCH SHARES (“SHARES”), OF PIK GROUP, AN OPEN JOINT STOCK COMPANY ORGANIZED UNDER THE LAWS OF THE RUSSIAN FEDERATION (THE “COMPANY”). AT THE DATE HEREOF, EACH RULE 144A GDR SHALL REPRESENT ONE SHARE DEPOSITED UNDER THE RULE 144A DEPOSIT AGREEMENT (AS HEREINAFTER DEFINED) WITH THE CUSTODIAN, WHICH AT THE DATE OF THE EXECUTION OF THE RULE 144A DEPOSIT AGREEMENT IS DEUTSCHE BANK LTD (THE “CUSTODIAN”).

NEITHER THIS RULE 144A GDR CERTIFICATE, NOR THE RULE 144A GDRS EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. ANY OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR CERTIFICATE AND THE RULE 144A GDRS EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR CERTIFICATE, THE RULE 144A GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF

AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

NEITHER THE HOLDER NOR THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GDR MAY DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A 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 THE RULE 144A GDRS.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDRS EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING.

THE COMPANY AND THE DEPOSITARY HAVE AGREED IN THE RULE 144A DEPOSIT AGREEMENT 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 RULE 144A DEPOSIT AGREEMENT OR OTHERWISE FOR NONPAYMENT FOR, ANY SHARES NEWLY ISSUED AND PLACED BY THE COMPANY OR SOLD BY ANY SELLING SHAREHOLDERS IN THE INITIAL OFFERING OR ANY SUBSEQUENT OFFERING (INCLUDING ANY EXERCISE BY THE JOINT GLOBAL COORDINATORS OF AN OVER-ALLOTMENT OPTION IN CONNECTION THEREWITH).

PRIOR TO RECEIPT BY THE DEPOSITARY OF WRITTEN NOTICE FROM THE COMPANY THAT A REPORT ON THE RESULTS OF THE ISSUE OF THE SHARES NEWLY ISSUED AND PLACED BY THE COMPANY IN SUCH OFFERING HAS BEEN REGISTERED WITH THE RUSSIAN FEDERAL SERVICE FOR THE FINANCIAL MARKETS, THE RULE 144A GDRS EVIDENCED HEREBY ARE ISSUED ON A PROVISIONAL BASIS. PRIOR TO RECEIVING SUCH NOTICE, NOTWITHSTANDING ANYTHING IN THIS RULE 144A GDR CERTIFICATE OR THE RULE 144A DEPOSIT AGREEMENT TO THE CONTRARY, THE DEPOSITARY SHALL NOT, EXCEPT AS SPECIFICALLY DESCRIBED BELOW, DELIVER ANY SHARES PURSUANT TO PARAGRAPH 2 OF THIS CERTIFICATE OR SECTION 2.7 OF THE RULE 144A DEPOSIT AGREEMENT AND THE DEPOSITARY SHALL NOT VOTE, OR CAUSE TO BE VOTED, SECURITIES DEPOSITED THEREUNDER, AND HOLDERS SHALL NOT BE ENTITLED TO GIVE VOTING INSTRUCTIONS, AS CONTEMPLATED BY PARAGRAPH 19 OF THIS RULE 144A GDR CERTIFICATE AND SECTION 4.10 OF THE RULE 144A DEPOSIT AGREEMENT.

IF A REPORT ON THE RESULTS OF ISSUE OF SUCH NEWLY ISSUED AND PLACED SHARES HAS NOT BEEN REGISTERED WITH THE RUSSIAN FEDERAL SERVICE FOR THE FINANCIAL MARKETS ON OR BEFORE THE DATE WHICH IS 60 DAYS AFTER THE CLOSING DATE FOR SUCH OFFERING (OR SUCH LATER DATE AS THE COMPANY, THE SELLING SHAREHOLDERS (IF ANY) AND THE JOINT GLOBAL COORDINATORS PARTICIPATING IN SUCH OFFERING MAY AGREE), UPON WRITTEN NOTICE BY THE COMPANY, THE PROCEEDS OF SUCH OFFERING SHALL BE DELIVERED TO THE DEPOSITARY AND FROM THE TIME OF ITS RECEIPT OF SUCH PROCEEDS THE RULE 144A GDRS ISSUED IN CONNECTION WITH SUCH OFFERING WILL REPRESENT THE RIGHT TO RECEIVE A PROPORTIONAL INTEREST IN THE FUNDS SO RECEIVED. THE FUNDS SO RECEIVED BY THE DEPOSITARY IN ANY CURRENCY OTHER THAN US DOLLARS WILL BE CONVERTED INTO US DOLLARS (AT MARKET RATES THEN AVAILABLE) AND DISTRIBUTED TO HOLDERS OF THE RELEVANT RULE 144A GDRS, IN EACH CASE ON THE TERMS OF THE RULE 144A DEPOSIT AGREEMENT. SUCH RULE 144A GDRS WILL BE CANCELLED BY THE DEPOSITARY UPON DISTRIBUTION OF THE PROPORTIONAL INTERESTS IN THE FUNDS SO RECEIVED, CONVERTED (IF NECESSARY) AND DISTRIBUTED TO THE HOLDER

OF THIS RULE 144A GDR CERTIFICATE. THE FUNDS SO RECEIVED, CONVERTED (IF NECESSARY) AND DISTRIBUTED TO HOLDERS OF RULE 144A GDRS MAY BE LESS THAN THE PRICE AT WHICH THE RULE 144A GDRS HAVE BEEN SOLD BY THE COMPANY OR THE SELLING SHAREHOLDERS OR PURCHASED BY THE HOLDERS THEREOF, AND SUCH DISTRIBUTION MAY BE SUBJECT TO WITHHOLDING TAXES OR DELAYS.

THE HOLDER HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING RULE 144A GDRS REPRESENTED BY THIS CERTIFICATE, AGREES, FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY, THAT THE RULE 144A GDRS REPRESENTED HEREBY MAY NOT AT ANY TIME BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY PERSON LOCATED IN RUSSIA, RESIDENTS OF RUSSIA, OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, SUCH PERSONS, UNLESS AND TO THE EXTENT OTHERWISE PERMITTED UNDER RUSSIAN LAW.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF THE COMPANY IN THE NAME OF DEUTSCHE BANK TRUST COMPANY AMERICAS, AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE. HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA'S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNIZE OR ENFORCE JUDGMENTS OBTAINED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK.

Legends for Regulation S GDRs

DEUTSCHE BANK TRUST COMPANY AMERICAS, A BANKING CORPORATION ORGANIZED AND EXISTING UNDER THE LAWS OF THE STATE OF NEW YORK, UNITED STATES OF AMERICA, AS DEPOSITARY (THE "DEPOSITARY"), HEREBY CERTIFIES THAT BT GLOBENET NOMINEES LIMITED, AS NOMINEE OF DEUTSCHE BANK AG, LONDON BRANCH, AS COMMON DEPOSITARY FOR EUROCLEAR AND CLEARSTREAM, IS THE RECORD OWNER OF THE NUMBER OF REGULATION S GDRS INDICATED ON THE RECORDS OF THE DEPOSITARY, REPRESENTING DEPOSITED VALIDLY ISSUED AND FULLY PAID SHARES, OR EVIDENCE OF RIGHTS TO RECEIVE SUCH SHARES ("SHARES"), OF PIK GROUP, AN OPEN JOINT STOCK COMPANY ORGANIZED UNDER THE LAWS OF THE RUSSIAN FEDERATION (THE "COMPANY"). AT THE DATE HEREOF, EACH REGULATION S GDR SHALL REPRESENT ONE SHARE DEPOSITED UNDER THE REGULATION S DEPOSIT AGREEMENT (AS HEREINAFTER DEFINED) WITH THE CUSTODIAN, WHICH AT THE DATE OF THE EXECUTION OF THE REGULATION S DEPOSIT AGREEMENT IS DEUTSCHE BANK LTD (THE "CUSTODIAN").

NEITHER THIS REGULATION S GDR CERTIFICATE, NOR THE REGULATION S GDRS EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS REGULATION S GDR CERTIFICATE AND THE REGULATION S GDRS EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF

THE COMPANY AND THE DEPOSITARY THAT THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS REGULATION S GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE REGULATION S GDRS EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING.

THE COMPANY AND THE DEPOSITARY HAVE AGREED IN THE REGULATION S DEPOSIT AGREEMENT 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 REGULATION S DEPOSIT AGREEMENT OR OTHERWISE FOR NONPAYMENT FOR, ANY SHARES NEWLY ISSUED AND PLACED BY THE COMPANY OR SOLD BY ANY SELLING SHAREHOLDERS IN THE INITIAL OFFERING OR ANY SUBSEQUENT OFFERING (INCLUDING ANY EXERCISE BY THE JOINT GLOBAL COORDINATORS OF AN OVER-ALLOTMENT OPTION IN CONNECTION THEREWITH).

PRIOR TO RECEIPT BY THE DEPOSITARY OF WRITTEN NOTICE FROM THE COMPANY THAT A REPORT ON THE RESULTS OF THE ISSUE OF THE SHARES NEWLY ISSUED AND PLACED BY THE COMPANY IN SUCH OFFERING HAS BEEN REGISTERED WITH THE RUSSIAN FEDERAL SERVICE FOR THE FINANCIAL MARKETS, THE REGULATION S GDRS EVIDENCED HEREBY ARE ISSUED ON A PROVISIONAL BASIS. PRIOR TO RECEIVING SUCH NOTICE, NOTWITHSTANDING ANYTHING IN THIS REGULATION S GDR CERTIFICATE OR THE REGULATION S DEPOSIT AGREEMENT TO THE CONTRARY, THE DEPOSITARY SHALL NOT, EXCEPT AS SPECIFICALLY DESCRIBED BELOW, DELIVER ANY SHARES PURSUANT TO PARAGRAPH 2 OF THIS CERTIFICATE OR SECTION 2.7 OF THE REGULATION S DEPOSIT AGREEMENT AND THE DEPOSITARY SHALL NOT VOTE, OR CAUSE TO BE VOTED, SECURITIES DEPOSITED THEREUNDER, AND HOLDERS SHALL NOT BE ENTITLED TO GIVE VOTING INSTRUCTIONS, AS CONTEMPLATED BY PARAGRAPH 19 OF THIS REGULATION S GDR CERTIFICATE OR SECTION 4.10 OF THE REGULATION S DEPOSIT AGREEMENT.

IF A REPORT ON THE RESULTS OF ISSUE OF SUCH NEWLY ISSUED AND PLACED SHARES HAS NOT BEEN REGISTERED WITH THE RUSSIAN FEDERAL SERVICE FOR THE FINANCIAL MARKETS ON OR BEFORE THE DATE WHICH IS 60 DAYS AFTER THE CLOSING DATE FOR SUCH OFFERING (OR SUCH LATER DATE AS THE COMPANY, THE SELLING SHAREHOLDERS (IF ANY) AND THE JOINT GLOBAL COORDINATORS PARTICIPATING IN SUCH OFFERING MAY AGREE), UPON WRITTEN NOTICE BY THE COMPANY, THE PROCEEDS OF SUCH OFFERING SHALL BE DELIVERED TO THE DEPOSITARY AND FROM THE TIME OF ITS RECEIPT OF SUCH PROCEEDS THE REGULATION S GDRS ISSUED IN CONNECTION WITH SUCH OFFERING WILL REPRESENT THE RIGHT TO RECEIVE A PROPORTIONAL INTEREST IN THE FUNDS SO RECEIVED. THE FUNDS SO RECEIVED BY THE DEPOSITARY IN ANY CURRENCY OTHER THAN US DOLLARS WILL BE CONVERTED INTO US DOLLARS (AT MARKET RATES THEN AVAILABLE) AND DISTRIBUTED TO HOLDERS OF THE RELEVANT REGULATION S GDRS, IN EACH CASE ON THE TERMS OF THE REGULATION S DEPOSIT AGREEMENT. SUCH REGULATION S GDRS WILL BE CANCELLED BY THE DEPOSITARY UPON DISTRIBUTION OF THE PROPORTIONAL INTERESTS IN THE FUNDS SO RECEIVED, CONVERTED (IF NECESSARY) AND DISTRIBUTED TO THE HOLDER OF SUCH REGULATION S GDRS. THE FUNDS SO RECEIVED, CONVERTED (IF NECESSARY) AND DISTRIBUTED TO HOLDERS OF REGULATION S GDRS MAY BE LESS THAN THE PRICE AT WHICH SUCH REGULATION S GDRS HAVE BEEN SOLD BY THE COMPANY OR THE SELLING SHAREHOLDERS OR

PURCHASED BY THE HOLDER THEREOF, AND SUCH DISTRIBUTION MAY BE SUBJECT TO WITHHOLDING TAXES OR DELAYS.

THE HOLDER HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING REGULATION S GDRS REPRESENTED BY THIS CERTIFICATE, AGREES, FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY, THAT THE REGULATION S GDRS REPRESENTED HEREBY MAY NOT AT ANY TIME BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY PERSON LOCATED IN RUSSIA, RESIDENTS OF RUSSIA, OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, SUCH PERSONS, UNLESS AND TO THE EXTENT OTHERWISE PERMITTED UNDER RUSSIAN LAW.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF THE COMPANY IN THE NAME OF DEUTSCHE BANK TRUST COMPANY AMERICAS, AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE. HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA'S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNIZE OR ENFORCE JUDGMENTS OBTAINED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK.

TAXATION

The following summary of the principal United States 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.

United States Federal Income Tax Considerations

TO ENSURE COMPLIANCE WITH US TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF UNITED STATES FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following is a description of the principal US federal income tax consequences that may be relevant to a US Holder (as defined below) with respect to the acquisition, ownership and disposition of Shares or GDRs. This description addresses only the US federal income tax considerations of holders that are initial purchasers of the Shares or GDRs pursuant to the Offering and that will hold the Shares or GDRs as capital assets. This description is for general information only, and does not purport to be a comprehensive description of all tax consequences of the acquisition, ownership and disposition of Shares or GDRs nor does it purport to address all aspects of US federal income taxation that may be important to a particular investor in light of such investor's investment or tax circumstances, or to holders of the Shares or GDRs that may be subject to special tax rules, such as:

- dealers or traders in securities or currencies;
- tax-exempt entities;
- banks, financial institutions or insurance companies;
- real estate investment trusts, regulated investment companies or grantor trusts;
- persons that received the Shares or GDRs as compensation for the performance of services;
- S corporations;
- holders who own, or are deemed to own, at least 10%, by voting power or value, of the Shares;
- persons that have a functional currency other than the US dollar;
- holders who hold the Shares or GDRs as part of a position in a straddle or as part of a hedging, conversion or other risk reduction transaction for US federal income tax purposes; or
- certain former citizens or long-term residents of the United States.

Moreover, this description does not address the US federal estate and gift or alternative minimum tax consequences, or any state, local, or foreign tax consequences relating to the ownership and disposition of the Shares or GDRs.

This description is based:

- on the Internal Revenue Code of 1986, as amended (the “Code”), its legislative history, existing and proposed United States Treasury Regulations promulgated thereunder, and judicial and administrative interpretations thereof, in each case as in effect and available on the date of this Prospectus; and
- in part, on the assumption that each obligation in the Deposit Agreements and any related agreement will be performed in accordance with its terms.

The United States tax laws and the interpretation thereof are subject to change. These changes could apply retroactively and could affect the tax consequences described below.

For purposes of this description, a US Holder is a beneficial owner of the Shares or GDRs that, for US federal income tax purposes, is:

- an individual who is a citizen or resident of the United States;
- a corporation or other entity treated as a corporation for US federal income tax purposes, created or organized in or under the laws of the United States or any state thereof, including the District of Columbia;
- an estate the income of which is subject to US federal income taxation regardless of its source; or
- a trust, if such trust validly elects to be treated as a US person for US federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more US persons have the authority to control all of the substantial decisions of such trust.

If a partnership (or any other entity treated as a partnership for US federal income tax purposes) holds the Shares or GDRs, the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax advisor as to the tax considerations relevant to its particular circumstances.

Prospective holders should consult their own tax advisors with respect to the US federal, state, local and foreign tax consequences of acquiring, owning or disposing of the Shares or GDRs in light of their particular circumstances.

Ownership of GDRs in General

For United States federal income tax purposes, if you are a holder of GDRs, you generally will be treated as the owner of the Shares represented by such GDRs. As a consequence, no gain or loss will be recognized upon the exchange of Shares for GDRs or the exchange of GDRs for Shares.

Distributions

Subject to the discussion below under “—Passive Foreign Investment Company Considerations,” the entire amount of any distribution paid with respect to the Shares or GDRs, other than any distributions of the Shares or GDRs made to all the Company’s shareholders, will constitute dividends to the extent of the Company’s current or accumulated earnings and profits as determined under US federal income tax principles, and generally will be taxed as ordinary income at the time of the receipt of such amounts by the US Holder. To the extent amounts paid as distributions on Shares or GDRs exceed the Company’s current and accumulated earnings and profits, these amounts will not be dividends, but instead will be treated first as a tax-free reduction of capital to the extent of the US Holder’s basis in the Shares or GDRs, and thereafter as capital gain. The Company does not intend to compute (or to provide US Holders with the information necessary to compute) earnings and profits under US federal income tax principles. Accordingly, US Holders should expect to treat distributions as dividends.

Dividends will be foreign-source “passive category income,” or in the case of certain US Holders, “general category income” for US foreign tax credit purposes and will not be eligible for the dividends-received deduction available to domestic corporations. For taxable years beginning on or before 31 December 2010, certain non-corporate US Holders may be taxed on dividends from certain foreign corporations at the lower rates applicable to long-term capital gains (i.e., gains with respect to capital assets held for more than one year) if the dividends are “qualified dividends.” Dividends received in respect of the Shares or GDRs will be qualified dividends if the Company:

- is eligible for the benefits of a comprehensive income tax treaty with the United States that the IRS has approved for the purposes of the qualified dividend rules; and
- was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company (“PFIC”).

However, a US Holder’s eligibility for such preferential rate would be subject to certain holding period requirements and the non-existence of certain risk reduction transactions with respect to the Shares or GDRs. The United States-Russia Tax Treaty has been approved for the purposes of the qualified dividend rules, and the Company expects that it generally will be eligible for the benefits of that treaty. Additionally, the Company believes that it was not a PFIC for US federal income tax purposes in respect of its 2006 taxable year and the Company does not anticipate becoming a PFIC in respect of its 2007 tax year or in the foreseeable future, although it can make no assurances in this regard. See “—Passive Foreign Investment Company Considerations.”

Dividends paid in Russian rubles will be included in the gross income of a US Holder in a US dollar amount calculated by reference to the prevailing spot market exchange rate in effect on the date that the dividends are received by the US Holder (in the case of Shares) or by the Depository (in the case of GDRs), regardless of whether such rubles are in fact converted into US dollars on such date. If such dividends are converted into US dollars on the date of receipt, a US Holder generally should not be required to recognize foreign currency gain or loss in respect thereof. Such a holder will have a tax basis for US federal income tax purposes in the Russian rubles received equal to that dollar value. US Holders may be required to recognize ordinary income or loss on the receipt of a refund of Russian withholding tax to the extent the US dollar value of the refund differs from the US dollar equivalent of that amount on the date of receipt of the underlying dividend. US Holders should consult their own tax advisors regarding the treatment of foreign currency gain or loss, if any, on (i) any rubles received by a US Holder or by the Depository that are converted into US dollars on a date subsequent to receipt, or (ii) any refund received under the United States-Russia double tax treaty.

The amount of the distribution that is subject to US federal income taxation will not be reduced by the amount of any Russian tax withheld from the distribution. Russian tax withheld from dividends generally will be treated (up to the 5% or 10% rate, as applicable, provided under the United States-Russia Tax Treaty) as a foreign income tax that, subject to generally applicable limitations under US tax law, is eligible for credit against the US federal income tax liability of US Holders or, if they have elected to deduct such taxes, may be deducted in computing taxable income; provided, in each case, that the amounts withheld and paid to the Russian tax authorities are treated as satisfying a US holder’s tax liability for the purpose of the US foreign tax credit rules. If Russian tax is withheld at a rate in excess of the applicable rate under the United States-Russia Tax Treaty, a US Holder may not be entitled to credits for the excess amount because such amounts might be treated as recoverable by the US Holder for US federal income tax purposes, even though the procedures for claiming refunds and the practical likelihood that refunds will be made available in a timely fashion are uncertain. See “—Russian Federation Tax Considerations—Taxation of Dividends—Non-Resident Holders.” Moreover, a US holder will only be entitled to claim a credit up to an amount that is not in excess of such US holder’s US income tax liability that would otherwise be imposed on the receipt of the dividend. New foreign tax credit regulations have been recently proposed by the US Department of the Treasury and the IRS, and it is uncertain whether, if adopted in final form, they could affect US Holder’s ability to credit Russian tax withheld from dividends against their US federal income tax liability.

The rules relating to US foreign tax credits and the timing thereof are extremely complex. Accordingly, US Holders should consult their tax advisors with regard to the availability of a US foreign tax credit and the application of the US foreign tax credit limitations to their particular situations.

Sale or Exchange of the Shares or GDRs

Subject to the discussion below under “—Passive Foreign Investment Company Considerations,” US Holders will generally recognize capital gain or loss for US federal income tax purposes as a consequence of a sale or exchange of the Shares or GDRs. The amount of gain or loss will be equal to the difference between the taxpayer’s adjusted tax basis in the Shares or GDRs and the amount realized on their disposition. Noncorporate US Holders will be eligible for preferential capital gains rates if the Shares or GDRs are held in excess of one year. The deductibility of capital losses is subject to limitations.

Gain realized on the sale of shares or GDRs will generally be treated as US source income and therefore the use of foreign tax credits relating to any Russian taxes imposed upon such sale may be limited. If, however, 50% or more of the Company’s assets consisted of immovable property located in Russia, as discussed below in “—Russian Federation Tax Considerations—Taxation of Capital Gains,” gain realized on the sale or exchange of Shares or GDRs would be treated under the United States-Russia Tax Treaty as Russian source income. Accordingly, provided that the US Holder makes an election under Section 865(h) of the Code, Russian tax withheld on such amounts would generally be treated as a foreign income tax that, subject to generally applicable limitations under US tax law, is eligible for credit against the US federal income tax liability of US Holders or, if they have elected to deduct such taxes, may be deducted in computing taxable income; provided, in each case, that the amounts withheld and paid to the Russian tax authorities are treated as satisfying a US holder’s tax liability for purposes of the US foreign tax credit rules. US Holders are strongly urged to consult their own tax advisors as to the availability of tax credits for any Russian taxes withheld on the sale of Shares or GDRs.

The initial tax basis of the Shares or GDRs to a US Holder is the US dollar value of the Russian ruble-denominated purchase price determined on the date of purchase. If the Shares or GDRs are treated as traded on an “established securities market,” a cash basis US Holder, or, if it elects, an accrual basis US Holder, will determine the dollar value of the cost of such Shares or GDRs by translating the amount paid at the spot rate of exchange on the settlement date of the purchase. The conversion of US dollars to Russian rubles and the immediate use of that currency to purchase the Shares or GDRs generally will not result in taxable gain or loss for a US Holder.

With respect to the sale or exchange of the Shares or GDRs, the amount realized generally will be the US dollar value of the payment received determined on (1) the date of receipt of payment in the case of a cash basis US Holder and (2) the date of disposition in the case of an accrual basis US Holder. If the Shares or GDRs are treated as traded on an “established securities market,” a cash basis taxpayer, or, if it elects, an accrual basis taxpayer, will determine the US dollar value of the amount realized by translating the amount received at the spot rate of exchange on the settlement date of the sale.

Passive Foreign Investment Company Considerations

A Non-US corporation will be classified as a “passive foreign investment company,” or a “PFIC,” for US federal income tax purposes in any taxable year in which, after applying certain look-through rules, either (1) at least 75% of its gross income is “passive income” or (2) at least 50% of the average value of its gross assets is attributable to assets that produce “passive income” or that are held for the production of passive income. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions.

The Company believes that it was not a PFIC for its taxable year ending December 31, 2006. The Company’s status in future years will depend on its assets and activities in those years. The Company has no reason to believe that its assets or activities will change in a manner that would cause it to be classified as a PFIC for the current taxable year or for any future year, but there can be no assurance that the Company will not be considered a PFIC for any taxable year.

If the Company were a PFIC, a US Holder of the Shares or GDRs generally would be subject to imputed interest charges and other disadvantageous tax treatment with respect to any gain from the sale or exchange of, and certain distributions with respect to, the Shares or GDRs. Although a US Holder of the Shares or GDRs could make one of several elections that may alleviate certain of the tax consequences referred to above, it is expected that the conditions necessary for making certain of such elections will not be available in all instances. US Holders should consult their own tax advisors regarding the tax consequences that would arise if the Company were treated as a PFIC.

Information Reporting and Backup Withholding

US backup withholding tax and information reporting requirements generally apply to certain payments to certain non-corporate holders of Shares or GDRs. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, the Shares or GDRs made within the United States or by a US payor or US middleman to a holder of the Shares or GDRs, other than an exempt recipient (such as a corporation, a payee that is not a US person that provides an appropriate certification and certain other persons). Backup withholding tax will apply to any payments of dividends on, or the proceeds from the sale or redemption of, Shares or GDRs within the United States or by a US payor or US middleman to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. The backup withholding tax rate is 28% through 2010.

The above description is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership and disposition of the Shares or GDRs. Prospective investors should consult their own tax advisors concerning the tax considerations relevant to their particular situation.

UK Tax Considerations

The comments below are of a general nature and are based on current UK law 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 depositary 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.

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.

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 minimise the amount of tax payable in the Russian Federation, including obtaining relief at source and any available refunds. See also “—Russian Federation 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).

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 chargeable gain but not create or increase any allowable loss.

As discussed in “Russian Federation 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. See “Risk Factors—Risks Relating to the Russian Federation—Legal Risks and Uncertainties—Characteristics of and changes in the Russian tax system could materially adversely affect our business, financial condition and results of operations and the value of the Shares and GDRs.”

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, 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, 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.

For the purposes of this summary, a “non-resident holder” means an entity or an individual which is not 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 we should calculate this tax by multiplying the 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.

GDRs

There are uncertainties in relation to withholding tax on dividends payable to Russian resident holders of GDRs primarily because the distinction between legal and beneficial ownership is unfamiliar to Russian law. In the absence of any official interpretative guidance and as the Depositary (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% (if the income received will not be recognized as dividends). There is also no established procedure providing for the refund of tax withheld from dividends payable through the Depositary 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.

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 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 the concept of beneficial ownership and taxation of income of beneficial owners 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 favour 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 Depository 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 in deposit on their share of dividends, 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 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).

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 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 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 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 trustee, dealer or broker that is a Russian organization or a foreign company with a permanent establishment in Russia. Such 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 1 April 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 trustees, 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 trustees, 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 ("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. Since the United States-Russia Tax Treaty does not allow for more beneficial tax treatment of capital gains on the Shares and/or the GDRs, it is unlikely that the need will arise for a US holder to 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 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, with respect to individuals who are UK holders, the treatment provided by the UK Treaty may be more beneficial than the Russian internal tax rules as the UK Treaty 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 non-resident 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).

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, due to separation of legal ownership and beneficial ownership to the Ordinary Shares underlying the 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.).

SUBSCRIPTION AND SALE

The Offering consists of an offering of (i) of GDRs in the United States to QIBs, as defined in, and in reliance on, Rule 144A, and outside the United States and the Russian Federation in offshore transactions in reliance on Regulation S and (ii) of Shares in the Russian Federation, in the United States to QIBs in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S.

A significant portion of the Shares and GDRs is being offered in the Offering to certain investors in the Russian Federation and elsewhere. Four investors each intend to purchase more than 5% of the Shares and GDRs in the Offering, accounting for approximately 62.9% of the Offering, and four investors each intended to purchase more than 5% of the GDRs in the Offering, accounting for approximately 56.1% of the GDRs to be sold in the Offering, in each case assuming the exercise of the Over-allotment Option in full.

We, the Selling Shareholders, the Joint Global Coordinators and Merrill Lynch International, (“Merrill Lynch” and, together with the Joint Global Coordinators, the “Managers”) have entered into an underwriting agreement dated May 17, 2007 (the “Underwriting Agreement”) and a pricing supplement dated June 1, 2007 (the “Pricing Supplement”) with respect to the Shares and the GDRs being offered. Subject to the satisfaction of certain conditions set out in the Underwriting Agreement and the Pricing Supplement, each Joint Global Coordinator has agreed, severally but not jointly, to purchase such number of Shares as are set forth opposite its name in the following table.

<u>Joint Global Coordinators</u>	<u>Number of Shares (in the form of Shares and GDRs)</u>
Deutsche Bank AG, London Branch	29,600,000
Morgan Stanley & Co. International plc	29,600,000
Nomura International plc	<u>14,800,000</u>
Total	<u><u>74,000,000</u></u>

Merrill Lynch has agreed to assist in the marketing of the Offering, but not allocate, place or underwrite Shares and GDRs. Merrill Lynch will be entitled to a fee payable by the Company and Selling Shareholders in respect of such services.

The GDRs will be represented by a Master Rule 144A GDR and a Master Regulation S GDR and will be subject to certain restrictions as further discussed in “Description of the Global Depositary Receipts.”

The offer price is \$25.00 per Share and \$25.00 per GDR. The Joint Global Coordinators will receive total fees and commissions of \$55,000,000.

Our estimated expenses in relation to the Offering, other than commissions, are approximately \$5,000,000.

In the Underwriting Agreement, we and the Selling Shareholders have made certain representations and warranties and agreed to indemnify the several Managers against certain liabilities, including liability under the Securities Act. If these indemnities are unenforceable, we and the Selling Shareholders have agreed to contribute to any payments that the Managers are required to make in respect of the liabilities against which we and the Selling Shareholders have agreed to indemnify them.

The Joint Global Coordinators are offering the Shares and the GDRs, subject to prior sale, 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 the receipt by the Managers of officers’ certificates and legal opinions.

The Underwriting Agreement provides that, upon the occurrence of certain events, such as the suspension or limitation of trading on the London Stock Exchange or a material adverse change in our financial condition or business, and on certain other conditions, the Joint Global Coordinators, on behalf of the Managers, have the right, collectively but not individually, to withdraw from the Offering before delivery of Shares or GDRs.

Over-Allotment Option

The Selling Shareholders have granted the Joint Global Coordinators an Over-allotment Option, exercisable within 30 days after the announcement of the offer price, to purchase up to

an additional 7,515,000 Ordinary Shares in the form of GDRs at the offer price, solely to cover over-allotments, if any, in the Offering.

Lock-up Arrangements

We and the Selling Shareholders have agreed, as part of the arrangements with the Managers, for a period of 180 days after the Closing Date, subject to certain limited exceptions, not to issue, offer, sell, lend, mortgage, assign, contract to sell, pledge, charge, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, 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 any securities convertible or exchangeable into or exercisable for, or substantially similar to, any Ordinary Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or global depositary receipts representing the right to receive any such securities; or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares; or enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above, whether any such transaction described above is to be settled by delivery of shares or such other securities, in cash or otherwise. The foregoing undertaking shall not apply to the offer and sale of the Shares or GDRs pursuant to the Underwriting Agreement.

Stabilization

In connection with the Offering, Morgan Stanley & Co. International plc (or any agent or other person acting for Morgan Stanley & Co. International plc), 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, Morgan Stanley & Co. International plc does not intend to disclose the extent of allotments and/or stabilization transactions under the Offering.

Other Relationships

The Managers and their respective affiliates have engaged in transactions with and performed various investment banking, financial advisory and other services for PIK Group and the Selling Shareholders and their respective affiliates, for which they received customary fees, and they and their respective affiliates may provide such services for PIK Group and the Selling Shareholders and their respective affiliates in the future.

On December 22, 2006, we issued a guarantee in favor of Morgan Stanley Bank International Limited, an affiliate of one of the Managers of the Offering, in connection with a credit agreement entered into between Housing Finance Bank, as borrower, and Morgan Stanley Bank International Limited, as lender. See “Description of Certain Indebtedness.”

In March 2007, we entered into a term facility agreement with Deutsche Bank AG, London Branch, one of the Managers of the Offering, for an unsecured loan facility guaranteed by several of our subsidiaries in the amount of RUB 3.0 billion for a term of one year. See “Description of Certain Indebtedness.”

Deutsche Bank AG, London Branch is acting as one of the Joint Global Coordinators and Joint Bookrunners with respect to the Offering, while Deutsche Bank Trust Company Americas has been appointed in a distinct capacity by us to act as depositary in connection with the issuance of the GDRs. Deutsche Bank Trust Company Americas is a wholly owned subsidiary of Deutsche Bank Trust Corporation, a registered bank holding company which is a wholly owned subsidiary of Deutsche Bank AG. Deutsche Bank AG, London Branch is the London based branch office of Deutsche Bank AG.

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 Managers 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 Managers 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 to PIK Group; 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

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), an offer to the public of any Shares or GDRs which are the subject of the Offering contemplated herein may not be made in that Relevant Member State, 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 €43.0 million and (3) an annual net turnover of more than €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 Joint Global Coordinators 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 shall result in a requirement for the publication by PIK Group or any Manager 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 on 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 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 Joint Global Coordinators has been obtained to each such proposed offer or resale. PIK Group, the Selling Shareholders, the Managers and their affiliates, and others will rely (and PIK Group and the Selling Shareholders each acknowledges that the Managers and their 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 Joint Global Coordinators of such fact in writing may, with the consent of the Joint Global Coordinators be permitted to subscribe for or purchase Shares or GDRs.

Russian Federation

Each of the Managers has 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 Managers 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).

Japan

The Shares and GDRs offered hereby have not been and will not be registered under the Securities and Exchange Law of Japan (the “SEL”). No Shares or GDRs have, directly or indirectly, been offered or sold, and may not, 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 SEL and other relevant laws and regulations.

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.

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 or the Managers hold Australian financial services licences. None of the Company, the Selling Shareholders or the Managers are licensed to provide financial product advice in relation to the Shares and GDRs. An investor in the Company will not have cooling off rights.

Hong Kong

Shares and GDRs may not be sold in Hong Kong, by means of any document, other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance.

No advertisement, invitation or document relating to the Shares or GDRs, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong), has been issued in Hong Kong or elsewhere, other than with respect to Shares or GDRs which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Shares or GDRs may not be circulated, distributed, nor may the Shares or GDRs be offered or sold, or be made the subject of an invitation for subscription or purchase, 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 the 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 6 months after that corporation or that trust has acquired the Shares or GDRs pursuant to an offer made under Section 275 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.

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.

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 UAE Central Bank, the UAE Ministry of Economy and Planning or any other authorities in the United Arab Emirates, nor has the placement agent, if any, received authorization or licensing from the UAE Central Bank, the UAE 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. Interests in the Shares or 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.

Nothing contained in this prospectus is intended to constitute investment, legal, tax, accounting or other professional advice. This prospectus is for your information only and nothing in this prospectus is intended to endorse or recommend a particular course of action. You should consult with an appropriate professional for specific advice rendered on the basis of your situation.

The Managers may rely on the truth and accuracy of the foregoing representations, acknowledgements and agreements and will not be responsible for any loss occasioned by such reliance.

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—Certain Material United States 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 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 Depositary 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 Depositary 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 Depositary 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 Depositary 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 such purchaser makes payment for such shares. In order to take delivery of the Shares, an investor should have either a direct account with our share registrar, Open Joint Stock Company “R.O.S.T. Registrar,” or a deposit account with DCC or NDC or any other depositary 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 share depositary account with a Russian-licensed depositary other than NDC or DCC, although the Shares held in each such way will be ineligible for trading on MICEX and RTS.

Secondary Market Trading

Each purchaser of the Shares and GDRs 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 and GDRs to it is being made in reliance on Rule 144A and (c) acquiring the Shares and GDRs for its own account or for the account of a QIB; and
- (2) The purchaser understands that the Shares and GDRs 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 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 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 and GDRs offered and sold in accordance with Rule 144A are “restricted securities” within the meaning of Rule 144(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.

Global Clearing 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 depositary 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 depositary receipts.

Transfer Restrictions

For a description of the transfer restrictions relating to the GDRs, see “Description of the Global Depositary Receipts—Transfer Restrictions” and “Subscription and Sale—Selling 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 Depository 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 Depository 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 Managers, 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.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is 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 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 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 Skadden, Arps, Slate, Meagher & Flom (UK) LLP, London, England and Skadden, Arps, Slate, Meagher & Flom LLP, Moscow, Russian Federation. Certain legal matters with respect to the Offering will be passed upon for the Managers by Linklaters LLP, London, England and Linklaters CIS, Moscow, Russian Federation.

INDEPENDENT AUDITORS

The financial statements of PIK Group as of and for the years ended December 31, 2004, 2005 and 2006, included in this prospectus, have been audited by KPMG Limited, independent auditors, as stated in their report appearing herein.

GENERAL INFORMATION

1. It is expected that the GDRs will be admitted, subject only to the issue of the Master Regulation S GDR and the Master Rule 144A GDR, to the Official List on or about June 6, 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. Transactions in GDRs will normally be effected for delivery on the third working day after the day of the transaction.
2. The issue of the Shares underlying the GDRs being offered was authorized by the extraordinary shareholders meeting of PIK Group held on March 1, 2007, and the issuance of these Shares was registered with the FSFM on May 8, 2007. As further described in “Registration of Placement Report,” we must register a placement report with the FSFM with respect to these Shares after the Offering. The offer of the Ordinary Shares was authorized by FMC Realtors Holding Inc. on May 31, 2007 and by IBG Development Group Inc. on May 31, 2007.
3. We have obtained all consents, approvals and authorizations in Russia in connection with the issue of the GDRs (except for the registration of the placement report with the FSFM which, in accordance with Russian law, will be applied for upon the completion of the placement).
4. 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:
 - 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’ report relating thereto.

The registered office of the Company is located at 24/27 Sadovaya-Kudrinskaya Street, Building 1, 123001 Moscow, Russian Federation.

5. If definitive certificates are issued in exchange for the Master GDRs, we will appoint an agent in the United Kingdom.
6. There has been no significant change in the financial or trading position of the group since December 31, 2006, the end of the last financial period for which annual financial information has been published, except as set forth in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments”.

There has been no material change in the aggregate market value of our properties since January 1, 2007, which is the date as of which our properties were assigned the market value set forth in the CBRE Valuation Report.

7. The following table sets forth the registered offices of our significant subsidiaries:

Subsidiary	Official Name	Registered Office
100 KGI	Open Joint Stock Company “100 Kombinat Zhelezobetonnykh Izdelyi”	Village Naugolnoe, Sergievo-Posadsky district, 141364 Moscow region, Russian Federation
160 DSK	Open Joint Stock Company “160 Domostroitelny Kombinat”	12 Kaliningradskaya Street, 141075 Korolyov, Moscow region, Russian Federation
DSK-2	Open Joint Stock Company “Domostroitelny Kombinat No. 2”	1 Proezd Stroykombinata, 119530 Moscow, Russian Federation
DSK-3	Open Joint Stock Company “Domostroitelny Kombinat No. 3”	2/1 Borovskoe Shosse, 119618 Moscow, Russian Federation
MFS-PIK	Limited Liability Company “MFS-PIK”	9/2 Bolshoy Savvinsky Pereulok, 119435 Moscow, Russian Federation
PIK Avtotrans	Limited Liability Company “PIK-Avtotrans”	1/34 Proezd Stroykombinata, 119530 Moscow, Russian Federation
PIK Comfort	Limited Liability Company “PIK-Komfort”	38/2 Staraya Basmannaya Street, 107066 Moscow, Russian Federation
PIK Design	Limited Liability Company “PIK-Dizayn”	46/1 Dmitrovskoye Shosse, 127238 Moscow, Russian Federation
PIK Development	Limited Liability Company “PIK-Development”	46/1 Dmitrovskoye Shosse, 127238 Moscow, Russian Federation
PIK Interior	Limited Liability Company “PIK Interyer”	129/2 Dmitrovskoye Shosse, 127411 Moscow, Russian Federation
PIK Invest	Limited Liability Company “PIK-Invest”	6 Rogozhsky Val, Korpus 2, Building 1, 109544 Moscow, Russian Federation
PIK LLC	Limited Liability Company “Pervaya Ipochnaya Kompaniya”	24/27 Sadovaya-Kudrinskaya Street, Building 1, 123001 Moscow, Russian Federation
PIK Nerud	Limited Liability Company “PIK Nerud”	22A Ryabinovaya Street, Building 2, 121471 Moscow, Russian Federation
PIK Podyom	Limited Liability Company “PIK-PODYOM”	2/1 Borovskoye Shosse, 119618 Moscow, Russian Federation
PIK Profile	Limited Liability Company “PIK-Profil”	18/4 Lobnenskaya Street, 127644 Moscow, Russian Federation
PIK Project	Closed Joint Stock Company “Proektno-Arkhitekturnaya Masterskaya ‘PIK’”	27/24 Spiridonovka Street, 123001 Moscow, Russian Federation
PIK Region	Closed Joint Stock Company “First Mortgage Company — Region”	4 Professionalnaya Street, Dmitrov, 141800 Moscow region, Russian Federation
PIK Technology	Limited Liability Company “PIK Tekhnolozhi”	1 Proezd Stroykombinata, 119530 Moscow, Russian Federation
Trading House Osnova	Limited Liability Company Torgovy Dom “Osnova”	4/1 Mozhayskoye Shosse, 121374 Moscow, Russian Federation

8. 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 Joint Global Coordinators. 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.

9. Holders of GDRs may contact Deutsche Bank Trust Company Americas, as Depositary for the GDRs (Attn: Broker Services, Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom, tel. +44 207 547 6500) 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, New York, New York 10005, United States (tel. +1 212 250 9100).

10. CB Richard Ellis Limited, whose registered office is at Kingsley House, Wimpole Street, London W1G 0RE, United Kingdom, 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 5.5.4R(2)(f) of the Prospectus Rules and Annex X item 23.1 in Appendix 3 to the Prospectus Rules. CBRE accepts responsibility for the information contained in the Valuation Report, and to the best of CBRE'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.
11. Set forth below are summaries of certain material contracts.

Agreements in Connection with the Offering

Underwriting Agreement

The Underwriting Agreement, dated May 17, 2007, together with the Pricing Supplement, between the Company, the Selling Shareholders and the Managers with respect to the Shares and GDRs being offered, as described in "Subscription and Sale."

Deposit Agreements

The Deposit Agreement, dated March 30, 2007, between the Company and Deutsche Bank Trust Company Americas, pursuant to which Deutsche Bank Trust Company Americas acts as depositary for the Rule 144A GDRs. See "Description of the Global Depositary Receipts."

The Deposit Agreement, dated March 30, 2007, between the Company and Deutsche Bank Trust Company Americas, pursuant to which Deutsche Bank Trust Company Americas acts as depositary for the Regulation S GDRs. See "Description of the Global Depositary Receipts."

Financing and Indebtedness

See "Description of Certain Indebtedness."

Cooperation Agreements with Banks

We have entered into a number of cooperation agreements with major Russian banks relating to the extension of mortgage programs to purchasers of residences constructed by us. As of April 30, 2007, we had entered into the following cooperation agreements:

Cooperation Agreement with Absolut Bank, dated April 21, 2005, authorizing credit amounts up to \$300,000 (for purchase of an apartment) for a term of 20 years with an interest rate of between 12.0%-13.5%.

Cooperation Agreement with Housing Finance Bank, a related party to us, dated September 18, 2006.

Cooperation Agreement with Raiffeisenbank Austria, dated October 31, 2003, authorizing credit amounts up to \$400,000 for a term of 10 years with an interest rate of between 12.0%-14.0%.

Cooperation Agreement with ROSBANK, dated April 19, 2006, authorizing credit amounts up to \$300,000 for a term of three years with an interest rate of 10.5% for US dollar or Euro denominated loans and 15.0% for ruble denominated loans.

Cooperation Agreement with Sberbank, dated August 18, 2006.

Significant Acquisitions

Acquisition of CJSC VIKTOR

On July 7, 2006, we entered into share purchase agreements with three individuals for the acquisition of shares of CJSC VIKTOR. Pursuant to such agreements we acquired 100% of shares of CJSC VIKTOR for the total consideration of \$60.0 million.

Acquisition of Stroyinvestregion

In March 2006, we acquired a 100% interest in Stroyinvestregion and its subsidiaries from a third party. In addition to Stroyinvestregion we acquired a 100% interest in four smaller companies, the activities of which are closely related to Stroyinvestregion's activities. The consideration paid for all acquirees was RUB 1.3 billion.

Acquisition of DSK-3

On June 8, 2005, we entered into a share purchase agreement with CJSC INTEKO, whereby we acquired 81.2% of the issued and outstanding shares of DSK-3 for consideration of RUB 2.9 billion.

Acquisition of 100 KGI

In December 2005, we acquired a 68.9% interest in 100 KGI for a consideration of RUB 145.1 million.

Acquisition of 160 DSK

On June 21, 2004, we acquired a 100% interest in 160 DSK for RUB 162.6 million. The shares in the amount of 1,219,627 were free of encumbrances, and 406,543 shares were pledged under a share pledge agreement between Glavstroyprom and OJSC ARB "AvtoBank-Nikoil."

Investment Contracts

For a discussion of investment contracts relating to the development of our key properties, see "Business—Real Estate Development Activities—Description of our Key Projects."

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KPMG Audit Plc
11 Gogolevsky Boulevard
Moscow 119019
Russia

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

*Board of Directors
PIK Group (OAO Group of Companies PIK)*

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of PIK Group (OAO Group of Companies PIK) (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as at 31 December 2006, 31 December 2005 and 31 December 2004, and the consolidated income statements, consolidated statements of changes in equity and consolidated statements 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2006, 31 December 2005 and 31 December 2004, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.


*KPMG Limited
08 May 2007*

KPMG Limited, a company incorporated under the Guernsey Companies Act and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

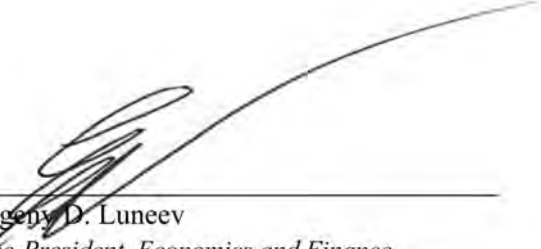
**PIK GROUP
(OAO GROUP OF COMPANIES PIK)
CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED
31 DECEMBER 2006, 2005 AND 2004**

	<u>Note</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
		<i>'000 RUR</i>	<i>'000 RUR</i>	<i>'000 RUR</i>
Revenues	6	42 045 707	22 138 665	12 694 939
Cost of sales		<u>(32 265 506)</u>	<u>(19 518 550)</u>	<u>(11 514 441)</u>
Gross profit		9 780 201	2 620 115	1 180 498
Income from disposals of development rights	8	2 851 215	—	—
Distribution expenses		(467 535)	(322 119)	(272 135)
Administrative expenses		(1 511 484)	(530 578)	(420 302)
Other income	9	<u>1 552 573</u>	—	<u>358 337</u>
Results from operating activities		12 204 970	1 767 418	846 398
Financial income	10	570 812	148 396	413 388
Financial expenses	10	(1 361 349)	(735 978)	(555 079)
Loss from associates		<u>(9 688)</u>	<u>(8 300)</u>	<u>(7 725)</u>
Profit before income tax		11 404 745	1 171 536	696 982
Income tax expense	11	<u>(3 304 951)</u>	<u>(607 069)</u>	<u>(193 072)</u>
Net profit for the year		<u>8 099 794</u>	<u>564 467</u>	<u>503 910</u>
Attributable to:				
Shareholders of the Company		8 105 086	556 340	509 002
Minority interest		<u>(5 292)</u>	<u>8 127</u>	<u>(5 092)</u>
		<u>8 099 794</u>	<u>564 467</u>	<u>503 910</u>
Basic and diluted earnings per share	21			
Ordinary shares		<u>17.8 RUR</u>	<u>1.2 RUR</u>	<u>1.1 RUR</u>

The consolidated financial statements were approved on 8 May 2007:



Kirill V. Pisarev
President



Evgeny D. Luneev
Vice-President, Economics and Finance

The consolidated income statements are to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-9 to F-51.

**PIK GROUP
(OAO GROUP OF COMPANIES PIK)
CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2006, 2005 AND 2004**

	<u>Note</u>	<u>2006</u> <i>'000 RUR</i>	<u>2005</u> <i>'000 RUR</i>	<u>2004</u> <i>'000 RUR</i>
ASSETS				
Non-current assets				
Property, plant and equipment	12	7 835 026	5 902 555	2 723 642
Intangible assets	13	4 088 018	4 085 385	1 657 111
Investments in associates	14	3 409 772	770 930	35 168
Other investments	15	82 591	396 012	381 413
Deferred tax assets	16	60 139	46 588	50 030
Other receivables	19	20 015	198 482	179 868
		<u>15 495 561</u>	<u>11 399 952</u>	<u>5 027 232</u>
Current assets				
Other investments	15	2 042 761	658 060	1 138 419
Inventories	17	39 027 714	27 729 266	12 252 569
Assets held for sale	18	2 300 534	—	—
Income tax receivable		131 672	12 764	9 334
Trade and other receivables	19	5 521 641	3 766 940	1 195 739
Cash and cash equivalents	20	1 134 068	700 580	565 597
		<u>50 158 390</u>	<u>32 867 610</u>	<u>15 161 658</u>
Total assets		<u>65 653 951</u>	<u>44 267 562</u>	<u>20 188 890</u>

The consolidated balance sheets are to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-9 to F-51.

**PIK GROUP
(OAO GROUP OF COMPANIES PIK)
CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2006, 2005 AND 2004**

	<u>Note</u>	<u>2006</u> <i>'000 RUR</i>	<u>2005</u> <i>'000 RUR</i>	<u>2004</u> <i>'000 RUR</i>
EQUITY AND LIABILITIES				
Equity				
Share capital	21	28 530 114	28 530 114	23 840
Reserve resulting from additional share issue		(28 506 274)	(28 506 274)	—
Retained earnings		<u>9 481 598</u>	<u>1 376 512</u>	<u>820 172</u>
Total equity attributable to shareholders of the Company		9 505 438	1 400 352	844 012
Minority interest		<u>425 480</u>	<u>476 774</u>	<u>135 112</u>
Total equity		<u>9 930 918</u>	<u>1 877 126</u>	<u>979 124</u>
Non-current liabilities				
Loans and borrowings	22	10 040 180	9 199 822	3 299 821
Deferred tax liabilities	16	4 461 589	1 321 896	540 311
Provisions	23	<u>18 704</u>	<u>13 453</u>	<u>10 249</u>
		<u>14 520 473</u>	<u>10 535 171</u>	<u>3 850 381</u>
Current liabilities				
Loans and borrowings	22	13 983 348	9 065 976	3 993 526
Income tax payable		167 598	15 620	18 691
Trade and other payables	24	26 175 853	22 427 908	11 264 081
Provisions	23	<u>875 761</u>	<u>345 761</u>	<u>83 087</u>
		<u>41 202 560</u>	<u>31 855 265</u>	<u>15 359 385</u>
Total equity and liabilities		<u>65 653 951</u>	<u>44 267 562</u>	<u>20 188 890</u>

The consolidated balance sheets are to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-9 to F-51.

**PIK GROUP
(OAO GROUP OF COMPANIES PIK)
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED
31 DECEMBER 2006, 2005 AND 2004**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<i>'000 RUR</i>	<i>'000 RUR</i>	<i>'000 RUR</i>
OPERATING ACTIVITIES			
Net profit for the year	8 099 794	564 467	503 910
Adjustments for:			
Depreciation and amortisation	676 367	411 227	299 423
Dilution of minority interest in a subsidiary	—	—	(411 703)
Foreign exchange (gain)/loss, net	(340 548)	182 317	(262 952)
Loss on disposal of property, plant and equipment	215 418	19 789	43 347
Income from disposals of development rights (note 8)	(2 851 215)	—	—
Income from disposal of other investments	—	(7 341)	(4 806)
Negative goodwill on acquisition of subsidiaries and minority interests	(1 552 573)	—	—
Loss from associates	9 688	8 300	7 725
Minority interest on establishment of new subsidiaries	—	—	65 380
Interest expense	1 361 349	553 661	555 079
Interest income	(230 264)	(141 055)	(145 630)
Income tax expense	3 304 951	607 069	193 072
Inventory obsolescence allowance	(35 010)	36 266	—
Doubtful debt allowances	<u>(73 580)</u>	<u>46 427</u>	<u>16 469</u>
Operating profit before changes in working capital and provisions	8 584 377	2 281 127	859 314
Increase in inventories	(2 152 526)	(12 882 958)	(8 688 932)
(Increase)/decrease in trade and other receivables	(183 616)	(2 498 680)	6 908 836
(Decrease)/increase in trade and other payables	(704 391)	9 960 785	1 772 077
Increase in provisions	<u>35 251</u>	<u>193 878</u>	<u>88 410</u>
Cash flows from/(utilised by) operations before income taxes and interest paid	5 579 095	(2 945 848)	939 705
Income taxes paid	(558 858)	(155 791)	(53 206)
Interest paid	<u>(1 799 838)</u>	<u>(1 643 110)</u>	<u>(642 483)</u>
Cash flows from/(utilised by) operating activities	<u>3 220 399</u>	<u>(4 744 749)</u>	<u>244 016</u>

The consolidated statements of cash flows are to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-9 to F-51.

**PIK GROUP
(OAO GROUP OF COMPANIES PIK)
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED
31 DECEMBER 2006, 2005 AND 2004**

	<u>2006</u> <i>'000 RUR</i>	<u>2005</u> <i>'000 RUR</i>	<u>2004</u> <i>'000 RUR</i>
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment	51 478	36 299	19 692
Proceeds from disposal of intangible assets	5 129 822	—	—
Proceeds from disposal of investments	2 022 130	1 828 484	1 498 479
Interest received	82 859	113 860	115 500
Acquisition of property, plant and equipment	(2 838 336)	(889 690)	(646 884)
Acquisition of other investments	(2 925 508)	(1 328 188)	(1 963 823)
Acquisition of investment in associates	—	(746 889)	—
Acquisition of intangible assets	(5 973 512)	(707 914)	(2 032)
Acquisition of minority interest	(11 345)	—	—
Acquisition of assets held for sale	(2 300 534)	—	—
Acquisition of subsidiaries, net of cash acquired	<u>(1 093 734)</u>	<u>(2 587 459)</u>	<u>(150 103)</u>
Cash flows utilised by investing activities	<u>(7 856 680)</u>	<u>(4 281 497)</u>	<u>(1 129 171)</u>
FINANCING ACTIVITIES			
Proceeds from borrowings	23 393 884	26 402 659	6 933 748
Repayment of borrowings	<u>(18 309 832)</u>	<u>(17 392 260)</u>	<u>(6 003 387)</u>
Cash flows from financing activities	<u>5 084 052</u>	<u>9 010 399</u>	<u>930 361</u>
Net increase/(decrease) in cash and cash equivalents	447 771	(15 847)	45 206
Cash and cash equivalents at beginning of year	<u>367 691</u>	<u>383 538</u>	<u>338 332</u>
Cash and cash equivalents at end of year (note 20)	<u>815 462</u>	<u>367 691</u>	<u>383 538</u>

Cash flows utilized by operating activities in 2005 and 2004 include prepayments for entering into co-investment agreements to develop land plots of RUR 5 198 847 thousand for eleven land plots and RUR 921 036 thousand for seven land plots respectively.

The consolidated statements of cash flows are to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-9 to F-51.

**PIK GROUP
(OAO GROUP OF COMPANIES PIK)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED
31 DECEMBER 2006, 2005 AND 2004**

	<u>Attributable to shareholders of the Company</u>			<u>Minority interest</u>	<u>Total equity</u>	
	<u>Share capital</u>	<u>Reserve resulting from additional share issue</u>	<u>Retained earnings</u>			
			<i>'000 RUR</i>			
Balance at 1 January 2004	23 840	—	311 170	335 010	464 418	799 428
Net profit for the year	—	—	509 002	509 002	(5 092)	503 910
Total recognised income and expenses				509 002	(5 092)	503 910
Acquisition of new subsidiaries (note 5(c))	—	—	—	—	22 109	22 109
Establishment of a new subsidiary	—	—	—	—	65 380	65 380
Dilution of minority interests in a subsidiary (note 9)	—	—	—	—	(411 703)	(411 703)
Balance at 31 December 2004	23 840	—	820 172	844 012	135 112	979 124
Net profit for the year	—	—	556 340	556 340	8 127	564 467
Total recognised income and expenses				556 340	8 127	564 467
Acquisition of new subsidiaries (note 5(b))	—	—	—	—	333 535	333 535
Additional share issue (note 21)	28 506 274	(28 506 274)	—	—	—	—
Balance at 31 December 2005	28 530 114	(28 506 274)	1 376 512	1 400 352	476 774	1 877 126
Net profit for the year	—	—	8 105 086	8 105 086	(5 292)	8 099 794
Total recognised income and expenses	—	—	—	8 105 086	(5 292)	8 099 794
Acquisition of minority interests	—	—	—	—	(47 233)	(47 233)
Acquisition of new subsidiaries (note 5(a))	—	—	—	—	1 231	1 231
Balance at 31 December 2006	28 530 114	(28 506 274)	9 481 598	9 505 438	425 480	9 930 918

The consolidated statements of changes in equity are to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-9 to F-51.

**PIK GROUP
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS
ENDED 31 DECEMBER 2006, 2005 AND 2004**

1 Background

(a) Organisation and operations

OAO Group of Companies PIK (the “Company”) and its subsidiaries (together referred to as the “PIK Group” or the “Group”) includes closed and open joint stock companies and limited liability companies incorporated under requirements of the Civil Law of the Russian Federation and entities registered in Cyprus and in the United Kingdom.

The Company was established as a privately owned enterprise in 1994. The Company’s registered office is 24/27 Sadovaya-Kudrinskaya st., Moscow, 123001, Russian Federation.

The main activities of the PIK Group are investing in development projects for construction of residential buildings and sales of real estate properties; construction services; production of construction materials, including concrete panels, window frames and other construction elements; mining, refining, concentration of sand-gravel and production of crushed stone and sand. During the years 2005 and 2004 the Group mostly operated in Moscow and in the Moscow region. In 2006 the Group expanded its operations to other regions of Russia.

At 31 December 2006, 2005 and 2004, the Group was ultimately owned by two individuals, Kirill V. Pisarev and Yury V. Zhukov (the “Shareholders”), who both have equal power to direct the operations of the Group at their own discretion and for their own benefit. They also have interests in a number of other businesses outside of the Group. Related party transactions are disclosed in note 28.

(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 accompanying consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial investments classified as available-for-sale are stated at fair value; items of property, plant and equipment other than construction in progress were revalued to determine deemed cost as part of the adoption of IFRSs at 1 January 2004; 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 at 1 January 2003.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUR”), which is the functional currency of the Company and its subsidiaries and the currency in which these

**PIK GROUP
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS
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consolidated financial statements are presented. All financial information presented in RUR has been rounded to the nearest thousand.

(d) Use of judgments, estimates and assumptions

Management has made a number of judgments, 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 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 12—property, plant and equipment;
- Note 13(b)—goodwill impairment;
- Note 23—provisions; and
- Note 27—contingencies.

3 Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are described in notes 3(a) to 3(r). These accounting policies have been consistently applied.

During the current year the Group changed the classification of input VAT in relation to construction work-in-progress, intended for sale, which is not recoverable but will be included into cost of construction. Accordingly, the input VAT was reclassified from trade and other receivables to inventories. Comparatives were reclassified for consistency, which resulted at 31 December 2005 in RUR 1 093 764 thousand being reclassified from trade and other receivables to inventories; at 31 December 2004 in RUR 346 526 thousand being reclassified from trade and other receivables to inventories.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities 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 financial statements from the date that control commences until the date that control ceases.

Acquisitions of controlling shareholdings in entities in which there is no integrated set of activities conducted and assets managed for the purpose of providing a return to investees, are accounted for as purchases of assets. The consideration paid for such companies (typically entities holding development rights) are allocated to the identifiable assets and liabilities based on their relative fair values. No minority interests, if any, are recognised.

(ii) Special purpose entities

The Group has established special purpose entities (“SPEs”) for the purpose of acquiring assets and holding investments. 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

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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's 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 Shareholders are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at their book values as recognised in the individual financial statements of the acquiree. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity.

(iv) 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.

(v) 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 currency transactions

(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 retranslated 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, except for differences arising on the retranslation of available-for-sale equity instruments.

(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.

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Foreign currency differences are recognised directly in equity. Since 1 January 2004, 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 profit or loss.

(c) Non-derivative financial instruments

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

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

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

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

Accounting for financial income and expenses is discussed in note 3(o).

Available-for-sale financial assets

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

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

Issued capital

Issued capital is stated at par value of shares issued adjusted for the effect of hyperinflation as described in note 21(a).

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment, other than construction

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in progress at 1 January 2004, the date of transition to IFRSs, was determined by reference to its fair value at that date (“deemed cost”).

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 profit or loss 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 60 years
- Plant and equipment 5 to 25 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

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

Acquisitions prior to 1 January 2004

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2004. The Group did not prepare consolidated financial statements under Russian GAAP. In respect of acquisitions prior to 1 January 2004, 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 acquisition 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 acquisition over the Group’s interest in the net fair value of identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the income statement.

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Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

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) Development rights

Expenditure on identifying land plots with the purpose of obtaining new development projects is recognised in the income statement as an expense as incurred.

Expenditure on obtaining development rights, necessary to start the construction activities, are recognised in intangible assets if the projects are technically and commercially feasible and the Group has sufficient resources to accomplish the development of the projects.

The cost of development rights includes the cost of obtaining the right to lease the land plot and the cost of obtaining the registered permit to construct a specific property.

Capitalised development rights recognised on initial acquisition as intangible assets are stated at cost less accumulated impairment losses until the development starts. On commencement of construction such development rights are reclassified as construction-in-progress intended for sale, included in inventories.

When the Group does not act as a developer, but participates in projects in the capacity of an investor or co-investor, the cost of development rights contributed to such projects is recognised within inventories, refer note 3(h) below.

(iii) Other intangible assets

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

(iv) Subsequent expenditure

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

(v) Amortisation

Intangible assets, other than goodwill and development rights, are amortised on a straight-line basis over their estimated useful lives from the date the asset is available for use. The estimated useful lives of other intangible assets are 3-10 years.

(g) Leased assets

Leases under 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.

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Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(h) Inventories

Inventories include construction work-in-progress, when the Group acts in the capacity of a developer and the real estate is intended for sale, and prepayments made under investment and co-investment agreements for apartments, intended for sale, raw materials, other work in progress and finished goods.

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories, other than construction work-in-progress, intended for sale, and prepayments for real estate properties, intended for sale, is based on the weighted average cost formula and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Cost of manufactured inventories and work in progress includes an appropriate share of overheads based on normal operating capacity.

The costs of real estate properties under construction, which are not ordinarily interchangeable and which are segregated for specific projects, are assigned by using specific identification of their individual costs.

The costs of real estate property comprise costs of construction and other expenditure directly attributable to a particular project, including operating lease and finance costs. Where real estate property is not being actively developed, net rental and finance costs are taken to the income statement.

In some cases the Group enters into investment or co-investment agreements to construct residential buildings, where a certain number of apartments will be given away to the local authorities for no consideration, as well as certain infrastructure facilities should be constructed. The related construction costs are included in the total costs of construction of such buildings, when incurred. In other cases the Group enters into agreements with local authorities to complete the construction of certain residential buildings, where most of the apartments were sold by a predecessor construction company, however the construction was stopped due to insolvency of such predecessor constructor or other similar reasons. When such contracts are negotiated as part of acquisition of certain development rights, and they can not be assessed as onerous (as described in note 3(1)(ii)) the costs to complete the construction are included in the total costs of construction of buildings which these development rights relate to.

Advances made under terms of co-investment contracts represent payments made by or assets transferred from the Group in its capacity of investor or co-investor to finance the construction of real estate, which is developed by a third party.

The Group's normal operating cycle for a construction project may exceed twelve months. Inventories are classified as current assets even when they are not expected to be realised within twelve months after the balance sheet date.

(i) Assets held for sale

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. An asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Assets classified as held for sale are not depreciated.

(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.

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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 income or expense.

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

(ii) *Non-financial assets*

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

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 profit or loss. 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*

(i) *Defined contribution plans*

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.

(ii) *Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

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A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(l) Provisions

(i) Tax provisions

The Group provides for tax risks including interest and penalties, when the tax becomes payable according to the effective laws and regulations. Such provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax authorities. Upon expiry of the review period the provisions are released. Tax provisions are recognised as part of income tax expense or in other relevant line of the income statement.

(ii) Construction obligations

As described in note 3(h), in some cases the Group enters into investment or co-investment agreements to construct residential buildings, where a certain number of apartments will be given away to the local authorities for no consideration, as well as certain infrastructure facilities should be constructed. In other cases the Group enters into agreements with local authorities to complete the construction of certain residential buildings, where most of the apartments were sold by a predecessor construction company, however the construction was stopped due to insolvency of such predecessor constructor or other similar reasons.

When such agreements can not be directly attributable to any of the Group's projects and the agreements are assessed as onerous, a provision is recognized in the Group's consolidated financial statements when entering into the agreement to complete the construction. The provision is estimated based on the present value of estimated unavoidable net costs to complete the construction.

(iii) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(iv) Other provisions

Other provisions are 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.

(m) Revenues

Revenue comprises fair value of the consideration received or receivable, net of value added tax, rebates and discounts.

(i) Revenue from sale of real estate properties

Revenue from sale of real estate properties comprises revenue from sale of standardised apartments, which are constructed without reference to a specific customer's request.

Revenue from sale of real estate is accounted for as a sale of goods and recognised in the income statement when the significant risks and rewards of ownership have been transferred

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to the buyer, which is considered to be the date when the respective building is approved by the State commission organised by the local regulating authorities for acceptance of finished buildings ("State commission"). When contracts for sale of real estate are concluded after the State commission has accepted the construction of the respective building, revenue is recognised immediately.

Sales are recognised at prices valid at the date of concluding the sales contract, which may be significantly different from the prices as at the date when the sale is recognised.

(ii) Revenue from construction services

Revenue from construction services rendered is recognized in the income statement on a monthly basis in accordance with the actual volume of works completed. The stage of completion is assessed monthly and fixed in acts of completed works signed by the Group and the customer. The Group provides for estimated losses on uncompleted contracts in the period, in which such losses are identified.

There are certain construction projects, where one Group entity participates as an investor/co-investor while a third party acts as the developer. At the same time other Group entities may provide construction services to the developer. Revenues from construction services relating to such projects are recognised similarly to any construction services provided in the normal course of business, as described in the preceding paragraph. Sales of properties obtained as a result of investment/co-investment agreements with the developer are recognised in full. Although both types of revenues relate to one project, separate sales agreements are concluded. Accordingly revenues from sales of properties and revenues from the provision of construction services for the same real estate objects are accounted for separately.

(iii) Other sales

Revenue from the sale of construction materials is recognised in the income statement when significant risks and rewards of ownership have been transferred to the buyer.

(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

Financial 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

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is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established.

Financial expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses and impairment losses recognised on financial assets. All borrowing costs are recognised in the income statement using the effective interest method, except for borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

(p) Income tax expense

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

Current tax is the expected tax payable on the taxable income for the 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 income, and differences relating to investments in subsidiaries to the extent that they probably 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 income 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 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. The Company has not issued potential ordinary shares that may have a diluted effect on EPS.

(r) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), which is subject to risks and rewards that are different from those of other 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. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

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- 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. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.
- 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. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.
- IFRIC 12 *Service Concession Arrangements*, which is effective for annual periods beginning on or after 1 January 2008. The Interpretation addresses how service concession operators should account for the obligations they undertake and rights they receive in service concession arrangements. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

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4 Segment reporting

	Sales of real estate property			Construction services			Sales of construction materials and other activities			Eliminations			Consolidated		
	2006	2005	2004	2006	2005	2004	2006	2005	2004	2006	2005	2004	2006	2005	2004
	'000 RUR			'000 RUR			'000 RUR			'000 RUR			'000 RUR		
Revenue from external customers	29 986 260	13 375 260	7 181 398	9 543 755	7 054 959	4 096 760	2 515 692	1 708 446	1 416 781	—	—	—	42 045 707	22 138 665	12 694 939
Inter-segment revenue	318 577	55 234	250 000	6 042 713	5 514 799	1 650 000	498 281	665 046	612 866	(6 859 571)	(6 235 079)	(2 512 866)	—	—	—
Total revenue	<u>30 304 837</u>	<u>13 430 494</u>	<u>7 431 398</u>	<u>15 586 468</u>	<u>12 569 758</u>	<u>5 746 760</u>	<u>3 013 973</u>	<u>2 373 492</u>	<u>2 029 647</u>	<u>(6 859 571)</u>	<u>(6 235 079)</u>	<u>(2 512 866)</u>	<u>42 045 707</u>	<u>22 138 665</u>	<u>12 694 939</u>
Segment result	11 095 209	1 401 374	348 197	754 185	292 501	505 932	355 576	73 543	(7 731)	—	—	—	12 204 970	1 767 418	846 398
Financial income	1 295 848	346 760	457 571	62 810	29 787	1 241	826	56 794	1 270	(788 672)	(284 945)	(46 694)	570 812	148 396	413 388
Financial expenses	(1 109 960)	(459 691)	(413 974)	(214 147)	(237 746)	(115 847)	(37 242)	(38 541)	(25 258)	—	—	—	(1 361 349)	(735 978)	(555 079)
Loss from associates	—	—	—	—	—	—	(9 688)	(8 300)	(7 725)	—	—	—	(9 688)	(8 300)	(7 725)
Income tax expense	(2 958 718)	(538 667)	(91 069)	(260 017)	(47 711)	(102 003)	(86 216)	(20 691)	—	—	—	—	(3 304 951)	(607 069)	(193 072)
Net profit for the year	<u>8 322 379</u>	<u>749 776</u>	<u>300 725</u>	<u>342 831</u>	<u>36 831</u>	<u>289 323</u>	<u>223 256</u>	<u>62 805</u>	<u>(39 444)</u>	<u>(788 672)</u>	<u>(284 945)</u>	<u>(46 694)</u>	<u>8 099 794</u>	<u>564 467</u>	<u>503 910</u>

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	Sales of real estate property			Construction services			Sales of construction materials and other activities			Eliminations			Consolidated		
	2006	2005	2004	2006	2005	2004	2006	2005	2004	2006	2005	2004	2006	2005	2004
	'000 RUR			'000 RUR			'000 RUR			'000 RUR			'000 RUR		
Segment assets	29 363 658	21 388 011	4 710 433	29 528 500	17 534 432	9 535 769	4 389 610	5 872 718	5 907 520	(1 037 589)	(1 298 529)	—	62 244 179	43 496 632	20 153 722
Investments in associates	3 409 772	746 889	—	—	—	—	—	24 041	35 168	—	—	—	3 409 772	770 930	35 168
Total assets	<u>32 773 430</u>	<u>22 134 900</u>	<u>4 710 433</u>	<u>29 528 500</u>	<u>17 534 432</u>	<u>9 535 769</u>	<u>4 389 610</u>	<u>5 896 759</u>	<u>5 942 688</u>	<u>(1 037 589)</u>	<u>(1 298 529)</u>	<u>—</u>	<u>65 653 951</u>	<u>44 267 562</u>	<u>20 188 890</u>
Segment liabilities	27 272 606	26 321 597	7 904 412	26 611 846	13 879 900	7 086 930	2 876 170	3 487 468	4 218 424	(1 037 589)	(1 298 529)	—	55 723 033	42 390 436	19 209 766
Total liabilities	<u>27 272 606</u>	<u>26 321 597</u>	<u>7 904 412</u>	<u>26 611 846</u>	<u>13 879 900</u>	<u>7 086 930</u>	<u>2 876 170</u>	<u>3 487 468</u>	<u>4 218 424</u>	<u>(1 037 589)</u>	<u>(1 298 529)</u>	<u>—</u>	<u>55 723 033</u>	<u>42 390 436</u>	<u>19 209 766</u>
Depreciation/ amortisation	<u>(36 331)</u>	<u>(16 500)</u>	<u>(12 891)</u>	<u>(501 355)</u>	<u>(293 069)</u>	<u>(177 219)</u>	<u>(137 654)</u>	<u>(100 854)</u>	<u>(108 733)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(675 340)</u>	<u>(410 423)</u>	<u>(298 843)</u>
Capital expenditure	<u>2 043 818</u>	<u>154 745</u>	<u>20 839</u>	<u>429 510</u>	<u>452 321</u>	<u>308 543</u>	<u>365 008</u>	<u>282 624</u>	<u>317 502</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2 838 336</u>	<u>889 690</u>	<u>646 884</u>

The Group entities operate in two principal geographical areas, the Moscow region, including Moscow city, and other regions in Russia. The segment operating out of the Moscow region is not identified as a reportable segment, as its revenue from sale to external customers and from transactions with other segments, results and assets are less than 10% of the total revenue, results of operations and assets of the Group.

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5 Acquisition of new subsidiaries

(a) Acquisitions of new subsidiaries in 2006

In March 2006, the Group acquired 100% of the shares of ZAO Stroyinvestregion and its subsidiaries from a third party. Together with ZAO Stroyinvestregion the Group acquired from the same seller 100% stakeholdings in four smaller companies, the activities of which are closely related to ZAO Stroyinvestregion's activities. The consideration of RUR 1 302 140 thousand was negotiated in total for all acquirees.

The main activity of acquired subsidiaries is investing in development projects of residential buildings in a number of cities of the Russian Federation, including Nizhny Novgorod, Rostov-on-Don, Perm, Yaroslavl, Kaliningrad and Omsk.

The acquisition of the subsidiaries resulted in negative goodwill amounting to RUR 1 516 685 thousand. Negative goodwill arose on the acquisition mainly because of low bargaining power of the seller due to lack of alternative offers on the market whilst the seller required funds to finance other projects.

The Group engaged an independent valuer to assess the fair value of inventories, representing the major assets of the subsidiaries. The inventories mostly consisted of construction work-in-progress intended for sale. The valuation has been performed based on income approach.

In November 2006, ZAO Stroyinvestregion merged with another Group entity, ZAO PIK Region.

The acquisitions of the subsidiaries had the following effect on the Group's assets and liabilities at the dates of acquisitions:

	Recognised fair value on acquisition
	<i>'000 RUR</i>
Property, plant and equipment	36 371
Investments	64 511
Inventories	7 484 553
Trade and other receivables	227 123
Cash and cash equivalents	208 406
Deferred tax liability	(913 119)
Loans and borrowings	(885 629)
Trade and other payables	<u>(3 402 160)</u>
Net identifiable assets and liabilities	2 820 056
Minority interest	(1 231)
Negative goodwill on acquisition	<u>(1 516 685)</u>
Consideration paid	1 302 140
Cash acquired	<u>(208 406)</u>
Net cash outflow	<u><u>1 093 734</u></u>

The acquired subsidiaries contributed a net profit of RUR 7 825 thousand to the Group's net profit for the year ended 31 December 2006.

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(b) Acquisitions of new subsidiaries in 2005

During 2005 the Group acquired the following subsidiaries:

- In June 2005, the Group acquired an 81% shareholding in OAO Domostroitelny kombinat #3 (OAO DSK-3) for consideration of RUR 2 850 765 thousand in cash. The main activity of the entity is the production of concrete panels and assembly of above-ground part of residential buildings.

Management engaged an independent appraiser to assess fair values of property, plant and equipment and intangible assets of OAO DSK-3 at the date of the acquisition.

The goodwill, which arose on the acquisition of OAO DSK-3, resulted from expected synergies in development activities and production of “series P3M-8/23” concrete panels. These activities will allow to achieve increased volumes of production in OAO DSK-3 and growth of the Group’s development activities due to gaining new development contracts where such concrete panels are to be used because of OAO DSK-3’s effective monopoly in the current market of production “series P3M-8/23” concrete panels.

- In December 2005, the Group acquired an 88% shareholding in OAO 100 KGI for RUR 145 132 thousand paid in cash. The main activity of the entity is production of concrete panels.
- In August 2005, the Group acquired a further 56% in its associate, OOO Drevprofil, for consideration of RUR 11 408 thousand paid in cash, thereby increasing its ownership in the entity from 37% to 93%, refer note 14. The main activity of the entity is the production of construction materials.

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

	Recognised fair value on acquisition
	<i>'000 RUR</i>
Property, plant and equipment	2 755 734
Inventories	677 088
Trade and other receivables	884 800
Cash and cash equivalents	419 846
Deferred tax liability	(399 248)
Loans and borrowings	(1 512 675)
Trade and other payables	(1 203 042)
Net identifiable assets and liabilities	1 622 503
Minority interest	(333 535)
Goodwill on acquisition	1 721 164
Consideration paid	3 010 132
Cash acquired	(419 846)
Cost of investment in associate (note 14)	(2 827)
Net cash outflow	2 587 459

The acquired subsidiaries contributed a net profit of RUR 56 558 thousand to the Group’s net profit for the year ended 31 December 2005.

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(c) Acquisitions of new subsidiaries in 2004

In June 2004 the Group acquired a 100% shareholding in OAO Domostroitelny kombinat #160 (OAO DSK-160) and its subsidiaries for consideration of RUR 162 617 thousand.

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

	Recognised fair value on acquisition
	<i>'000 RUR</i>
Property, plant and equipment	49 042
Inventories	39 228
Trade and other receivables	99 234
Cash and cash equivalents	12 514
Deferred tax liability	(332)
Trade and other payables	(58 554)
Net identifiable assets and liabilities	141 132
Minority interest	(22 109)
Goodwill on acquisition	43 594
Consideration paid	162 617
Cash acquired	(12 514)
Net cash outflow	150 103

The acquired subsidiaries contributed a net profit of RUR 17 175 thousand to the Group's net profit for the year ended 31 December 2004.

In allocating the cost of acquisitions occurred in 2006, 2005 and 2004 to the underlying assets, liabilities and contingent liabilities of the subsidiaries acquired, it was not possible to measure reliably the fair value of contingencies in relation to taxation, if any, refer note 27(c).

It was not practicable to determine the carrying amounts of the subsidiaries' assets and liabilities 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.

Because the acquired subsidiaries did not prepare IFRS financial statements before they were acquired, it was impracticable to determine the effect of the acquisitions occurred in 2006, 2005 and 2004 on consolidated revenues and net profit for the years 2006, 2005 and 2004, respectively, had the acquisition dates coincided with the beginning of the years.

6 Revenues

	2006	2005	2004
	<i>'000 RUR</i>	<i>'000 RUR</i>	<i>'000 RUR</i>
Revenues from sales of apartments	29 986 260	13 375 260	7 181 398
Revenues from construction services	9 543 755	7 054 959	4 096 760
Revenues from sales of construction materials and other sales	2 515 692	1 708 446	1 416 781
	<u>42 045 707</u>	<u>22 138 665</u>	<u>12 694 939</u>

In 2006 the Group recognised revenues from sales of apartments in 63 buildings totalling approximately 681 592 sq. m. (2005: sales of apartments in 24 buildings totalling approximately 371 422 sq. m., 2004: sales of apartments in 35 buildings totalling approximately 241 210 sq. m.)

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Construction services in the amount of RUR 4 823 811 thousand (2005: RUR 1 754 811 thousand, 2004: RUR 980 783 thousand) were provided to developers of buildings where the Group participates as a co-investor, as described in note 3(m)(ii).

7 Total personnel costs

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<i>'000 RUR</i>	<i>'000 RUR</i>	<i>'000 RUR</i>
Wages and salaries	4 340 004	1 919 673	1 118 789
Social charges	820 744	397 313	269 659
	<u>5 160 748</u>	<u>2 316 986</u>	<u>1 388 448</u>

8 Income from disposal of development rights

Income from disposals of development rights of RUR 2 851 215 thousand resulted from the following two transactions:

- 1) In June 2005, the Group acquired development rights through a purchase of 70% shares in a legal entity, a production plant, located on two land plots in the center of Moscow. At the date of the acquisition substantially all activities of the plant were re-allocated from these premises. The legal entity leased the land plots for production purposes on a long-term basis. The acquisition was accounted for as a purchase of an intangible asset, the right to lease the land plots. The Group had intentions to re-register the rent agreement to allow the construction process. At 31 December 2005 the development rights had a carrying value of RUR 707 567 thousand, refer note 13(a).

In March 2006, the Group disposed of these development rights to a third party for RUR 2 272 000 thousand with a gain of RUR 1 564 433 thousand. The purpose of this disposal was to realize an immediate profit by the Group rather than to continue the development in the circumstances of constant disagreement with minority shareholders of the plant.

At 31 December 2006 the Group has outstanding accounts receivable of RUR 1 091 915 thousand in relation to this transaction, refer note 19.

Later in 2006 the same third party acquired an additional 28% of the shares in the plant. Owning now 98% of the shares the third party offered the Group to reacquire the plant for RUR 5 325 766 thousand. The transaction was accounted for as an acquisition of assets rather than a business combination in these consolidated financial statements. The estimated profits from further development at that time were assessed to be significantly in excess of required investments.

At 31 December 2006 the Group has outstanding accounts payable to the seller of RUR 1 057 194 thousand, refer note 24.

- 2) In December 2006, the Group sold a 50% shareholding in the above legal entity to another third party for consideration of RUR 3 949 665 thousand with a resulting gain of RUR 1 286 782 thousand to provide finance for future construction activities. The remaining investment of 50% in the holding company resulting in 49% effective rights in the plant was classified as an investment in associate in these financial statements, refer note 14.

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9 Other income

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<i>'000 RUR</i>	<i>'000 RUR</i>	<i>'000 RUR</i>
Negative goodwill (note 5)	1 516 685	—	—
Negative goodwill resulting from acquisition of minorities	35 888	—	—
Dilution of minority interests in a subsidiary (i)	—	—	411 703
Loss on establishment of a new subsidiary (ii)	—	—	(53 366)
	<u>1 552 573</u>	<u>—</u>	<u>358 337</u>

- (i) In March 2004 one of the Group entities, OAO Domostroitelny kombinat #2 (OAO DSK-2), issued additional shares. The issued shares were paid for by one of the Group entities and the Group's ownership in OAO DSK-2 increased from 62% to 98%. As a result of the additional share issue in OAO DSK-2, the Group earned income of RUR 411 703 thousand, which represents 36% of the fair value of the net assets of the subsidiary at the date of the additional share issue.
- (ii) In June 2004 the Group established a subsidiary, ZAO Ochakovsky ZhBK, in cooperation with a third party. Contributions of the Group and the third party into a newly organised subsidiary were agreed at 51% and 49% respectively. The third party made its contribution in the form of fixed assets. Legally the third party fulfilled its contribution obligation in full. However the fair value of the fixed assets was lower than the agreed contribution. As a result, the incorporation of the subsidiary resulted in a loss of RUR 53 366 thousand.

10 Financial income and expenses

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<i>'000 RUR</i>	<i>'000 RUR</i>	<i>'000 RUR</i>
<i>Financial income</i>			
Interest income	230 264	141 055	145 630
Income from disposal of other investments	—	7 341	4 806
Foreign exchange gain, net	<u>340 548</u>	<u>—</u>	<u>262 952</u>
	<u>570 812</u>	<u>148 396</u>	<u>413 388</u>
<i>Financial expenses</i>			
Interest expense	(1 361 349)	(553 661)	(555 079)
Foreign exchange loss, net	<u>—</u>	<u>(182 317)</u>	<u>—</u>
	<u>(1 361 349)</u>	<u>(735 978)</u>	<u>(555 079)</u>

In addition to borrowing costs recognized as an expense in the current year, interests in the amount of RUR 1 207 939 thousand (2005: RUR 1 205 679 thousand, 2004: RUR 308 919 thousand) have been capitalised as part of the construction work-in progress intended for sale.

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11 Income tax expense

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<i>'000 RUR</i>	<i>'000 RUR</i>	<i>'000 RUR</i>
<i>Current tax expense</i>			
Current year	(591 273)	(148 985)	(53 018)
Tax provision (note 23)	(500 000)	(72 000)	—
(Under)/over provided in prior years	<u>(655)</u>	<u>(305)</u>	<u>7 311</u>
	<u>(1 091 928)</u>	<u>(221 290)</u>	<u>(45 707)</u>
<i>Deferred tax expense</i>			
Origination and reversal of temporary differences	<u>(2 213 023)</u>	<u>(385 779)</u>	<u>(147 365)</u>
	<u>(2 213 023)</u>	<u>(385 779)</u>	<u>(147 365)</u>
	<u>(3 304 951)</u>	<u>(607 069)</u>	<u>(193 072)</u>

The Group's applicable tax rate is the corporate income tax rate in the Russian Federation of 24% (2005: 24%; 2004: 24%).

Reconciliation of effective tax rate:

	<u>2006</u>	<u>%</u>	<u>2005</u>	<u>%</u>	<u>2004</u>	<u>%</u>
	<i>'000 RUR</i>		<i>'000 RUR</i>		<i>'000 RUR</i>	
Profit before tax	<u>11 404 745</u>	<u>100</u>	<u>1 171 536</u>	<u>100</u>	<u>696 982</u>	<u>100</u>
Income tax expense at applicable tax rate	(2 737 139)	(24)	(281 169)	(24)	(167 276)	(24)
Income taxable at zero rate in other tax jurisdiction	315 873	3	—	—	—	—
Non taxable differences	764 819	7	—	—	110 640	16
Non-deductible differences	(1 147 849)	(10)	(253 595)	(22)	(143 747)	(21)
Tax provision	(500 000)	(4)	(72 000)	(6)	—	—
(Under)/over provided in prior years	<u>(655)</u>	<u>—</u>	<u>(305)</u>	<u>—</u>	<u>7 311</u>	<u>1</u>
	<u>(3 304 951)</u>	<u>(28)</u>	<u>(607 069)</u>	<u>(52)</u>	<u>(193 072)</u>	<u>(28)</u>

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12 Property, plant and equipment

	<u>Buildings</u>	<u>Plant and equipment</u>	<u>Other fixed assets</u>	<u>Construction in progress</u>	<u>Total</u>
			'000 RUR		
<i>Cost/Deemed cost</i>					
At 1 January 2004	1 249 875	704 399	196 116	239 208	2 389 598
Acquisitions through business combinations	777	33 017	5 579	9 669	49 042
Additions	51 693	148 202	—	446 989	646 884
Disposals	(4 724)	(13 979)	(32 937)	(19 368)	(71 008)
Transfers	260 576	254 313	88 822	(603 711)	—
At 31 December 2004	<u>1 558 197</u>	<u>1 125 952</u>	<u>257 580</u>	<u>72 787</u>	<u>3 014 516</u>
Acquisitions through business combinations	1 367 285	1 167 912	136 933	83 604	2 755 734
Additions	—	15 867	—	873 823	889 690
Disposals	(17 934)	(29 316)	(28 936)	(3 976)	(80 162)
Transfers	133 046	306 481	236 386	(675 913)	—
At 31 December 2005	<u>3 040 594</u>	<u>2 586 896</u>	<u>601 963</u>	<u>350 325</u>	<u>6 579 778</u>
Acquisitions through business combinations	10 640	6 804	1 841	17 086	36 371
Additions	—	13 862	—	2 824 474	2 838 336
Disposals	(115 206)	(90 733)	(83 575)	(51 297)	(340 811)
Transfers	131 298	340 957	248 087	(720 342)	—
At 31 December 2006	<u>3 067 326</u>	<u>2 857 786</u>	<u>768 316</u>	<u>2 420 246</u>	<u>9 113 674</u>
<i>Depreciation</i>					
At 1 January 2004	—	—	—	—	—
Depreciation charge	(80 383)	(175 853)	(42 607)	—	(298 843)
Disposals	1 316	4 468	2 185	—	7 969
At 31 December 2004	<u>(79 067)</u>	<u>(171 385)</u>	<u>(40 422)</u>	<u>—</u>	<u>(290 874)</u>
Depreciation charge	(113 225)	(222 757)	(74 441)	—	(410 423)
Disposals	2 351	8 004	13 719	—	24 074
At 31 December 2005	<u>(189 941)</u>	<u>(386 138)</u>	<u>(101 144)</u>	<u>—</u>	<u>(677 223)</u>
Depreciation charge	(162 643)	(380 466)	(132 231)	—	(675 340)
Disposals	40 677	17 002	16 236	—	73 915
At 31 December 2006	<u>(311 907)</u>	<u>(749 602)</u>	<u>(217 139)</u>	<u>—</u>	<u>(1 278 648)</u>
<i>Net book value</i>					
At 1 January 2004	1 249 875	704 399	196 116	239 208	2 389 598
At 31 December 2004	<u>1 479 130</u>	<u>954 567</u>	<u>217 158</u>	<u>72 787</u>	<u>2 723 642</u>
At 31 December 2005	<u>2 850 653</u>	<u>2 200 758</u>	<u>500 819</u>	<u>350 325</u>	<u>5 902 555</u>
At 31 December 2006	<u>2 755 419</u>	<u>2 108 184</u>	<u>551 177</u>	<u>2 420 246</u>	<u>7 835 026</u>

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(a) Determination of deemed cost at 1 January 2004

Management commissioned an independent appraiser to determine the deemed cost of property, plant and equipment other than construction in process of the Group entities as at 1 January 2004.

The majority of the Group's property, plant and equipment is specialized in nature and can not be sold on the open market other than as part of a continuing business. In the absence of the active market for similar items, 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 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 these values. The results of cash flow testing did not result in adjustments to the fair values determined on the basis of depreciated replacement cost.

(b) Security

At 31 December 2006 property, plant and equipment with a carrying value of RUR 1 829 691 thousand (2005: RUR 2 901 185 thousand; 2004: RUR 1 682 865 thousand) was pledged to secure bank loans (refer note 22).

(c) Leased plant and machinery

During the years ended 31 December 2006, 2005 and 2004 the Group leased 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 470 261 thousand (31 December 2005: RUR 331 432 thousand; 31 December 2004: RUR 287 546 thousand). The leased assets secure lease obligations.

(d) Construction in progress

At 31 December 2006 the balance of construction in progress includes prepayments made by the Group for acquisition of property, plant and equipment, including a prepayment made in April 2006 to acquire a new office building in the amount of RUR 1 929 398 thousand. The new office building is planned to be occupied by the Company's personnel.

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13 Intangible assets

	<u>Goodwill</u>	<u>Development rights</u>	<u>Other intangible assets</u>	<u>Total</u>
		<i>'000 RUR</i>		
Cost				
At 1 January 2004	—	2 772 849	663	2 773 512
Acquisitions through business combinations	43 594	—	—	43 594
Additions	—	—	2 032	2 032
Development rights reclassified as prepayments for construction work-in-progress, intended for sale	—	(1 161 236)	—	(1 161 236)
At 31 December 2004	<u>43 594</u>	<u>1 611 613</u>	<u>2 695</u>	<u>1 657 902</u>
Acquisitions through business combinations	1 721 164	—	—	1 721 164
Additions	—	707 567	347	707 914
At 31 December 2005	<u>1 764 758</u>	<u>2 319 180</u>	<u>3 042</u>	<u>4 086 980</u>
Additions	—	7 036 038	2 003	7 038 041
Disposals	—	(3 370 450)	(72)	(3 370 522)
Development rights reclassified as prepayments for construction work-in-progress, intended for sale	—	(1 000 976)	—	(1 000 976)
Reclassification into investment in associate (notes 8 and 14)	—	(2 662 883)	—	(2 662 883)
At 31 December 2006	<u>1 764 758</u>	<u>2 320 909</u>	<u>4 973</u>	<u>4 090 640</u>
Amortisation				
At 1 January 2004	—	—	(211)	(211)
Amortisation charge	—	—	(580)	(580)
At 31 December 2004	<u>—</u>	<u>—</u>	<u>(791)</u>	<u>(791)</u>
Amortisation charge	—	—	(804)	(804)
At 31 December 2005	<u>—</u>	<u>—</u>	<u>(1 595)</u>	<u>(1 595)</u>
Amortisation charge	—	—	(1 027)	(1 027)
At 31 December 2006	<u>—</u>	<u>—</u>	<u>(2 622)</u>	<u>(2 622)</u>
Net book value				
At 1 January 2004	<u>—</u>	<u>2 772 849</u>	<u>452</u>	<u>2 773 301</u>
At 31 December 2004	<u>43 594</u>	<u>1 611 613</u>	<u>1 904</u>	<u>1 657 111</u>
At 31 December 2005	<u>1 764 758</u>	<u>2 319 180</u>	<u>1 447</u>	<u>4 085 385</u>
At 31 December 2006	<u>1 764 758</u>	<u>2 320 909</u>	<u>2 351</u>	<u>4 088 018</u>

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(a) Development rights

The cost of development rights includes the cost of obtaining the rights to lease the land plots and the cost of obtaining registered permits to construct specific properties. Capitalised development rights are stated at cost less accumulated impairment losses until the construction starts. On commencement of the construction such development rights are reclassified as construction-in-progress intended for sale as part of inventories. Cost of development rights, which relate to the projects, and which were in the process of development at 31 December 2006, 2005 and 2004, are recorded as part of inventories.

At 31 December 2006, 2005 and 2004, the balances of development rights consisted of the following items:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<i>'000 RUR</i>	<i>'000 RUR</i>	<i>'000 RUR</i>
Moscow, south-east (i)	1 521 050	—	—
Moscow region, north-west (ii)	610 637	1 611 613	1 611 613
Moscow region, north-east (iii)	189 222	—	—
Moscow, the centre (note 8)	—	707 567	—
	<u>2 320 909</u>	<u>2 319 180</u>	<u>1 611 613</u>

- (i) In March 2006 the Group entered into an agreement for consideration of RUR 1 521 050 thousand with a third party for development of a part of a land plot located in the south-east of Moscow. Subsequent to 31 December 2006 the Group signed a contract to acquire development rights for the remainder of this plot.
- (ii) At 31 December 2006, development rights amounting to RUR 610 637 thousand represent contractual rights to lease a land plot and the right to construct residential housing on that plot. The land plot is located in the Moscow region, north-west of Moscow. In 2003 the Group obtained the initial permit for construction from the Moscow regional authorities, under which the Group had a right to construct three residential complexes on the respective land plot. At 31 December 2003 the right had a carrying value of RUR 2 772 849 thousand. In 2004 and in 2006 the Group started construction of the first two complexes, respectively. At 31 December 2006 the development rights with carrying value of RUR 610 637 thousand represent the purchase cost of development rights related to the third complex, which was determined on a pro rata basis of total square meters.
- (iii) In July 2006 the Group acquired a 77% shareholding in OAO DSK Stroykonstrutsya-2 from a third party in addition to a 23% shareholding owned by the Group prior to 2006 (refer note 14). Thereby the Group increased its shareholding in the acquiree to 100%. The purchase agreement states that the Group obtains no control over the entity, which will continue its operations until May 2007, except for ownership over the lease contract for the land occupied. The Group has intentions to remove the production facilities and obtain a permission to construct residential buildings. Thus the Group accounted for the acquisition not as for a business combination, but as for an acquisition of development rights at purchase cost of RUR 189 222 thousand.

(b) Impairment testing of goodwill

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

At 31 December 2006, 2005 and 2004, the aggregate carrying amounts of goodwill allocated to respective plants are as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<i>'000 RUR</i>	<i>'000 RUR</i>	<i>'000 RUR</i>
OAO DSK-3	1 721 164	1 721 164	—
Plants without significant goodwill	43 594	43 594	43 594
	<u>1 764 758</u>	<u>1 764 758</u>	<u>43 594</u>

The recoverable amount of OAO DSK-3 represents value in use as determined by discounting the future cash flows generated from the continuing use of this plant. At 31 December 2006 and 2005, the recoverable amount exceeded the carrying amount of net assets of the plant, including goodwill grossed up for the part attributable to minority interests.

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The following key assumptions were used in determining the recoverable amounts of OAO DSK-3:

- Cash flows were projected based on actual operating results and the five-year business plan adjusted for inflows collected by the Group due to intra-Group pricing and synergy effect as a result of the acquisition of OAO DSK-3.
- For the purpose of estimation of the recoverable amount, the Group's management used a projection period consistent with the weighted average remaining useful lives of the identifiable assets belonging to the cash-generating unit. Remaining useful lives of the plant's fixed assets were estimated as 19 years.
- Total production at the plant was projected at about 427 500 sq.m. of concrete panel buildings for the whole projection period, which represented 85% of the maximum plant capacity. Estimates of cost of production were calculated based on actual results of the plant and industry averages for the projected production volume.
- Anticipated average gross profit margin used for the cash flow projections was 4.7% for the first five years. In the long-term prospective the gross profit margin was expected to level with the well-developed markets' indicators of approximately 2.8% and remain stable starting 2011 to the end of the projection period. These margins are significantly lower compared to those forecasted when testing goodwill for impairment at 31 December 2005: 21.0% for the first five years and 12.0% until the end of forecasted period.
- Anticipated annual growth in revenue and costs of continuing use of the plant would decrease from 11.0% in 2007 to 6.0% in 2011 and no growth is budgeted from 2012 to the end of the forecast period (31 December 2005: from 14.2% in 2006 to 6.4% in 2010 and remain stable at the rate of 5.6% from 2011 to the end of the projection period).
- A discount rate of 15.3% was applied in determining the recoverable amount of the plants. The discount rate was estimated based on the industry average weighted average cost of capital.

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

The above estimates are particularly sensitive in the following areas:

- In case the plant's production volumes are 5% lower than expected, this would result in an impairment loss of RUR 1 166 888 thousand; and
- An increase of 10% in the discount rate used would result in an impairment loss of RUR 7 thousand.

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14 Investments in associates

At 31 December 2006, 2005 and 2004 the Group has the following investments in associates:

	<u>Country</u>	<u>Voting and effective</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
			<i>'000 RUR</i>	<i>'000 RUR</i>	<i>'000 RUR</i>
ZAO Park-City Investments/ OOO KRPT ⁽ⁱ⁾	Russia	25%/50%	746 889	746 889	—
ZAO Gorodskoe razvitye (note 8)	Russia	50%	2 662 883	—	—
OAO DSK Stroykonstruktsya-2 (note 13(a))	Russia	23%	—	14 353	14 353
		2006: 49%, 2005, 2004:			
OAO Khromtsovsky kariier	Russia	38%, 38%	—	9 688	17 988
OOO Drevprofil	Russia	37%	—	—	2 827
			<u>3 409 772</u>	<u>770 930</u>	<u>35 168</u>

- (i) During 2005 the Group acquired stakeholdings in ZAO Park-City Investments /OOO Kompania Reabilitatsii Promyshlennykh Territoriy (OOO KRPT). The purchase cost of RUR 746 889 thousand has not been allocated between the two investments in associates. The Group's ownership over the acquired investments will allow the Group to participate in a co-investment agreement for development of two adjacent land plots close to the Moscow City. As at the date of acquisition both legal entities had no activities, except for having controlling shareholdings in two production plants, which have the rights to lease the land plots. No significant activities took place in 2006 however the production facilities were in existence and will be reallocated at the start of the construction.

The following is summarised financial information, in aggregate, in respect of associates:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<i>'000 RUR</i>	<i>'000 RUR</i>	<i>'000 RUR</i>
Non-current assets	80 974	94 629	114 197
Current assets	63 611	39 731	28 503
Non-current liabilities	(2 124)	(8 397)	(65 117)
Current liabilities	<u>(159 062)</u>	<u>(100 647)</u>	<u>(30 576)</u>
Total equity	<u>(16 601)</u>	<u>25 316</u>	<u>47 007</u>
Retained earnings at 1 January	25 316	47 007	67 194
Net loss for the year	<u>(41 917)</u>	<u>(21 691)</u>	<u>(20 187)</u>
Retained earnings at 31 December	<u>(16 601)</u>	<u>25 316</u>	<u>47 007</u>
Revenues for the year	<u>252 908</u>	<u>175 247</u>	<u>142 367</u>

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15 Other investments

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<i>'000 RUR</i>	<i>'000 RUR</i>	<i>'000 RUR</i>
<i>Non-current</i>			
Available-for-sale investments:			
ZAO Housing Finance Bank (i)	—	300 223	300 223
Loans receivable (ii)	43 800	—	—
Promissory notes (iv)	30 921	63 683	—
Other (v)	<u>7 870</u>	<u>32 106</u>	<u>81 190</u>
	<u>82 591</u>	<u>39 6012</u>	<u>381 413</u>
<i>Current</i>			
Available-for-sale investments:			
ZAO Housing Finance Bank (i)	300 223	—	—
Loans receivable (ii)	146 750	411 706	783 252
Loans receivable from related parties (iii)	1 179 617	—	—
Promissory notes (iv)	394 103	221 761	355 167
Other (v)	<u>22 068</u>	<u>24 593</u>	<u>—</u>
	<u>2 042 761</u>	<u>658 060</u>	<u>1 138 419</u>

- (i) At 31 December 2006, 2005 and 2004 the Group owned 35% of voting rights in ZAO Housing Finance Bank (hereinafter "Bank ZhilFinance"), a bank. This shareholding was held on behalf and in favour of the Group's shareholders. The investment was classified as available for sale as the Group could not exercise significant influence over the bank. Subsequent to 31 December 2006 the investment is intended to be sold to related parties controlled by the shareholders for consideration exceeding its carrying value.

Transactions of the Group with Bank ZhilFinance during the years 2006, 2005 and 2004 are disclosed in note 28(d)(iii).

- (ii) Non-current and current loans receivable from third parties bear an average interest rate of 14% (2005: 14%; 2004: 18%). At 31 December 2006 the balance of current loans receivable from third parties of RUR 146 750 thousand (2005: RUR 411 706 thousand; 2004: RUR 783 252 thousand) includes interest receivable of RUR 55 729 thousand (2005: RUR 95 643 thousand, 2004: RUR 68 448 thousand).

- (iii) Loans receivable from related parties controlled by the Group's shareholders bear an average interest rate of 11% (2005: 14%; 2004: 18%).

At 31 December 2006 the balance of loans receivable from related parties of RUR 1 179 617 thousand (2005: Nil; 2004: Nil) includes interest receivable of RUR 55 729 thousand (2005: Nil thousand; 2004: RUR Nil thousand).

- (iv) Promissory notes balances consist of notes issued by banks and third parties, including financial institutions, mostly used for settlement purposes. The majority of these promissory notes were payable on demand and did not bear any interest. There is no market for these promissory notes and there have not been any recent transactions that provide evidence of fair value. However, management believes it unlikely that the fair value at the end of the year would differ significantly from that carrying amount. At 31 December 2006 the balance included promissory notes of Bank ZhilFinance in the amount of RUR 18 280 thousand (2005: RUR 162 581 thousand; 2004: Nil).

- (v) At 31 December 2005 and 2004 the Group held a controlling interest in the share capital of OOO PSG Osnova, an insurance company. Management of the Group entered into an agreement where all rights to control this entity were transferred to the shareholders. At 31 December 2005 and 2004 the investment is stated at original cost for the Group of creating the entity approximating Nil. The investment in OOO PSG Osnova was formally transferred to the Group's shareholders in the year 2006 free of charge. Transactions of the Group with OOO PSG Osnova during the years 2005 and 2004 are disclosed in note 28(d)(iv).

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16 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			Net		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
	'000 RUR			'000 RUR			'000 RUR		
Property, plant and equipment	30 853	34 649	34 941	(578 492)	(555 639)	(192 131)	(54 7639)	(520 990)	(157 190)
Inventories	221 579	14 021	5 274	(1 181 985)	(99 811)	(58 798)	(960 406)	(85 790)	(53 524)
Trade and other receivables	80 583	28 630	17 487	(66 369)	(1 529)	—	1 4214	27 101	17 487
Loans and borrowings	—	—	—	—	—	(49 485)	—	—	(49 485)
Trade and other payables	200 286	33 496	3 167	(314 7037)	(780 449)	(280 257)	(2 946 751)	(746 953)	(277 090)
Tax loss carry-forwards	39 132	51 324	29 521	—	—	—	39 132	51 324	29 521
Tax assets/(liabilities)	572 433	162 120	90 390	(4 973 883)	(1 437 428)	(580 671)	(4 401 450)	(1 275 308)	(490 281)
Set off of tax	(512 294)	(115 532)	(40 360)	512 294	115 532	40 360	—	—	—
Net tax assets/(liabilities)	<u>60 139</u>	<u>46 588</u>	<u>50 030</u>	<u>(4 461 589)</u>	<u>(1 321 896)</u>	<u>(540 311)</u>	<u>(4 401 450)</u>	<u>(1 275 308)</u>	<u>(490 281)</u>

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(b) Movement in temporary differences during the year

	<u>1 January 2004</u>	<u>Recognised in income</u>	<u>Acquired</u>	<u>31 December 2004</u>
		<i>'000 RUR</i>		
Property, plant and equipment	(213 041)	11 932	43 919	(157 190)
Inventories	(12 446)	(41 078)	—	(53 524)
Trade and other receivables	11 794	5 693	—	17 487
Loans and borrowings	—	(49 485)	—	(49 485)
Trade and other payables	(180 820)	(96 270)	—	(277 090)
Tax loss carry-forwards	<u>7 678</u>	<u>21 843</u>	<u>—</u>	<u>29 521</u>
	<u>(386 835)</u>	<u>(147 365)</u>	<u>43 919</u>	<u>(490 281)</u>
	<u>1 January 2005</u>	<u>Recognised in income</u>	<u>Acquired</u>	<u>31 December 2005</u>
		<i>'000 RUR</i>		
Property, plant and equipment	(157 190)	25 324	(389 124)	(520 990)
Inventories	(53 524)	458	(32 724)	(85 790)
Trade and other receivables	17 487	9 614	—	27 101
Loans and borrowings	(49 485)	49 485	—	—
Trade and other payables	(277 090)	(469 863)	—	(746 953)
Tax loss carry-forwards	<u>29 521</u>	<u>(797)</u>	<u>22 600</u>	<u>51 324</u>
	<u>(490 281)</u>	<u>(385 779)</u>	<u>(399 248)</u>	<u>(1 275 308)</u>
	<u>1 January 2006</u>	<u>Recognised in income</u>	<u>Acquired</u>	<u>31 December 2006</u>
		<i>'000 RUR</i>		
Property, plant and equipment	(520 990)	(26 649)	—	(547 639)
Inventories	(85 790)	24 410	(899 026)	(960 406)
Trade and other receivables	27 101	(13 817)	930	14 214
Loans and borrowings	—	—	—	—
Trade and other payables	(746 953)	(218 3694)	(16 104)	(2 946 751)
Tax loss carry-forwards	<u>51 324</u>	<u>(13 273)</u>	<u>1 081</u>	<u>39 132</u>
	<u>(1 275 308)</u>	<u>(2 213 023)</u>	<u>(913 119)</u>	<u>(4 401 450)</u>

17 Inventories

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<i>'000 RUR</i>		
Construction work-in-progress, intended for sale	1 938 7781	6 864 783	2 920 914
Prepayments for real estate property, intended for sale	14 420 172	18 958 537	8 299 163
Raw materials and consumables	1 320 186	690 105	299 563
Work-in-progress	863 869	674 793	416 345
Finished goods and goods for resale	<u>3 035 706</u>	<u>541 048</u>	<u>31 6584</u>
	<u>39 027 714</u>	<u>27 729 266</u>	<u>1 2252 569</u>
Write-down of inventories in the current year	<u>(23 411)</u>	<u>(58 421)</u>	<u>(21 975)</u>

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At 31 December 2006, 2005 and 2004 the balances of construction work-in-progress and finished goods include cost of development rights in respect of which the construction process commenced before the respective dates.

At 31 December 2006 inventory with a carrying value of RUR 9 236 158 thousand (2005: RUR 3 381 612 thousand; 2004: RUR 2 755 942 thousand) was pledged to secure bank loans (refer note 22).

18 Assets held for sale

At 31 December 2006 assets held for sale represent 100% stakeholding in the entity owning the development rights for a land plot in Moscow region, north-west of Moscow, including the land lease contract and the construction permit. The Group acquired the entity from a third party for consideration of RUR 2 300 534 thousand with the purpose to sell it to another developer (refer note 30).

19 Trade and other receivables

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<i>'000 RUR</i>	<i>'000 RUR</i>	<i>'000 RUR</i>
<i>Non-current</i>			
Other receivables	20 015	198 482	179 868
	<u>20 015</u>	<u>198 482</u>	<u>179 868</u>
Doubtful debts allowance	<u>4 916</u>	<u>19 678</u>	<u>16 469</u>
<i>Current</i>			
Accounts receivable—trade	3 580 793	2 866 075	798 644
Taxes receivable	338 302	701 429	209 463
Accounts receivable for disposal of development rights (note 8)	1 091 915	—	—
Other receivables	<u>510 631</u>	<u>199 436</u>	<u>187 632</u>
	<u>5 521 641</u>	<u>3 766 940</u>	<u>1 195 739</u>
Doubtful debts allowance	<u>40 796</u>	<u>99 614</u>	<u>56 396</u>

At 31 December 2006 the balance of current other receivables (2005 and 2004—the balance of non-current other receivables) includes a prepayment of RUR 155 643 thousand made for a 100% shareholding in OAO 480 KGI, a plant producing concrete panels. The deal was not finalised as the Group did not register its ownership over OAO 480 KGI. At 31 December 2006, 2005 and 2004 the Group was unable to exercise control over OAO 480 KGI. Subsequent to 31 December 2006 the Group sold the right to request the outstanding debt to a related party controlled by the shareholders at nominal value, refer note 30.

20 Cash and cash equivalents

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<i>'000 RUR</i>	<i>'000 RUR</i>	<i>'000 RUR</i>
Petty cash	21 978	16 551	14 523
Current accounts	<u>1 112 090</u>	<u>684 029</u>	<u>551 074</u>
Cash and cash equivalents in the balance sheets	1 134 068	700 580	565 597
Bank overdrafts	<u>(318 606)</u>	<u>(332 889)</u>	<u>(182 059)</u>
Cash and cash equivalents in the statements of cash flows	<u>815 462</u>	<u>367 691</u>	<u>383 538</u>

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21 Equity

(a) Share capital

At 31 December 2006 and 2005, the Company's nominal share capital amounted to RUR 28 516 274 thousand and comprised of 456 260 384 ordinary shares with a par value of RUR 62.5 each. At 31 December 2004 the Company's nominal share capital amounted to RUR 10 000 thousand and comprised of 160 000 ordinary shares with a par value of RUR 62.5 each.

The share capital of RUR 10 000 thousand was formed prior to 31 December 2002, when the Russian economy was considered to be hyperinflationary for IFRS purposes. Therefore the balance of the share capital was adjusted for the effect of hyperinflation amounting to RUR 13 840 thousand. As a result, the carrying value of the share capital as at 31 December 2004 recorded in these financial statements amounted to RUR 23 840 thousand.

In December 2005, the Company registered an additional issue of 456 100 384 shares with a total nominal value of RUR 28 506 274 thousand. The additional shares were issued to the existing shareholders. For statutory purposes, the registration of the share issue was based on a notional valuation of investments in certain subsidiaries, which amounted to RUR 23 523 199 thousand. In addition, shareholders contributed cash into the Company's share capital of RUR 4 983 075 thousand, which was made out of the Group's funds transferred to the shareholders with the sole purpose of being re-invested as part of the above capital transaction. As such, no additional asset values were transferred into the Group.

A negative reserve resulting from the additional issue of shares was recognised in these financial statements on consolidation to eliminate the effect of the transfers of shares.

As a result of the additional share issue in December 2005, the number of the Company's ordinary shares increased without an increase in resources. For the purpose of calculation of earnings per share, the number of ordinary shares outstanding before the additional share issue was adjusted as if the additional share issue had occurred at the transition date. The Company has not issued any potential ordinary shares that may have a dilution effect on the Company's earnings per share.

(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 9 481 598 thousand (2005: RUR 1 376 512 thousand, 2004: RUR 820 172 thousand).

22 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, refer note 25.

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	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<i>'000 RUR</i>	<i>'000 RUR</i>	<i>'000 RUR</i>
<i>Non-current</i>			
Secured bank loans	9 002 409	7 742 431	2 866 745
Secured bond issue, PIK-05	560 000	1 120 000	—
Unsecured loans from third parties	204 890	201 390	371 386
Unsecured loans from related parties	170 906	44 330	—
Secured loans from a related bank	—	9 400	—
Finance lease liability	101 975	82 271	61 690
	<u>10 040 180</u>	<u>9 199 822</u>	<u>3 299 821</u>
	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<i>'000 RUR</i>	<i>'000 RUR</i>	<i>'000 RUR</i>
<i>Current</i>			
Secured bank loans	4 988 665	7 198 469	3 117 227
Unsecured bank loans	6 399 009	76 549	14 000
Unsecured loans from third parties	1 342 343	461 276	200 239
Overdrafts in related bank	176 336	203 225	—
Unsecured loans from related parties	141 112	732 519	—
Bank overdrafts	142 270	129 664	182 059
Secured loans from related bank	—	106 766	37 806
Secured bond issue, PIK-04	—	—	362428
Secured bond issue, PIK-05	560 000	—	—
Current portion of finance lease liability	118 193	93 599	70438
Interest payable	115 420	63 909	9 329
	<u>13 983 348</u>	<u>9 065 976</u>	<u>3 993 526</u>

The following loans were received in exchange for promissory notes issued by the Group:

- Non-current unsecured loans from related parties of RUR 22 843 thousand at 31 December 2006 (31 December 2005: Nil; 31 December 2004: Nil), were received in exchange for promissory notes issued by the Group. The outstanding Group's promissory notes bear interest of 11% p.a., payable on demand but not earlier than December 2011.
- Non-current unsecured loans from related parties of RUR 135 000 thousand at 31 December 2006 (31 December 2005: Nil; 31 December 2004: Nil), were received in exchange for promissory notes issued by the Group. The outstanding Group's promissory notes are non-interest bearing, payable on demand but not earlier than December 2008.
- Non-current unsecured loans from third parties of RUR 601 thousand at 31 December 2006 (31 December 2005: Nil; 31 December 2004: Nil), were received in exchange for promissory notes issued by the Group. The outstanding Group's promissory notes are non-interest bearing, payable on demand but not earlier than December 2008.
- Current unsecured loans from third parties of RUR 982 385 thousand, outstanding at 31 December 2006 (31 December 2005: RUR 408 928 thousand; 31 December 2004: RUR 22 191 thousand), were received in exchange for promissory notes issued by the Group. The outstanding Group's promissory notes bear interest from 6% to 11% p.a., payable on demand.
- Current unsecured loans from related parties of RUR 84 300 thousand, outstanding at 31 December 2006 (31 December 2005: RUR 214 539 thousand; 31 December 2004: Nil), were received in exchange for promissory notes issued by the Group. The outstanding Group's promissory notes are non-interest bearing, payable on demand.

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- Current unsecured loans from third parties of RUR 88 092 thousand, outstanding at 31 December 2006 (31 December 2005: Nil; 31 December 2004: Nil), were received in exchange for promissory notes issued by the Group. The outstanding Group's promissory notes are non-interest bearing, payable on demand.

Finance lease liabilities are payable as follows:

	2006		
	<u>Payments</u>	<u>Interest</u>	<u>Principal</u>
		<i>'000 RUR</i>	
Less than one year	149 810	31 617	118 193
Between one and five years	119 415	17 440	101 975
	<u>269 225</u>	<u>49 057</u>	<u>220 168</u>
	2005		
	<u>Payments</u>	<u>Interest</u>	<u>Principal</u>
		<i>'000 RUR</i>	
Less than one year	116 964	23 365	93 599
Between one and five years	92 869	10 598	82 271
	<u>209 833</u>	<u>33 963</u>	<u>175 870</u>
	2004		
	<u>Payments</u>	<u>Interest</u>	<u>Principal</u>
		<i>'000 RUR</i>	
Less than one year	91 099	20 661	70 438
Between one and five years	71 004	9 314	61 690
	<u>162 103</u>	<u>29 975</u>	<u>132 128</u>

At 31 December 2006 the bank loans are secured by pledging the following assets:

- property, plant and equipment with a carrying value of RUR 1 829 691 thousand (2005: RUR 2 901 185 thousand; 2004: RUR 1 682 865 thousand), refer note 12(b);
- inventory with a carrying value of RUR 9 236 158 thousand (2005: RUR 3 381 612 thousand; 2004: RUR 2 755 942 thousand), refer note 17;
- 1 747 081 shares of OAO DSK-3 (81% of the total shares in the capital), 30 629 943 shares of OAO DSK-2 (58 % of the total shares in the capital), 10 016 shares in OAO 100 KGI (92% of the total shares in the capital), 100 shares of ZAO Viktor (100% of the total shares in the capital), 100% stakeholding in OOO SPTK.

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2006	<u>Total</u>	<u>Under 1 year</u> <i>'000 RUR</i>	<u>1—5 years</u>
Secured bank loans			
RUR—fixed at 8%-12%	13 500 284	4 497 875	9 002 409
RUR—fixed at 12%-15%	440 000	440 000	—
USD—fixed at 8%-12%	50 790	50 790	—
Unsecured bank loans			
RUR—fixed at 8%-12%	3 239 276	3 239 276	—
USD—fixed at 8%-12%	3 159 733	3 159 733	—
Secured bonds, PIK-05			
RUR—fixed at 10.2%-13% effective at 11.7%	1 120 000	560 000	560 000
Unsecured loans from third parties			
RUR—fixed at 0%	350 300	348 728	1 572
RUR—fixed at 5%-6%	200 430	430	200 000
RUR—fixed at 10%-14%	993 185	993 185	—
USD—fixed at 2%	3 318	—	3 318
Unsecured loans from related parties			
RUR—fixed at 0%	184 743	49 743	135 000
RUR—fixed at 11%	22 843	—	22 843
USD—fixed at 3%	104 432	91 369	13 063
Overdrafts in related bank			
RUR—fixed at 11%-13%	176 336	176 336	—
Bank overdrafts			
RUR—fixed at 14% -16%	140 300	140 300	—
USD—fixed at 13%-15%	1 970	1 970	—
	<u>23 687 940</u>	<u>13 749 735</u>	<u>9 938 205</u>

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2005	<u>Total</u>	<u>Under 1 year</u>	<u>1—5 years</u>	<u>Over 5 years</u>
		<i>'000 RUR</i>		
Secured bank loans				
USD—fixed at 9.5%-14%	389 5572	3 607 747	287 825	—
USD—fixed at 15%-18%	143 913	143 913	—	—
RUR—fixed at 11%-15%	10 451 415	3 056 809	7 394 606	—
RUR—fixed at 15%-18.5%	450 000	390 000	60 000	—
Secured bonds, PIK-05				
RUR—fixed at 10.2%-13% effective at 11.7%	1 120 000	—	1 120 000	—
Unsecured loans from third parties				
RUR—fixed at 6%-14%	662 666	461 276	201 390	—
Unsecured loans from related parties				
RUR—fixed at 0%-3%	776 849	732 519	34 330	10 000
Secured loans from related bank				
RUR—fixed at 14%	116 166	106 766	—	9 400
Overdrafts in related bank				
RUR—fixed at 15%-20%	203 225	203 225	—	—
Bank overdrafts				
RUR—fixed at 13%-14.5%	129 664	129 664	—	—
Unsecured bank loans				
RUR—fixed at 1-10%	76 549	76 549	—	—
	<u>18 026 019</u>	<u>8 908 468</u>	<u>9 098 151</u>	<u>19 400</u>
2004	<u>Total</u>	<u>Under 1 year</u>	<u>1—5 years</u>	<u>Over 5 years</u>
		<i>'000 RUR</i>		
Secured bank loans				
RUR—fixed at 12%-15%	1 150 627	583 427	567 200	—
RUR—fixed at 16%-19%	250 000	250 000	—	—
RUR—fixed at 24%	140 000	140 000	—	—
USD—fixed at 10%-14%	4 241 319	1 997 271	2 244 048	—
USD—fixed at 18%-20%	202 026	146 529	55 497	—
Bonds				
RUR—fixed at 13%-14%	362 428	362 428	—	—
Loans from related banks				
RUR—fixed at 14%-15%	25 706	25 706	—	—
RUR—fixed at 20%-24%	12 100	12 100	—	—
Bank overdrafts from related parties				
RUR—fixed at 15%-18%	182 059	182 059	—	—
Loans from other companies				
RUR—fixed at 0%-1,5%	563 935	211 449	342 486	10 000
RUR—fixed at 10%-14%	21 690	2 790	18 900	—
	<u>7 151 890</u>	<u>3 913 759</u>	<u>3 228 131</u>	<u>10 000</u>

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23 Provisions

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<i>'000 RUR</i>	<i>'000 RUR</i>	<i>'000 RUR</i>
<i>Non-current</i>			
Site restoration provision	18 704	13 453	10 249
	<u>18 704</u>	<u>13 453</u>	<u>10 249</u>
<i>Current</i>			
Tax provision	875 761	345 761	83 087
	<u>875 761</u>	<u>345 761</u>	<u>83 087</u>

Site restoration provision

At 31 December 2006, the Group recognised a provision for restoration works of RUR 18 704 thousand (31 December 2005: RUR 13 453 thousand; 31 December 2004: RUR 10 249 thousand). The provision resulted from the obligation of the Group to restore three mines, one of which is located in Karelia and another two which are located in the Moscow region. The major cash outflows associated with this provision are estimated to take place over the course of 9 years. To arrive at the amount of the provision the Group's obligations have been discounted at the rate of 21%.

Tax provision

As at 31 December 2006 the Group recognised a provision for tax risks in respect of income tax of RUR 572 000 thousand and other taxes of RUR 303 761 thousand (31 December 2005: income tax of RUR 72 000 thousand and other taxes of RUR 273 761 thousand; 31 December 2004: other taxes of RUR 83 087 thousand). The amount of provision includes interest and penalties and has not been subject to discounting.

24 Trade and other payables

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<i>'000 RUR</i>	<i>'000 RUR</i>	<i>'000 RUR</i>
<i>Current</i>			
Accounts payable—trade	4 183 692	5 296 701	1 930 407
Advances from customers	16 975 029	14 156 065	7 937 727
Other taxes payable	2 080 397	914 015	396 910
Accounts payable for acquisition of development rights, note 8	1 057 194	—	—
Other payables	<u>1 879 541</u>	<u>2 061 127</u>	<u>999 037</u>
	<u>26 175 853</u>	<u>22 427 908</u>	<u>11 264 081</u>

25 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.

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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

The Group is exposed to interest rate risk primarily on loans and borrowings. The interest rates and terms of repayment of loans are described in note 22. The Group ensures that the major part of its exposure to changes in interest rates on loans is on fixed rate basis.

(c) Foreign currency risk

The Group incurs foreign currency risk on borrowings that are denominated in a currency other than the functional currencies of the respective Group entities. The currency giving rise to this risk is primarily USD. Management does not hedge the Group's exposure to foreign currency risk. The Group's liabilities denominated in USD are represented by borrowings as disclosed in note 22.

(d) Fair values

Due to the lack of liquidity and published "indicator interest rates" in the Russian market, and the fact that some of the Group's transactions are with related parties and are of a specialised nature, it has not been practicable to determine the fair values of receivables from and payables to related parties.

Valuation of investments is discussed in note 15.

In other cases fair value has been determined as at the balance sheet date by discounting the estimated future cash flows using market interest rates for similar instruments. As a result of this exercise management believes that the fair value of its financial assets and liabilities approximates their carrying amounts.

26 Commitments

(a) Commitments under co-investment and construction services contracts

During 2006, 2005 and 2004 the Group has entered into a number of co-investment contracts, where payments have not been made in full, and contracts to provide construction services. At 31 December 2006 the amount of future payments for the above contracts approximates RUR 53 178 764 thousand (2005: RUR 7 921 171 thousand; 2004: RUR 6 308 531 thousand). These payments also cover the costs to construct apartments or/and social infrastructure for municipal authorities.

(b) Commitments to acquire property, plant and equipment

At 31 December 2006 the Group had contractual commitments to acquire property, plant and equipment at the amount of RUR 735 968 thousand (31 December 2005: Nil; 31 December 2004: Nil).

(c) Commitments to complete constructions

At 31 December 2006 the Group had contractual commitments with municipal authorities to complete the construction of residential buildings where the apartment had been sold to the customers by a predecessor construction company, which due to insolvency or other similar reasons, has not completed the construction. As at 31 December 2006 costs to complete such construction were estimated to be approximately RUR 600 000 thousand and will become a part of construction work-in-progress intended for sale.

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27 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available.

The Group has insured its property and equipment to compensate for expenses arising from accidents. The Group has also insured certain professional risks in relation to quality of construction works. The Group does not have full coverage for business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations.

The Group does not have insurance in respect of any force majeure circumstances, which may arise in relation to the constructed buildings in the period after the sales have been recognised until the time when ownership rights are registered with the customer. The risk of damage in case of force majeure circumstances in these periods of time is born by the Group.

Until the Group obtains full insurance coverage, there is a risk that the loss or destruction of certain assets and other circumstances could have a material adverse effect on the Group's operations and financial position.

(b) Litigation

The Group is involved in various claims and legal proceedings arising in the normal course of business. Management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group's operating results or financial condition.

(c) Taxation contingencies

Taxation system

The taxation system in the Russian Federation is relatively new and is characterized 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, refer note 23. 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.

Tax compliance of the Group's suppliers

The Group entered into transactions with various suppliers in which it did not hold any direct or indirect equity interest. These entities are fully responsible for their own tax and accounting compliance. However, due to existing tax authorities' practice, if these entities' tax compliance is challenged by the tax authorities as not being in fully conformity with the

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applicable tax legislation, this may result in additional tax risks for the Group. Should these suppliers be successfully challenged, the Group may become liable to additional tax payments, although management of these entities is primarily responsible for the correctness and timeliness of the entities' tax payments. Management of the Group believe that it is not practicable to estimate the financial effect of potential tax liabilities, which ultimately could be imposed on the Group due to transactions with suppliers. However, if such liabilities were imposed, the amounts involved, including penalties and interest, could be material.

If the cases described above were successfully challenged by the Russian tax authorities, the additional payments could become due together with penalties, ranging from 20%-40% of the amount of underpaid taxes, and late-payment interest. Management has not provided any amounts in respect of such obligations in these consolidated financial statements as it believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations.

(d) Warranties and guarantees of work performed

The Group is contractually responsible for the quality of construction works performed subsequent to the date at which the relevant object was sold, which is in accordance with applicable law is a period up to 3 years subsequent to the sale. Based upon prior experience with warranty claims, which have not been significant, no contingent liabilities have been recorded in the Group's financial statements in relation to warranties and guarantees for work performed.

(e) Financial guarantees

In December 2006, the Group provided a guarantee to a third party in relation to the loan of RUR 1 315 000 thousand granted by that third party to Bank ZhilFinans, the Group's related party. The loan bears variable interest rate of 8%-11% p.a. and matures in December 2007, however the loan can become payable earlier if certain circumstances occur. The guarantee was granted at nil consideration.

In November 2005, the Group provided a guarantee in relation to the Bank ZhilFinans's bond issue of RUR 500 000 thousand. The guarantee was granted at nil consideration. At 31 December 2006 the nominal value of bonds not redeemed is RUR 29 412 thousand (31 December 2005: RUR 500 000 thousand).

28 Related party transactions

(a) Control relationships

Shareholding in the Company belongs in equal parts to two entities registered in the British Virgin Islands (BVI), IBG Development Group Inc. and FMC Realtors Holding Inc. The BVI entities are owned by the ultimate shareholders, who are disclosed in note 1 to these consolidated financial statements.

In addition, the Group has a controlling relationship with all of its subsidiaries (refer note 29 for the list of significant subsidiaries).

No publicly available financial statements are produced by the entities, IBG Development Group Inc. and FMC Realtors Holding Inc., which hold ownership in the Company.

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(b) Management remuneration

Key management received the following remuneration during the year, which is included in administrative expenses (refer note 7):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<i>'000 RUR</i>	<i>'000 RUR</i>	<i>'000 RUR</i>
Salaries and bonuses	59 388	40 099	31 305
Contributions to State pension fund	<u>1 359</u>	<u>605</u>	<u>663</u>
	<u>60 747</u>	<u>40 704</u>	<u>31 968</u>

(c) Loans given to employees or other related parties

At 31 December 2006 the Group had outstanding an interest bearing loan (8.7% per annum) receivable from the executive director amounting to RUR 15 000 thousand, which is included in other receivables, refer note 19. The loan will be repaid by 15 August 2007.

At 31 December 2006 the Group had outstanding an interest bearing loan (11% per annum) receivable from a related party amounting to RUR 1 123 888 thousand, which is included in other investments, refer note 15. The loan will be repaid by 31 December 2007.

At 31 December 2005 the Group had outstanding a non-interest bearing loan to the executive director amounting to RUR 74 922 thousand, which is included in other receivables, refer note 19. The loan was repaid in 2006.

(d) Transactions with other related parties

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

During 2006, 2005 and 2004 the Group entered into transactions with various related parties ultimately controlled by the Group's shareholders, of which the following are transactions, which had the most significant impact on these consolidated financial statements.

(i) Loans payable to related parties

The outstanding balances of loans payable to related parties controlled by the shareholders of the Group at 31 December 2006, 2005 and 2004 are disclosed in note 22.

(ii) Loans receivable from related parties

The outstanding balances of loans receivable from related parties controlled by the shareholders of the Group at 31 December 2006, 2005 and 2004 are disclosed in note 15(iii).

(iii) Transactions with Bank ZhiFinance

Summary of transactions and balances of settlements with Bank ZhiFinance, bank, is as following:

	<u>Transaction value 2006</u>	<u>Outstanding balance 2006</u>
	<i>'000 RUR</i>	
Promissory notes	—	18 280
Loans payable	—	(26 477)
Loans received during the year	1 040 655	—
Loans repaid during the year	1 333 569	—

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	<u>Transaction value 2005</u>	<u>Outstanding balance 2005</u>
	<i>'000 RUR</i>	
Promissory notes	—	162 581
Loans payable	—	(319 391)
Loans received during the year	1 460 458	—
Loans repaid during the year	1 178 873	—
	<u>Transaction value 2004</u>	<u>Outstanding balance 2004</u>
	<i>'000 RUR</i>	
Loans payable	—	(37 806)
Loans received during the year	1 645 561	—
Loans repaid during the year	1 710 828	—

The loans from Bank ZhilFinance bear interest 14% per annum and are repayable upon demand.

(iv) Transactions with OOO PSG Osnova

During the years ended 31 December 2006, 2005 and 2004, OOO PSG Osnova provided the Group with insurance services. The following is a summary of transactions and balances of settlements with OOO PSG Osnova:

	<u>Transaction value 2006</u>	<u>Outstanding balance 2006</u>
	<i>'000 RUR</i>	
Insurance expenses for the year	(28 575)	—
Trade and other payables	—	(6 522)
Loans payable	—	(135 000)
	<u>Transaction value 2005</u>	<u>Outstanding balance 2005</u>
	<i>'000 RUR</i>	
Insurance expenses for the year	(127 534)	—
Trade and other payables	—	(220 308)
Loans payable	(135 000)	(135 000)
	<u>Transaction value 2004</u>	<u>Outstanding balance 2004</u>
	<i>'000 RUR</i>	
Insurance expenses for the year	(68 801)	—
Trade and other payables	—	(224 238)

In addition, during 2004 and 2005 OOO PSG Osnova, a related party, insured the financial risks of the customers who made prepayments to the Group for certain real estate properties under construction (apartments). The insurance premium collected by OOO PSG Osnova for the year 2005 amounted to RUR 538 719 thousand (2004: RUR 433 146 thousand).

(v) Transactions with related parties under co-investment agreements

In June 2005 the Group entered into a co-investment agreement with a related party, controlled by the Group's shareholders, for development of a land plot in the center of Moscow. At 31 December 2006 an amount of RUR 280 000 thousand is included in the balance of advances to constructors representing development rights for the plot, which are registered with a related party.

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In May 2005 the Group made a payment of RUR 1 463 663 thousand to its associate, ZAO Park-City Investments, for the purpose of providing funds for commencement of development of a land plot in the center of Moscow. At 31 December 2005 the whole amount is outstanding and included in prepayments for real estate property intended for sale, within inventories, as the development rights for the plot are registered with another related party. In 2006 ZAO Park-City Investments repaid RUR 1 393 063 thousand. At 31 December 2006 the amount of RUR 70 600 thousand is included in the balance of advances to constructors, as the development rights for the plot are registered with a related party.

(vi) Sales to and purchases from related parties

During 2006 the Group entered into the following transactions with the same related party:

- the Group sold raw materials to a related party and collected revenues of RUR 63 435 thousand;
- the Group rendered processing services to the same related party for a commission of RUR 104 661 thousand;
- the Group bought finished goods from the same related party for consideration of RUR 190 054 thousand.

29 Significant subsidiaries

	Country of incorporation	Effective ownership			Voting rights		
		2006	2005	2004	2006	2005	2004
ZAO Pervaya Ipotecnaya Kompanya-Region (ZAO PIK-Region)	Russia	100%	100%	100%	100%	100%	100%
OAO DSK-2	Russia	98%	98%	98%	98%	98%	98%
OAO DSK-3	Russia	84%	81%	—	84%	81%	—
OOO PIK-Development	Russia	100%	100%	100%	100%	100%	100%
OOO PIK-Invest	Russia	100%	100%	98%	100%	100%	98%
OAO 100 KGI	Russia	92%	88%	—	92%	88%	—
OOO MFS-PIK	Russia	100%	100%	—	100%	100%	—
OOO TD Osnova	Russia	100%	100%	100%	100%	100%	100%
OOO PIK Nerud	Russia	100%	100%	—	100%	100%	—
OOO PIK-Profile ⁽ⁱ⁾	Russia	100%	100%	100%	100%	100%	100%

(i) At 31 December 2006 the effective ownership and voting percentages in OOO PIK-Profile include a 49% stakeholding, which is controlled by the Group and consolidated in these financial statements but not owned directly or indirectly by the Group. The stakeholding is held by the Group's related parties controlled by the shareholders under the trust agreement in favour and on behalf of the Group (31 December 2005 and 2004: 100%).

30 Events subsequent to the balance sheet date

- In March 2007 the Group committed to a purchase of 100% of shares of several entities which jointly own production facilities, a sand-pit and development rights for plots of land in the Kaluga region. The purchase price for these entities is planned to be over RUR 1 000 000 thousand. The main activity of these entities is the production of concrete panels and assembly of above-ground part of residential buildings.
- In 2007 the Group sold for RUR 2 700 000 thousand a 100% stakeholding in the entity owning the development rights for a land plot in the north-west of the Moscow region,

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refer note 18. However, prior to initial acquisition of this entity in 2006, the Group entered in 2005 into a co-investment agreement with the acquiree for construction of residential buildings at the above-mentioned land plot. Under the terms of the agreement the Group had to bear all construction costs while the entity contributed its development rights. When construction is completed, the Group will own 76% of total apartment floorspace and 24% of the apartment floorspace will be owned by the entity - holder of the development rights. The terms of the co-investment contract remain unchanged after the 100% stakeholding in the holder of development rights was disposed of in 2007.

- In February 2007 the Group sold the right to request the outstanding debt of RUR 155 643 thousand from the seller of OAO 480 KGI to a related party controlled by the Group's shareholders for the nominal value. At 31 December 2006 the outstanding balance was included into the balance of current accounts receivable, refer note 19.
- In March 2007, additional issue of 58 000 000 shares with a par value of RUR 62.5 each was approved by the shareholders' meeting for a closed (private) placement. At the date of these consolidated financial statements the additional share issue was registered with Federal Service on Financial Markets.

**ANNEX A:
VALUATION REPORT OF CB RICHARD ELLIS**

THE COMPANY

PIK GROUP

24/27 Sadovaya-Kudrinskaya Street
Building 1
123001 Moscow
Russia

JOINT GLOBAL COORDINATORS AND JOINT BOOKRUNNERS

Deutsche Bank AG, London

Branch

Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

Morgan Stanley & Co.

International plc

25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

Nomura International plc

Nomura House
1 St. Martin's-le-Grand
London EC1A 4NP
United Kingdom

JOINT LEAD MANAGER

Merrill Lynch International

2 King Edward Street
London EC1A 1HQ
United Kingdom

LEGAL ADVISORS TO THE ISSUER

As to English and United States law

Skadden, Arps, Slate, Meagher & Flom (UK) LLP

40 Bank Street
Canary Wharf
London, E14 5DS
United Kingdom

As to Russian law

Skadden, Arps, Slate, Meagher & Flom LLP

Ducat Place III
6 Gasheka Street, 11th Floor
125047 Moscow
Russia

LEGAL ADVISORS TO THE MANAGERS

As to English and United States law

Linklaters LLP

One Silk Street
London EC2Y 8HQ
United Kingdom

As to Russian law

Linklaters CIS

Paveletskaya sq. 2, bld. 2
115054 Moscow
Russia

INDEPENDENT AUDITORS

KPMG Limited

11 Gogolevsky Boulevard
119019 Moscow
Russia

INDEPENDENT REAL ESTATE APPRAISER

CB Richard Ellis

Tverskaya Street 24/2, Entrance 3
125009 Moscow
Russia

DEPOSITARY

Deutsche Bank Trust Company Americas

60 Wall Street
New York, New York 10005
United States of America