OAO Group of Companies PIK
Consolidated Financial Statements
for the year ended
31 December 2007

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Independent Auditors' Report

The audit report is printed on letterhead paper

	Note	2007 mln RUR	2006 mln RUR
Revenue	8	69 050	42 046
Cost of sales	9	(51 206)	(32 265)
Gross profit		17 844	9 781
Gain on disposal of development rights	11	9 502	2 851
Distribution expenses	12	(879)	(467)
Administrative expenses	13	(3 114)	(1 511)
Other income and expenses	14	(55)	1 552
Finance income	15	569	571
Finance expenses	15	(2 363)	(1 362)
Share of loss of equity accounted investees (net of income tax)		(24)	(10)
Profit before income tax		21 480	11 405
Income tax expense	16	(3 595)	(3 305)
Profit for the year		17 885	8 100
Attributable to:			
Shareholders of the Company		17 854	8 105
Minority interest		31	(5)
		17 885	8 100
Basic and diluted earnings per share	25	37.4 RUR	17.8 RUR

These consolidated financial statements were approved on 6 May 2008:

Kirill V. Pisarev
President

Evgeny D. Luneev
Vice-President, Economics and Finance

The consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 54.

	Note	2007 mln RUR	2006 mln RUR
ASSETS			
Non-current assets			
Property, plant and equipment	17	12 556	7 835
Intangible assets	18	21 213	4 088
Investments in equity accounted investees	19	3 419	3 744
Other investments	20	295	82
Deferred tax assets	21	112	60
Other non-current assets		131	20
Total non-current assets		37 726	15 829
Current assets			
Inventories	22	50 272	38 694
Other investments	20	3 376	2 043
Assets held for sale	11(c)	-	2 300
Income tax receivable		227	132
Trade and other receivables	23	18 096	5 522
Cash and cash equivalents	24	17 056	1 134
Total current assets		89 027	49 825
Total assets		126 753	65 654
EQUITY AND LIABILITIES			
Equity	25		
Share capital		30 843	28 530
Additional paid-in capital		19 401	-
Reserve resulting from additional share issue		(28 506)	(28 506)
Retained earnings		27 335	9 481
Total equity attributable to shareholders of the Company		49 073	9 505
Minority interest		1 266	426
Total equity		50 339	9 931
Non-current liabilities			
Loans and borrowings	26	10 460	10 040
Provisions		68	19
Deferred tax liabilities	21	8 006	4 461
Total non-current liabilities		18 534	14 520
Current liabilities			
Loans and borrowings	26	24 180	13 983
Trade and other payables	28	32 706	26 176
Provisions	27	891	876
Income tax payable		103	168
Total current liabilities		57 880	41 203
Total liabilities		76 414	55 723
Total equity and liabilities		126 753	65 654

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 54.

	2007 mln RUR	2006 mln RUR
OPERATING ACTIVITIES		
Profit for the year	**17 885**	**8 100**
Adjustments for:		
Depreciation and amortisation	777	676
Foreign exchange loss/(gain), net	300	(341)
Loss on disposal of property, plant and equipment	225	215
Gain on disposals of development rights	(9 502)	(2 851)
Gain on disposal of available-for-sale financial assets	(229)	-
Negative goodwill on acquisition of subsidiaries and minority interests	28	(1 552)
Share of loss of equity accounted investees	24	10
Interest expense	2 063	1 362
Interest income	(340)	(231)
Income tax expense	3 595	3 305
Operating profit before changes in working capital and provisions	**14 826**	**8 693**
Increase in inventories	(9 122)	(1 818)
Increase in trade and other receivables	(10 805)	(184)
Increase/(decrease) in trade and other payables	5 487	(704)
Decrease in provisions	(4)	(74)
Cash flows from operations before income taxes and interest paid	**382**	**5 913**
Income taxes paid	(709)	(559)
Interest paid	(2 646)	(1 800)
Cash flows (utilised by)/from operating activities	**(2 973)**	**3 544**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	28	51
Interest received	315	83
Acquisition of property, plant and equipment	(3 623)	(2 838)
Acquisition of development rights and other intangible assets	(16 183)	(8 274)
Acquisition of equity accounted investees	-	(334)
Acquisition of minority interests	(15)	(11)
Loans advanced	(8 861)	(2 925)
Proceeds from sale of minority interests and development rights	10 745	5 130
Repayment of loans advanced	6 809	2 022
Acquisition of subsidiaries, net of cash acquired (note 7)	(2 412)	(1 094)
Cash flows utilised by investing activities	**(13 197)**	**(8 190)**
FINANCING ACTIVITIES		
Proceeds from borrowings	35 675	23 394
Repayment of borrowings	(25 157)	(18 310)
Proceeds from share issue	23 016	-
Transactions with Majority Shareholders	(948)	-
Cash flows from financing activities	**32 586**	**5 084**
Net increase in cash and cash equivalents	16 416	448
Effect of exchange rate fluctuations on cash and cash equivalents	(185)	-
Cash and cash equivalents at beginning of year	815	367
Cash and cash equivalents at end of year (note 24)	**17 046**	**815**

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 54.

	Attributable to shareholders of the Company					Minority interest	Total equity
	Share capital	**Additional paid-in-capital**	**Reserve resulting from additional share issue**	**Retained earnings**	**Subtotal**		
Balance at 1 January 2006	**28 530**	**-**	**(28 506)**	**1 376**	**1 400**	**477**	**1 877**
Profit and total recognised income and expense for the year	-	-	-	8 105	8 105	(5)	8 100
Acquisition of minority interests	-	-	-	-	-	(47)	(47)
Acquisition of subsidiaries (note 7)	-	-	-	-	-	1	1
Balance at 31 December 2006	**28 530**	**-**	**(28 506)**	**9 481**	**9 505**	**426**	**9 931**
Profit and total recognised income and expense for the year	-	-	-	17 854	17 854	31	17 885
Proceeds from share issue, net of related costs (note 25)	2 313	20 703	-	-	23 016	-	23 016
Excess of consideration paid to Majority Shareholders to acquire interest in a subsidiary (note 7)	-	(598)	-	-	(598)	-	(598)
Consideration paid to Majority Shareholders to acquire subsidiaries (note 25)	-	(704)	-	-	(704)	-	(704)
Dilution of minority interest in a subsidiary	-	-	-	-	-	(15)	(15)
Acquisition of subsidiaries (note 7)	-	-	-	-	-	819	819
Increase in minority interest due to shares disposed of	-	-	-	-	-	5	5
Balance at 31 December 2007	**30 843**	**19 401**	**(28 506)**	**27 335**	**49 073**	**1 266**	**50 339**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 54.

1 Background

(a) Organisation and operations

OAO Group of Companies PIK (the "Company") and its subsidiaries (together referred to as 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 British Virgin Islands.

The Company was established as a privately owned enterprise in 1994. The Company's registered office is 19 Barrikadnaya st., Moscow, 123001, Russian Federation.

The main activities of the 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 and gravel and production of crushed stone and sand. During the years 2007 and 2006 the Group mostly operated in Moscow, Moscow region and other regions of Russia.

During 2006 and 2007, the Group was ultimately owned by two individuals, Kirill V. Pisarev and Yury V. Zhukov (the "Majority 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 32.

On 1 June 2007 the Group completed listings on the London Stock Exchange (in the form of global depositary receipts), Russian Trading System (RTS) and Moscow Interbank Currency Exchange (MICEX) in Russia. On 2 July 2007 the over-allotment option was partially exercised by the underwriters. As a result of the above transactions, Mr. Zhukov and Mr. Pisarev own 84% of the outstanding shares in equal proportions, and the remainder represents free floating shares.

(b) Russian business environment

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

2 Basis of preparation

(a) Statement of compliance

These consolidated 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; property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs at 1 January 2004; and the carrying amounts of non-monetary assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion

factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUR"), which is the functional currency of the Company and its subsidiaries and the currency in which these consolidated financial statements are presented. All financial information presented in RUR has been rounded to the nearest million.

(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.

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 7 – Acquisition of subsidiaries;
- Note 9 – Cost of sales;
- Note 17 – Property, plant and equipment;
- Note 18(b) – Impairment of goodwill and other intangible assets;
- Note 27 – Provisions;
- Note 28 – Trade and other payables; and
- Note 31 – 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(s). These accounting policies have been consistently applied.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently 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. The accounting policies of

subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

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 ("SPE"s) 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 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 the majority of the benefits related to the SPEs' operations and net assets, being exposed to risks incident to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPE or its assets.

(iii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the Majority 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 (equity accounted investees)

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 equity accounted investees, 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 transactions, 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

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

(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. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

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

Accounting for finance income and expenses is discussed in note 3(o).

(i) Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) 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 (see note 3(j)), and foreign exchange gains and losses on available-for-sale monetary items (see note 3(b)), are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

(iii) 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 is stated at par value of shares issued adjusted for the effect of hyperinflation as described in note 25(a).

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

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment, other than construction in progress at 1 January 2004, the date of transition to IFRSs, was determined by reference to its fair value at that date.

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

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

Gains and losses on disposal of property, plant and equipment are recognised net in "Other income and expenses" in the income statement.

(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 carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(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 unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

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

- Buildings 20 to 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. In respect of acquisitions prior to 1 January 2004, goodwill represents the difference between the Company's interest in a subsidiary's net identifiable assets on the date of transition and the cost of 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.

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 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 a 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 measured 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.

(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 for the current and comparative periods are 3 – 10 years.

(g) Leased assets

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

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(h) Inventories

Inventories 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 costs of real estate properties under construction are determined on the basis of specific identification of their individual costs.

The costs of real estate property comprise costs of construction and other expenditure directly attributable to a particular development project, including finance costs. Where real estate property is not being actively developed, net rental and finance costs are taken to the income statement.

The Group enters into investment or co-investment agreements to develop residential buildings with local authorities. Such investment contracts may require that the Group for no consideration delivers certain properties to the local authorities upon completion of the construction or / and construct certain infrastructure facilities in exchange of the ability to develop the property. In such cases the construction costs are included in the total costs of construction of such buildings, when incurred. In addition the Group enters into agreements with local authorities to complete construction of certain residential properties where the apartments had been pre-sold by a

predecessor developer to the general public; however, the construction was subsequently stopped due to insolvency of such predecessor developer or other similar reasons. When such contracts are negotiated with the local authorities as part of acquisition of certain development rights, and they cannot be assessed as onerous (as described in note 3(l)(ii)), the costs to complete the construction are included in the total costs of construction of properties which these development rights relate to.

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, production or conversion costs and other costs incurred in 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.

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

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

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

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

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-

for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

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

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

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

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

(k) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability 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

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

(i) 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 another relevant line of the income statement.

(ii) Onerous contracts

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

As described in note 3(h), the Group enters into investment or co-investment agreements to develop residential buildings, the contracts may require that the Group deliver certain properties to the local authorities upon completion of the construction or / and construct certain infrastructure facilities in exchange of the ability to develop the property for no consideration. In addition the Group enters into agreements with local authorities to complete construction of certain residential properties where the apartments had been pre-sold by a predecessor developer to the general public; however, the construction was subsequently stopped due to insolvency of such predecessor developer or other similar reasons.

When such agreements cannot be directly attributable to any of the Group's projects and the agreements are assessed as onerous, a provision is recognised 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.

(m) Revenues

(i) Revenue from sale of real estate properties

Revenues from sale of real estate properties comprise revenues from sale of standardised apartments, which are constructed without reference to a specific customer's request.

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

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For sales of real estate properties, transfer usually occurs when the respective building is approved by the State commission established 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 recognised 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 contingency no longer exists and the lease adjustment is known.

(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) Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, and foreign currency gains. Interest income is recognised as it accrues in the income statement, using the effective interest method. Dividend income is recognised in the income statement on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, 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.

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

(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 assets or liabilities in a transaction that is not a business

combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

(q) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. The Company has not issued any potential ordinary shares that may have a dilutive effect on EPS.

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.

(r) Segment reporting

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

Inter-segment pricing is determined as agreed by the transacting parties and may not be on an arm's length basis.

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

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

(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 2007, and have not been applied in preparing these consolidated financial

statements. Of these pronouncements, IFRS 8 *Operating Segments* potentially will have an impact on the Group's operations.

IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8 Operating Segments, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 6). The new Standard will not have any impact on the Group's financial position or performance. The Group plans to adopt this pronouncement when it becomes effective.

4 Determination of fair values

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

(a) Property, plant and equipment

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

In certain instances the market value of property, plant and equipment can not be estimated reliably because of specialised nature of the Group's property, plant and equipment which 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 is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

The depreciated replacement cost is estimated based on internal sources and analysis of the Russian and international markets for similar property, plant and equipment. Various market data is collected from published information, catalogues, statistical data and industry experts and suppliers of property, plant and equipment are contacted both in the Russian Federation and abroad. In addition to the determination of the depreciated replacement cost, cash flow testing is conducted in order to assess the reasonableness of depreciated replacement cost.

(b) Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(c) Inventories

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

(d) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(e) Trade and other receivables

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

(f) Non-derivative financial liabilities

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

5 Financial risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk.

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework.

The Group’s risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group’s activities. The Group, through its training and management standards and

procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit risk

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

(i) Sale of apartments to individuals

The Group is not exposed to significant credit risk in connection with sales of apartments to individuals as such sales are undertaken only on a prepayment basis.

(ii) Trade receivables from organisations

The Group's exposure to credit risks is influenced mainly by the individual characteristics of each customer.

As at 31 December 2007, 33% of the Group's trade and other receivables is attributable to one customer. As at 31 December 2006 there was no significant concentration of credit risk in respect of receivables from customers.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. These provide for penalties in the event of late payment. The Group's review includes external ratings, when available, and in some cases bank references.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are a governmental agency or commercial organisation, aging profile, maturity and existence of previous financial difficulties.

The Group does not require collateral in respect of trade and other receivables.

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

(iii) Other investments

The Group has established a formal procedure in relation to investments in other loans and equity securities available-for-sale. The procedure includes organisation of working groups which conclude on the feasibility of a potential investment. The working groups consist of representatives of major management bodies of the Group. The groups study legal, financial and economic

implications of any suggested investment. Management does not expect any counterparty to fail to meet its obligations.

(iv) Guarantees

The Group's policy is to provide financial guarantees only to the Group's subsidiaries and related parties.

(c) Liquidity risk

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

The liquidity risk is centrally managed for all subsidiaries of the Group. Management monitors the risks which the Group would face in the long-, medium- and short-term periods.

For the long-term prospective the Group analyzes five-year forecasts covering financial, operational and investing activities.

For the medium- and short-term periods, management considers the availability of different market instruments.

In addition, the Group monitors short- and medium-term maturities of its credit portfolio. It also considers replacement of existing instruments with more favorable facilities.

The Group maintains credit lines with a number of banks, which, at 31 Decemer 2007, totaled approximately RUR 20 000 million, to ensure sufficient liquidity levels are available on demand.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the Russian Rouble (RUR). The currency in which these transactions primarily are denominated is U.S. Dollars (USD).

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

(ii) Interest rate risk

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

whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

(iii) Other market price risk

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements; such contracts are not settled net.

(e) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital. The Board of Directors also monitors the level of dividends to ordinary shareholders.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

6 Segment reporting

(a) Primary reporting format

The Group's primary segment reporting format is based on business segments. The Group comprises the following business segments:

- *Sale of real estate*: The implementation of developments planned and undertaken by the Group, 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 real estate projects to potential buyers.
- *Construction services*: Contracting activities, construction of concrete panels, assembly of prefabricated panel buildings and production of other construction materials.
- *Sale of construction materials and other activities:* The production and sale of raw materials, servicing and maintenance of residential properties and other activities.

(b) Secondary reporting format

The Group's secondary segment reporting format is based on geographical segments.

The Group entities operate in two principal geographical areas, the Moscow Region, including Moscow City, and other regions in Russia. Prior to 31 December 2006, the segment operating out of other regions was not identified as a reportable segment, as its revenue from sales to external customers and from transactions with other segments, results and assets were less than 10% of the Group's total revenue, results of operations and assets. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of the assets.

Business segments

Mln RUR	Sale of real estate 2007	Sale of real estate 2006	Construction services 2007	Construction services 2006	Sale of construction materials and other activities 2007	Sale of construction materials and other activities 2006	Eliminations 2007	Eliminations 2006	Consolidated 2007	Consolidated 2006
Revenue from external customers	50 421	29 986	14 098	9 544	4 531	2 516	-	-	69 050	42 046
Inter-segment revenue	-	319	4 836	6 043	990	498	(5 826)	(6 860)	-	-
Total revenue	50 421	30 305	18 934	15 587	5 521	3 014	(5 826)	(6 860)	69 050	42 046
Segment result	23 175	11 270	155	754	334	356	-	-	23 664	12 380
Unallocated expenses									(366)	(175)
Finance income									569	571
Finance expenses									(2 363)	(1 362)
Share of loss from equity accounted investees									(24)	(10)
Profit before income tax									21 480	11 404
Segment assets	118 177	28 926	50 880	29 496	13 279	4 334	(59 341)	(1 038)	122 995	61 718
Investments in equity accounted investees									3 419	3 744
Unallocated assets									339	192
Total assets									126 753	65 654
Segment liabilities	28 816	874	42 514	24 705	7 008	2 530	(44 673)	(1 038)	33 665	27 071
Unallocated liabilities									42 749	28 652
Total liabilities									76 414	55 723
Depreciation/ amortisation, including impairment losses	64	36	530	501	211	139	-	-	805	676
Capital expenditure	10 669	2 044	1 902	429	2 641	365	-	-	15 212	2 838

Geographical segments

	Moscow and Moscow Region		Other Regions		Consolidated	
Mln RUR	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Revenue from external customers	60 993	39 854	8 057	2 192	69 050	42 046
Segment assets	101 814	51 627	21 181	10 091	122 995	61 718
Capital expenditure	14 161	2 723	1 051	115	15 212	2 838

7 Acquisition of subsidiaries

(a) Acquisitions of subsidiaries in 2007

OOO Foton GBI and OOO Foton ABZ

In April 2007 the Group acquired a 100% interest in OOO Foton GBI and OOO Foton ABZ for a total consideration of RUR 1 037 million settled in cash. The main activity of the subsidiaries acquired is the production of concrete mix and reinforced concrete products at production facilities located in the Kaluga Region, Russia. The acquisition of these subsidiaries resulted in goodwill amounting to RUR 299 million. The goodwill arose on the acquisition mainly because of the limited supply of production facilities for the manufacture of concrete products in the region.

Storm Properties Group

In September 2007 the Group acquired 50% plus 1 share in Sturm Properties Limited, the parent company of the Storm Properties Group, for a consideration of RUR 1 347 million settled in cash. The Storm Properties Group is a leading developer operating in the commercial real estate segment in Russia. The purchase agreement provides for an option to acquire an additional 25% interest in the Storm Properties Group for a market price at the date of the transaction. The option vests in three years from the date of the acquisition and expires in two years from the vesting date. The acquisition of the Storm Properties Group resulted in goodwill amounting to RUR 591 million. The goodwill arose on the acquisition due to the well-established reputation of Storm Properties Group as a leading-edge company with exceptional innovation capabilities in the commercial estate segment.

OAO 480 KZhI

In July 2007 a related party of the Group acquired a 100% interest in OAO 480 KZhI for a consideration of RUR 639 million. In November 2007 the Group purchased from the related party the 100% interest in OAO 480 KZhI for a consideration determined in the independent internationally recognised appraisal company's report amounting to RUR 1 237 million settled in cash. Because the control of the related party over the acquiree was transitory, the acquisition of the company by the Group from the related party was not accounted for as a common control transaction. The transaction was accounted for as a business combination under IFRS 3 *Business Combinations*. The difference between the consideration paid by the Group and the consideration paid by the related party of RUR 598 million was recognised directly in equity. The acquisition of the subsidiary resulted in goodwill amounting to RUR 274 million.

OAO Khromtsovsky Karier

In May 2007 the Group obtained control over OAO Khromtsovsky Karier, a sand pit, by acquiring an additional 25% interest for a consideration of RUR 32 million settled in cash. This acquisition increased the Group's interest from 48% to 73%. The acquisition of the subsidiary resulted in goodwill amounting to RUR 28 million. The goodwill was assessed for impairment as at 30 June 2007 and an impairment loss of RUR 28 million was recognised as a result – refer note 14.

OAO NovorosGragdanproekt

In September 2007 the Group acquired a 57% interest in OAO NovorosGragdanproekt for a consideration of RUR 160 million settled in cash. The main activity of acquired entity is the provision of design and architectural services. The acquisition of the subsidiary resulted in goodwill amounting to RUR 78 million. The goodwill arose on the acquisition mainly due to the expected growth of the company's architectural and design expertise.

Other disclosures

The impact of acquiring the subsidiaries was to increase profit for the year by RUR 15 million.

Prior to the acquisition by the Group, the acquired subsidiaries prepared their financial statements in accordance with Russian accounting principles, which are, in certain respects, significantly different from IFRSs. Because the acquired subsidiaries did not prepare IFRS financial statements before they were acquired, it was impracticable to determine:

- the carrying amounts of the subsidiaries' assets and liabilities on an IFRS basis immediately prior to the date of acquisition;
- the Group's revenue and profit for the year had the acquisitions occurred on 1 January 2007.

(b) Acquisitions of subsidiaries in 2006

ZAO Stroyinvestregion

In March 2006 the Group acquired a 100% interest in ZAO Stroyinvestregion and its subsidiaries. In addition, the Group acquired 100% interests in four smaller entities from the same seller. The operations of these entities are closely related to the activities of ZAO Stroyinvestregion. The consideration of RUR 1 302 million was negotiated in total for all entities acquired. The main activity of acquired entities is investing in the development of residential housing mainly in Nizhny Novgorod, Rostov-on-Don, Perm, Yaroslavl, Kaliningrad and Omsk.

The acquisition of the entities resulted in negative goodwill amounting to RUR 1 517 million. The negative goodwill arose on the acquisition mainly because of the low bargaining power of the seller due to lack of alternative offers on the market whilst the seller required funds to finance other projects.

In November 2006 ZAO Stroyinvestregion merged with another Group entity, ZAO PIK Region.

Other disclosures

The impact of acquiring the subsidiaries was to increase profit for the year by RUR 8 million, excluding negative goodwill of RUR 1 517 million.

Prior to the acquisition by the Group, the acquired subsidiaries prepared their financial statements in accordance with the Russian accounting principles, which are, in certain respects, significantly different from IFRSs. Because the acquired subsidiaries did not prepare IFRS financial statements before they were acquired, it was impracticable to determine:

- the carrying amounts of the subsidiaries' assets and liabilities on an IFRS basis immediately prior to the date of acquisition;
- the Group's revenue and profit for the year had the acquisitions occurred on 1 January 2006.

(c) Purchase price allocation

Management engaged independent appraisers to perform purchase price allocations for the acquisitions of OOO Foton GBI and OOO Foton ABZ, Storm Properties Group, OAO 480 KZhI and ZAO Stroyinvestregion. Management used internal expertise to allocate the purchase price paid for OAO Khromtsovsky Karier and OAO NovorosGragdanproekt since the acquisitions do not have significant effect on these consolidated financial statements.

(d) Effect on the financial statements

The acquisitions of the subsidiaries had the following effect on the Group's assets and liabilities at the dates of acquisitions:

	2007	2006
	mln RUR	mln RUR
Intangible assets	418	-
Property, plant and equipment	2 038	37
Investments	365	64
Deferred tax assets	5	-
Inventories	183	7 485
Trade and other receivables	526	228
Cash and cash equivalents	803	208
Deferred tax liability	(447)	(913)
Loans and borrowings	(365)	(886)
Trade and other payables	(762)	(3 403)
Net identifiable assets, liabilities and contingent liabilities	2 764	2 820
Minority interest	(819)	(1)
Portion of consideration paid to a related party for the acquisition of the interest in OAO 480 KZhI (recognised in equity)	598	-
Goodwill on acquisition	1 270	(1 517)
Consideration paid	3 813	1 302
Cash acquired	(803)	(208)
Net cash outflow	3 010	1 094

8 Revenue

	2007 mln RUR	2006 mln RUR
Revenues from sale of apartments	50 421	29 986
Revenues from construction services	14 097	9 544
Revenues from sale of construction materials and other sales	4 532	2 516
	69 050	42 046

In 2007 the Group completed 81 buildings with a saleable area of 1 048 thousand square meters (2006: 63 buildings with a saleable area of 769 thousand square meters). Of the buildings completed in 2007, the Group sold 939 thousand square meters (2006: 682 thousand). In addition, approximately 53 thousand square meters were sold in 2007 in buildings completed in earlier periods.

Construction services in the amount of RUR 9 901 million (2006: RUR 5 567 million) were provided to developers of buildings where the Group participates as a co-investor.

9 Cost of sales

	2007 mln RUR	2006 mln RUR
Cost of construction	34 311	16 998
Salaries and wages	5 347	4 368
Materials	4 855	3 478
Overhead expenses	4 724	5 347
Depreciation and amortisation	676	625
Other	1 293	1 449
	51 206	32 265

10 Total personnel costs

	2007 mln RUR	2006 mln RUR
Wages and salaries	6 374	4 340
Social charges	1 148	821
	7 522	5 161

11 Gain on disposal of development rights

	2007 mln RUR	2006 mln RUR
Gain on disposal of shares in Mytischy project – note 11(a)	5 764	-
Gain on disposal of the right to develop Park City – note 11(b)	3 363	-
Gain on disposal of the right to develop real estate at Yubileiny district – note 11(c)	375	-
Gain on disposal of 70% in a development project at Mantulinskaya ul. – note 11(d)	-	1 565
Gain on disposal of 50% in a development project at Mantulinskaya ul. – note 11(e)	-	1 286
	9 502	2 851

(a) Gain on disposal of shares in Mytischy project

In December 2007 the Group entered into an agreement to sell, for a consideration of RUR 5 770 million, a 25% interest in Viniso Investments Limited, a subsidiary. This company was the parent company of a number of entities operating a project to develop residential housing in Mytischy, Moscow Region. The carrying amount of the minority interest disposed of amounted to RUR 6 million. The disposal of the minority interest resulted in a gain of RUR 5 764 million.

(b) Gain on disposal of the right to develop Park City

As at 31 December 2006 the Group owned a 25% interest in ZAO Park-City Investments Limited and OOO KRPT. The investments in ZAO Park-City Investments Limited and OOO KRPT are accounted for as equity accounted investees. The two entities effectively owned a 21% interest in Park City, a project to develop real estate property on a land plot located at Kutuzovsky Prospect, Moscow.

In addition, at 31 December 2006 the Group also owned a 100% interest in ZAO Viktor which was a party to a co-investment agreement with a 15% share in the Park City project.

In 2007 ZAO Viktor transferred the right under the co-investment agreement to a Cyprus-based subsidiary and subsequently the Group sold a 75% interest in the subsidiary in two transactions for a total consideration of RUR 3 701 million. These transactions resulted in a decrease in the effective interest of the Group in the project to 25%. The carrying amount of the investment in the development right disposed of was RUR 338 at the date of disposal. The gain on disposal amounted to RUR 3 363 million. The outstanding balance of accounts receivable from the above transactions as at 31 December 2007 amounted to RUR 2 455 million - refer to note 23.

(c) Gain on disposal of the right to develop real estate at Yubileiny district

At 31 December 2006 assets held for sale comprised a 100% interest in an entity which owned the development rights for a land plot at Yubileiny District, Khimki, Moscow Region, including the land lease contract and the construction permit. The Group acquired the entity from a third party for a consideration of RUR 2 300 million with the intention of selling it to another developer; therefore, the development right was accounted for as an asset held for sale in the consolidated financial statements as at and for the year ended 31 December 2006. In April 2007 the Group sold the interest in the legal entity to a third party for a consideration of RUR 2 675 million. The gain on disposal amounted to RUR 375 million.

(d) Gain on disposal of 70% in a development project at Mantulinskaya ul.

In June 2005 the Group acquired development rights through a purchase of 70% of the shares in a production plant which occupied two land plots located at Mantulinskaya ulitsa, Moscow. At the date of the acquisition substantially all activities of the plant had been relocated from the site. The legal entity leased the land plots for production purposes on a long-term basis. The acquisition was accounted for as a purchase of the right to lease the land plots. The Group had intentions to apply to the municipal authorities for permission to develop real estate on the land plots. At 31 December 2005 the development rights had a carrying value of RUR 707 million.

In March 2006 the Group disposed of these development rights to a third party for RUR 2 272 million realizing a gain of RUR 1 565 million. The purpose of this disposal was to realize an immediate profit rather than to continue the development in the circumstances of constant disagreement with the plant's minority shareholders. At 31 December 2006 the Group had outstanding accounts receivable of RUR 1 092 million in relation to this transaction, refer note 23.

(e) Gain on disposal of 50% in a development project at Mantulinskaya ul.

Later in 2006 the same third party acquired an additional 28% of the shares in the plant. The Group was offered to acquire the 98% of the shares in the plant for a consideration of RUR 5 326 million. The transaction was accounted for as an acquisition of assets. At 31 December 2006 the Group had outstanding accounts payable to the seller of RUR 1 057 million - refer note 27.

In December 2006 the Group sold a 50% shareholding in the project for a consideration of RUR 3 950 million with a resulting gain of RUR 1 286 million in order to finance future construction activities. As at 31 December 2006 and 2007 the Group's effective interest in the project of 49% was classified as an investment in an equity accounted investee - refer note 19.

12 Distribution expenses

	2007 mln RUR	2006 mln RUR
Advertising expenses	622	297
Other	257	170
	879	467

13 Administrative expenses

	2007 mln RUR	2006 mln RUR
Wages and salaries	2 127	766
Professional services	348	245
Other administrative expenses	639	500
	3 114	1 511

14 Other income and expenses

	2007 mln RUR	2006 mln RUR
Other income		
Negative goodwill (note 7)	-	1 517
Negative goodwill resulting from acquisition of minorities	-	35
Total other income	-	1 552
Other expenses		
Loss on impairment of property, plant and equipment	(27)	-
Loss on impairment of goodwill (note 7)	(28)	-
Total other expenses	(55)	-

15 Finance income and expenses

	2007 mln RUR	2006 mln RUR
Finance income		
Interest income	340	231
Gain on the disposal of available-for-sale financial assets	229	-
Foreign exchange gains	-	340
	569	571
Finance expenses		
Interest expense	(2 063)	(1 362)
Foreign exchange losses	(300)	-
	(2 363)	(1 362)

In addition to borrowing costs recognised as an expense in the current year, interest in the amount of RUR 626 million (2006: RUR 1 208 million) has been capitalised as part of construction work-in progress intended for sale.

16 Income tax expense

	2007 mln RUR	2006 mln RUR
Current tax expense		
Current year	(544)	(591)
Tax provision (note 27)	-	(501)
	(544)	(1 092)
Deferred tax expense		
Origination and reversal of temporary differences	(3 051)	(2 213)
	(3 595)	(3 305)

The Group's applicable tax rate is the corporate income tax rate in the Russian Federation of 24% (2006: 24%). The subsidiaries domiciled in Cyprus are taxed at a rate of 10% (2006: 10%).

Reconciliation of effective tax rate:

	2007 mln RUR	%	2006 mln RUR	%
Profit before income tax	21 480	100	11 405	100
Income tax expense at applicable tax rate	(5 155)	(24)	(2 737)	(24)
Effect of income taxed at lower rates	2 288	11	316	3
Non taxable income	-	-	765	7
Non-deductible expenses	(728)	(3)	(1 148)	(10)
Tax provision	-	-	(501)	(4)
	(3 595)	(16)	(3 305)	(28)

17 Property, plant and equipment

mln RUR	Buildings	Plant and equipment	Other fixed assets	Construction in progress	Total
Cost / Deemed cost					
Balance at 1 January 2006	3 040	2 587	602	350	6 579
Acquisitions through business combinations	11	7	2	17	37
Additions	-	14	-	2 824	2 838
Disposals	(115)	(91)	(83)	(51)	(340)
Reclassifications	131	341	248	(720)	-
Balance at 31 December 2006	3 067	2 858	769	2 420	9 114
Acquisitions through business combinations	1 647	334	52	5	2 038
Additions	-	60	-	3 652	3 712
Disposals	(142)	(140)	(63)	(43)	(388)
Reclassifications	2 574	899	1 181	(4 654)	-
Balance at 31 December 2007	7 146	4 011	1 939	1 380	14 476
Accumulated depreciation and impairment losses					
Balance at 1 January 2006	(190)	(388)	(101)	-	(679)
Depreciation charge	(163)	(380)	(132)	-	(675)
Disposals	41	18	16	-	75
Balance at 31 December 2006	(312)	(750)	(217)	-	(1 279)
Impairment losses	-	(27)	-	-	(27)
Depreciation charge	(172)	(421)	(183)	-	(776)
Disposals	26	93	43	-	162
Balance at 31 December 2007	(458)	(1 105)	(357)	-	(1 920)
Net book value					
At 1 January 2006	2 850	2 199	501	350	5 900
At 31 December 2006	2 755	2 108	552	2 420	7 835
At 31 December 2007	6 688	2 906	1 582	1 380	12 556

(a) Determination of deemed cost as at 1 January 2004

Management commissioned an independent appraiser to determine the deemed cost of property, plant and equipment, other than construction in progress, of Group entities as at 1 January 2004 in order to determine its deemed cost on the date of the Group's adoption of IFRSs. 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 2007 property, plant and equipment with a carrying value of RUR 643 million (2006: RUR 1 830 million) was pledged to secure bank loans (refer note 26).

(c) Leased plant and machinery

During the years ended 31 December 2007 and 2006 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 2007 the net book value of leased plant and machinery was RUR 483 million (31 December 2006: RUR 470 million). The leased equipment secures lease obligations.

(d) Construction in progress

At 31 December 2006 the balance of construction in progress includes prepayments made by the Group for the 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 million. In 2007 the costs related to the new building were reclassified to buildings.

18 Intangible assets

mln RUR	Goodwill	Development rights	Other intangible assets	Total
Cost				
Balance at 1 January 2006	1 765	2 319	3	4 087
Additions	-	7 036	2	7 038
Disposals	-	(3 370)	-	(3 370)
Development rights reclassified as prepayments for construction work-in-progress, intended for sale	-	(1 001)	-	(1 001)
Reclassification into equity accounted investees (notes 0 and 19)	-	(2 663)	-	(2 663)
Balance at 31 December 2006	1 765	2 321	5	4 091
Acquisitions through business combinations	1 270	-	418	1 688
Additions	-	16 076	1	16 077
Impairment losses	(28)	-	-	(28)
Reclassification into construction work-in-progress	-	(611)	-	(611)
Balance at 31 December 2007	3 007	17 786	424	21 217

mln RUR	Goodwill	Development rights	Other intangible assets	Total
Accumulated amortisation and impairment losses				
Balance at 1 January 2006	-	-	(2)	(2)
Amortisation charge	-	-	(1)	(1)
Balance at 31 December 2006	-	-	(3)	(3)
Amortisation charge	-	-	(1)	(1)
Balance at 31 December 2007	-	-	(4)	(4)
Net book value				
At 1 January 2006	1 765	2 319	1	4 085
At 31 December 2006	1 765	2 321	2	4 088
At 31 December 2007	3 007	17 786	420	21 213

(a) Development rights

The cost of development rights includes the cost of obtaining rights to lease land plots and the cost of obtaining registered permits to construct specific properties. Capitalised development rights are measured at cost less accumulated impairment losses until construction starts. On commencement of construction, development rights are reclassified as construction in progress intended for sale as part of inventory.

In February 2007, the Group acquired a 92% shareholding in OAO “Kuskovsky Ordena ‘Znak Pocheta’ Chemical Plant” (KCP) for a consideration of RUR 3 567 million. KCP owns a land plot located in east of Moscow. Pursuant to an investment contract KCP has the right to develop residential premises with maximum saleable area of 188 100 square meters.

In May 2007 and later in June 2007 the Group obtained control over two legal entities that own rights to two projects located in Kaluga and Obninsk for a total consideration of RUR 9 million.

In June 2007 the Group acquired a 100% shareholding OOO “Veistoun” for RUR 1 018 million. The entity has an investment contract with the Moscow authorities for development of residential premises in the south of Moscow.

As a result of the acquisition of Sturm Properties Limited the Group has recognised promotion and development fees as part of intangible assets amounting to RUR 418 million (refer to note 7).

At 31 December 2007 and 2006, the balances of development rights consisted of the following items:

	2007 '000 RUR	2006 '000 RUR
Moscow, South-East	5 071	1 521
Moscow, South	1 848	-
Moscow Region, Kaluga	388	-
Moscow Region, North-West	-	611
Moscow Region, North-East	189	189
Moscow region, North-West (Royal, Sivar, Project B) (*)	2 794	-
Moscow, South-east (Krasny Vostok) (*)	1 030	-
Moscow, South, South-East (Zavod Gazstroymash) (*)	1 097	-
Moscow region, South-West (Status-Land) (*)	1 786	-
Kaliningrad region, Svetlogorsk (Priz, Rash) (*)	995	-
Krasnodar region, Novorossisk (Semigor) (*)	649	-
Others (*)	1 939	-
	17 786	2 321

(*) Investments in development rights represent investments in shares of a number of subsidiaries which own or rent on a long-term basis certain land plots. The Group intends to obtain permissions required for further development of the sites. The subsidiaries do not have any other significant assets, liabilities, revenues and profits or losses as at and for the year ended 31 December 2007. Accordingly, the consideration paid by the Group to acquire the subsidiaries was accounted as the acquisition of interests in land rights under development rights.

(b) Impairment testing of goodwill

For the purposes of impairment testing, goodwill is allocated to the Group's cash generating units, which primarily comprise production plants or development companies. These units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

At 31 December 2007 and 2006, the aggregate carrying amounts of goodwill allocated to respective production plants or development companies are as follows:

	2007 mln RUR	2006 mln RUR
OAO DSK-3	1 721	1 721
Storm Properties Limited	591	-
OOO Foton GBI and OOO Foton ABZ	299	-
OAO 480 KZHI	274	-
Goodwill attributable to other sites	122	44
	3 007	1 765

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 2007, the recoverable amount exceeded the carrying amount of net assets of the plant, including goodwill grossed up for the part attributable to minority interests.

There are no indications at 31 December 2007 that goodwill arising on the acquisition of Storm Properties Limited and OAO 480 KZhI may be impaired.

The following key assumptions were used in determining recoverable amounts:

	OAO DSK-3	OOO Foton GBI and OOO Foton ABZ	OAO 480 KZHI	Storm Properties
Basis	5 years plan	5 years plan	5 years plan	4 years plan
Remaining useful life of major assets	18 years	20 years	20 years	5 year
Plant utilisation capacity	85%	100%	86%	100%
Discount rate	15.3%	15.3%	17%	25%

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 not sensitive to the following assumptions:

- A 10% decrease in revenue would result in no significant impairment loss; and
- A 1% increase in the discount rate would result in no impairment loss.

19 Investments in equity accounted investees

At 31 December 2007 and 2006 the Group had the following equity accounted investees:

	Country	Voting and effective	2007 mln RUR	2006 mln RUR
ZAO Gorodskoe razvitye	Russia	49%	2 676	2 664
ZAO Park-City Investments/ OOO KRPT (i)	Russia	25%/50%	743	1 080
			3 419	3 744

In 2005, the Group acquired stakeholdings in ZAO Park-City Investments /OOO Kompania Reabilitatsii Promyshlennykh Territoriy (OOO KRPT). The purchase price of RUR 747 million has not been allocated between the two entities. The Group's ownership of the acquired investments will allow the Group to participate in a co-investment agreement for development of two adjacent land plots close to Moscow City. As at the date of acquisition both legal entities had no activities, except for holding controlling interests in two production plants, which have the rights to lease the land plots. No significant activities took place in 2007 and 2006; however, the production facilities were in existence and will be relocated at the start of the construction.

As at 31 December 2007 and 2006 the above equity accounted investees did not have any significant assets, liabilities, revenues, and profits or losses other than rights to develop real estate properties located at Mantulinskaya ul. and Park City land plot.

20 Other investments

	Note	2007 mln RUR	2006 mln RUR
Non-current			
Available-for-sale equity investments		242	8
Loans receivable and promissory notes		53	74
		295	82
Current			
Unsecured loan receivable from third party		1 718	-
Unsecured loans receivable from an entity controlled by the majority shareholders (RUR denominated, 10-11% per annum)		895	1 033
Other unsecured loans receivable from third parties		454	147
Other unsecured loans receivable from related parties		121	147
Promissory notes		-	394
Available-for-sale equity investments in ZAO Housing Finance Bank, a related party		-	300
Others		188	22
		3 376	2 043

The Group has issued a loan amounting to RUR 1 718 million to a third party to secure the acquisition of land plots for further development purposes. The loan was denominated in USD and bore an interest of 8% per annum. After the potential acquisition was analyzed in detail the Group decided to partially withdraw from the transaction. Of the outstanding amount RUR 1 232 million was repaid to the Group. Since the repayment was made under a different loan agreement with a Cyprus-based subsidiary the repayment was accounted for as a loan received (refer note 26). The remaining amount represents the approximate fair value of the land plots under consideration. In case the potential acquisition is considered not feasible, the loan will be repaid before December 2008.

21 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

mln RUR	Assets		Liabilities		Net	
	2007	2006	2007	2006	2007	2006
Property, plant and equipment	26	31	(941)	(578)	(915)	(547)
Investments	10	-	-	-	10	-
Intangible assets	-	-	(42)	-	(42)	-
Inventories	853	221	(461)	(1 182)	392	(961)
Trade and other receivables	113	80	(874)	(66)	(761)	14
Loans and borrowings	50	-	-	-	50	-
Trade and other payables	114	200	(6 753)	(3 146)	(6 639)	(2 946)
Tax loss carry-forwards	11	39	-	-	11	39
Tax assets/(liabilities)	1 177	571	(9 071)	(4 972)	(7 894)	(4 401)
Set off of tax	(1 065)	(511)	1 065	511	-	-
Net tax assets/(liabilities)	112	60	(8 006)	(4 461)	(7 894)	(4 401)

(b) Movement in temporary differences during the year

mln RUR	1 January 2006	Recognised in income	Acquired	31 December 2006
Property, plant and equipment	(520)	(27)	-	(547)
Inventories	(86)	24	(899)	(961)
Trade and other receivables	27	(14)	1	14
Trade and other payables	(747)	(2 183)	(16)	(2 946)
Tax loss carry-forwards	51	(13)	1	39
	(1 275)	(2 213)	(913)	(4 401)

mln RUR	1 January 2007	Recognised in income	Acquired	31 December 2007
Property, plant and equipment	(547)	28	(396)	(915)
Investments	-	10	-	10
Intangible assets	-	-	(42)	(42)
Inventories	(961)	1 396	(3)	392
Trade and other receivables	14	(754)	(21)	(761)
Loans and borrowings	-	50	-	50
Trade and other payables	(2 946)	(3 713)	20	(6 6389)
Tax loss carry-forwards	39	(28)	-	11
	(4 401)	(3 051)	(442)	(7 894)

22 Inventories

	2007 mln RUR	2006 mln RUR
Construction work in progress, intended for sale	29 508	17 521
Prepayments for real estate property intended for sale	12 142	15 953
Raw materials and consumables	1 607	1 320
Work-in-progress	1 276	864
Finished goods and goods for resale	5 73	3 036
	50 272	38 694
Write-down of inventories in the current year	(111)	(23)

At 31 December 2007 and 2006 the balances of construction work in progress and finished goods include the cost of development rights in respect of which the construction process commenced before the respective dates.

At 31 December 2007, inventory with a carrying value of RUR 8 149 million (2006: RUR 9 236 million) was pledged to secure bank loans (refer note 26).

23 Trade and other receivables

	2007 mln RUR	2006 mln RUR
Trade accounts receivable	13 521	3 581
Accounts receivable for disposal of development rights (note 11)	2 455	1 092
Taxes receivable	442	338
Others	1 678	511
	18 096	5 522
Cumulative impairment losses	(139)	(41)

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

24 Cash and cash equivalents

	2007 mln RUR	2006 mln RUR
Petty cash	26	22
Bank balances, RUR denominated	16 800	1 080
Bank balances, USD denominated	230	32
Cash and cash equivalents in the balance sheet	17 056	1 134
Bank overdrafts	(10)	(319)
Cash and cash equivalents in the statement of cash flows	17 046	815

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

25 Equity

(a) Share capital

The share capital of RUR 10 million 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 million. As a result, the carrying value of the share capital as at 31 December 2004 amounted to RUR 23 million.

In December 2005 the Company registered an additional issue of 456 100 384 shares with a total nominal value of RUR 28 506 million. 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 million. In addition, the shareholders contributed cash into the Company's share capital of RUR 4 983 million, 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 consolidated financial statements 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.

As at 31 December 2007 the number of shares authorised for additional issue was 21 000 000. The par value of the Company's shares is RUR 62.5.

The number of shares issued and paid up was as follows:

	Shares		**At nominal value in historic (uninflated) rubles**	
	2007	**2006**	**2007**	**2006**
On 1 January	456 260 384	456 260 384	28 516	28 516
Issued in May 2007	37 000 000	-	2 313	-
On 31 December	493 260 384	456 260 384	30 829	28 516

In May 2007 the Company was admitted for listing on the London Stock Exchange (LSE), the Russian Trading System Stock Exchange (RTS) and the Moscow Interbank Currency Exchange (MICEX). As part of the initial public offering the Company issued 37 000 000 new shares with the par value of RUR 62.5 per share, and the existing shareholders sold 37 000 000 shares. The shares were offered and sold at USD 25 / RUR 646 per share.

The difference between the total consideration received by the Group (RUR 23 911 million), reduced by the amount of expenses incurred on issue (RUR 895 million), and the nominal value of the shares issued (RUR 2 313 million) of RUR 20 703 million was recognised as additional paid in capital.

(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 2007 the Company had retained earnings, including the profit for the current year, of RUR 27 335 million (2006: RUR 9 481 million).

(c) Additional paid-in capital

(i) Acquisition of shares in subsidiaries

During 2007 the Group acquired legal ownership over the shares in OOO PP Eksplit, OOO PIK Profile and OOO SPTK for consideration of RUR 704 million from a related party. Those subsidiaries have been included in the Group's consolidated financial statements in prior periods as the previous legal owners held the respective interests on behalf of the Group; therefore, the consideration payable under the sale and purchase agreement was recognised as a decrease in additional paid-in capital. On 31 December 2007 the outstanding amount payable to the related party in respect of this transaction amounted to RUR 353 million.

The Majority Shareholders intend to return the consideration paid by the Group in 2008 - note 34.

(ii) Acquisition of shares in OAO 480 KZHI

The difference between the consideration paid by the Group and the consideration paid by the related party to acquire control over OAO 480 KZHI of RUR 598 million was recognised as a decrease in additional paid-in capital – refer note 7.

(d) Earnings per share

The calculation of earnings per share is based upon the profit for the year and the weighted average number of ordinary shares outstanding during the year, calculated as shown below. The Company has no dilutive potential ordinary shares.

In thousands of shares	**2007**	**2006**
Issued shares at 1 January	456 260	456 260
Effect of shares issued in May 2007	21 583	-
Weighted average number of shares for the year ended 31 December	477 843	456 260

26 Loans and borrowings

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

	2007 mln RUR	2006 mln RUR
Non-current		
Secured bank loans	8 567	9 002
Unsecured bank loans	1 467	-
Unsecured loans from third parties	314	205
Unsecured loans from related parties	23	171
Bonds, PIK-05	-	560
Finance lease liabilities	89	102
	10 460	10 040
Current		
Unsecured bank loans	12 377	6 399
Secured bank loans	8 738	4 989
Unsecured loans from third parties	2 048	1 342
Bonds, PIK-05	560	560
Unsecured loans from related parties	169	141
Overdrafts from a related party bank	9	176
Bank overdrafts	1	143
Current portion of finance lease liability	120	117
Interest payable	158	116
	24 180	13 983
	34 640	24 023

At 31 December 2007 the following assets secure bank loans:

- property, plant and equipment with a carrying value of RUR 643 million (2006: RUR 1 830 million);
- inventory with a carrying value of RUR 8 149 million (2006: RUR 9 236 million);
- 1 747 081 shares of OAO DSK-3 representing 81% of the share capital, 30 629 943 shares of OAO DSK-2 representing 58% of the share capital), 10 016 shares in OAO 100 KGI representing 73% of the share capital), 10 000 shares in OAO NSS representing 100% of the share capital, 1 454 600 shares in OAO KHZ representing 92% of the share capital, 50 000 shares in OAO Avtorita Holdings Limited representing 100% of the share capital, 100% of the shares of OOO SPTK, 100% of the shares of OOO Stroyinvest, 100% of the shares of OOO Foton ZhBI, and 100% of the shares of OOO Monetchik.

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

2007 **mln RUR**	**Total**	**Under 1 year**	**1 - 5 years**	**Over 5 years**
Secured bank loans:				
RUR - fixed at 8% - 10%	15 578	8 189	7 389	-
USD - fixed at 8% - 12%	1 727	549	1 178	-
Unsecured bank loans				
RUR - fixed at 8% - 10%	10 168	8 701	1 467	-
USD - fixed at 5% - 12%	3 676	3 676	-	-
Bonds, PIK-05				
RUR – fixed at 10.2% - 13% effective at 11.7%	560	560	-	-
Unsecured loans from third parties				
RUR - fixed at 0%-2%	483	371	31	81
RUR - fixed at 5% - 7%	200	-	200	-
RUR - fixed at 10% - 15%	120	120	-	-
USD - fixed at 2%	5	3	2	-
USD - fixed at 3%	1 228	1 228	-	-
USD - fixed at 13%	326	326	-	-
Unsecured loans from related parties				
RUR - fixed at 0%	169	169	-	-
RUR - fixed at 11%	23	-	23	-
Overdrafts in related bank				
RUR - fixed at 14%	9	9	-	-
Bank overdrafts				
RUR - fixed at 9%	1	1	-	-
	34 273	23 902	10 290	81

2006 **mln RUR**	**Total**	**Under 1 year**	**1 - 5 years**
Secured bank loans			
RUR - fixed at 8% - 12%	13 500	4 498	9 002
RUR - fixed at 12% - 15%	440	440	-
USD - fixed at 8% - 12%	51	51	-
Unsecured bank loans			
RUR - fixed at 8% - 12%	3 239	3 239	-
USD - fixed at 8% - 12%	3 160	3 160	-
Bonds, PIK-05			
RUR – fixed at 10.2% - 13% effective at 11.7%	1 120	560	560
Unsecured loans from third parties			
RUR - fixed at 0%	350	349	1
RUR - fixed at 5% - 6%	201	-	201
RUR - fixed at 10% - 14%	993	993	-
USD - fixed at 2%	3	-	3
Unsecured loans from related parties			
RUR - fixed at 0%	185	50	135
RUR - fixed at 11%	23	-	23
USD - fixed at 3%	104	91	13
Overdrafts in related bank			
RUR - fixed at 11% - 13%	176	176	-
Bank overdrafts			
RUR - fixed at 14 % -16%	141	141	-
USD - fixed at 13%-15%	2	2	-
	23 687	13 749	9 938

27 Provisions

The provision of RUR 891 million (2006: RUR 876 million) primarily consists of a provision for tax risks in respect of income tax of RUR 572 million and other taxes of RUR 304 million (31 December 2006: income tax of RUR 572 million and other taxes of RUR 304 million). The amount of provision includes interest and penalties and has not been subject to discounting.

28 Trade and other payables

	2007 **mln RUR**	**2006** **mln RUR**
Advances from customers	12 372	16 975
Provision for construction costs to complete	6 821	842
Accounts payable for construction works and other trade payables	6 011	3 342
Other taxes payable	4 395	2 080
Accounts payable for acquisition of development rights	-	1 057
Other payables	3 107	1 880
	32 706	26 176

Estimated costs to complete projects relate to projects in respect of which revenue has been recognised. They consist principally of landscaping and infrastructure works and the construction of local amenities, such as schools, which the Group is obliged to build as one of the conditions for obtaining the development right. The scope and estimated costs of such works are subject to significant estimation uncertainty.

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

29 Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

(a) Credit risk

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

	Carrying amount	
mln RUR	**2007**	**2006**
Available-for-sale financial assets	242	308
Loans and receivables	21 214	7 021
Cash and cash equivalents	17 056	1 134
	38 512	8 463

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.

Impairment losses

The aging of trade receivables at the reporting date was:

mln RUR	Gross 2007	Impairment 2007	Gross 2006	Impairment 2006
Not past due	13 382	-	3 540	-
Past due 0-30 days	-	-	-	-
Past due 31-120 days	-	-	-	-
More than one year	139	(139)	41	(41)
	13 521	(139)	3 581	(41)

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due.

No impairment loss has been recognised in respect of available-for-sale financial assets or loans and receivables.

The allowance account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly.

(b) Liquidity risk

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

2007 mln RUR	Average interest rate Contractual	 Effective	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	Total
Secured bank loans	8-10%	8-10%	4 851	3 887	7 396	1 171	-	17 305
Bonds	10-13%	12%	560				-	560
Finance lease liabilities		16-25%	85	35	77	12	-	209
Unsecured bank loans	6-12%	6-12%	3 911	8 466	1 467	-	-	13 844
Trade and other payables			15 939	-	-	-	-	15 939
Bank overdraft	9-15%	9-15%	10	-	-	-	-	10
			25 356	12 388	8 940	1 183	-	47 867

2006 mln RUR	Average interest rate Contractual	 Effective	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	Total
Secured bank loans	8-10%	8-10%	-	4 989	5 489	2 342	1 171	13 991
Unsecured bond issues	10-13%	12%	-	560	560	-	-	1 120
Finance lease liabilities		16-25%	64	53	66	32	4	220
Unsecured bank loans	8-12%	8-12%	-	6 399	-	-	-	6 399
Trade and other payables			7 121	-	-	-	-	7 121
Bank overdraft	15%	15%	319	-	-	-	-	318
			7 504	12 001	6 115	2 374	1 175	29 169

(c) Currency risk

Exposure to currency risk

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

mln RUR	USD-denominated 2007	USD-denominated 2006
Cash	230	32
Short-term investments	181	-
Receivables	2 755	104
Payables	-	(1 058)
Loans and borrowings	(6 962)	(3 320)
Net	(3 796)	(4 242)

The RUR/USD exchange rates at 31 December 2007 and 31 December 2006 were 24.55 and 26.33 respectively.

Sensitivity analysis

A 10% strengthening of the RUR against the USD at 31 December 2007 and 31 December 2006 would have increased equity and profit by RUR 383 million and RUR 424 million respectively. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

A 10% weakening of the RUR against the above currencies at 31 December 2007 and 31 December 2006 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

(d) Interest rate risk

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
mln RUR	**2007**	**2006**
Fixed rate instruments		
Financial assets	3 241	1 401
Financial liabilities	(34 340)	(24 023)
	(31 099)	(22 622)

Fair value sensitivity analysis for fixed rate instruments

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

(e) Fair values

At 31 December 2007 and 31 December 2006, the carrying values of the Group's financial assets and liabilities approximated their fair values. The basis for determining fair values is disclosed in note 4.

30 Commitments

(a) Commitments under co-investment and construction services contracts

During 2007 and 2006 the Group entered into a number of co-investment contracts, where payments have not been made in full, and contracts to provide construction services. As at 31 December 2007 commitments under these contracts totalled approximately RUR 221 570 million (2006: RUR 53 179 million). These payments also cover the costs to construct apartments or/and social infrastructure for municipal authorities.

(b) Commitments to complete construction

At 31 December 2007 the Group had contractual commitments with municipal authorities to complete the construction of residential buildings where the apartments had been sold to customers by a predecessor construction company, which due to insolvency or other similar reasons, has not completed the construction. As at 31 December 2007 costs to complete such construction were estimated to be approximately RUR 967 million and will become a part of construction work in progress intended for sale (31 December 2006: RUR 600 million).

(c) Commitments to acquire property, plant and equipment

At 31 December 2007 the Group had no contractual commitments to acquire property, plant and equipment (31 December 2006: RUR 736 million).

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

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions, refer note 27. 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 full conformity with the 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 believes 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 for work performed

The Group is contractually responsible for the quality of construction works performed subsequent to the date when the property is sold, which, in accordance with applicable law, is a period of up to three years from the date of the sale. Based upon prior experience with warranty claims, which have not been significant, no liabilities have been recognised in the consolidated financial statements in relation to warranties and guarantees for work performed.

(e) Financial guarantees

As at 31 December 2007 the Group had not provided any significant financial guarantees to entities outside the Group.

In December 2006, the Group provided a guarantee to a third party in relation to the loan of RUR 1 315 million 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.

32 Related party transactions

(a) Control relationships

The Company is ultimately controlled by two individuals, refer note 1(a). IBG Development Group Incorporated and FMC Realtors Holding Incorporated, both registered in the British Virgin Islands, represent the two individual shareholders and each own approximately 42% of the Company's issued share capital.

(b) Transactions with management and close family members

Key management and their close family members control 84% of the voting shares of the Company.

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 10):

	2007 mln RUR	2006 mln RUR
Salaries and bonuses	111	59
Contributions to State pension fund	2	1
	113	60

(ii) Other transactions

As at 31 December 2007 an interest-bearing loan to an executive director amounting to RUR 15 million (2006: RUR 15 million) was included in other investments (see note 20).

In November 2007 the Group acquired a 100% interest in OAO 480 KZHI for a consideration of RUR 1 237 million settled in cash from a related party of the Group, refer note 7.

In 2007 the Group entered into an agreement with a related party for construction of office premises. As at 31 December 2007 an advance paid to the related party of RUR 89 million is included in the closing balance of property, plant and equipment.

(c) Transactions with other related parties

The Group's other related party transactions, which are with entities controlled by the Majority Shareholders, are disclosed below.

(i) Loans receivable from related parties

At 31 December 2007 the Group had an outstanding interest-bearing loan (11% per annum) receivable from a related party amounting to RUR 1 016 million (2006: RUR 1 180 million), which is included in other investments. The loan matures in December 2008 (refer note 20).

(ii) Loans payable to related parties

The outstanding balances of loans payable to related parties controlled by the shareholders of the Group at 31 December 2007 and 2006 are disclosed in note 26.

(iii) Accounts receivable from related parties

During 2007 the Group sold its shares in Bank Zhilfinans to a related party, the outstanding balance of accounts receivable from this operation at 31 December 2007 amounted to RUR 464 million.

(iv) Accounts payable to related parties

During 2007 the Group participated as a contractor in construction contracts with related parties and the outstanding balance of accounts payable from this operation at 31 December 2007 amounted to RUR 1 510 million (2006: RUR 882 million). During 2007 the Group purchased through related party and capitalised the construction services in the cost of inventory in the amount of RUR 664 million.

At 31 December 2007 the Group had an outstanding accounts payable amounting to RUR 353 million, refer note 25(c).

(v) Transactions with Bank ZhilFinance

A summary of transactions and balances of settlements with Bank ZhilFinance, is as follows:

mln RUR	**2007**		**2006**	
	Transaction value	**Outstanding balance**	**Transaction value**	**Outstanding balance**
Promissory notes	-	-	-	18
Loans payable	-	-	-	(26)
Loans received during the year	61	-	1 041	-
Loans repaid during the year	87	-	1 334	-

The loans from Bank ZhilFinance bear interest of 14% per annum and are repayable upon demand.

(vi) Transactions with related parties under co-investment agreements

In June 2005 the Group entered into a co-investment agreement with a fellow subsidiary, 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 million is included in the balance of advances to constructors representing development rights for the plot, which are registered with a related party. In April 2007 this company was acquired by the Group.

In May 2005 the Group made a payment of RUR 1 464 million to its equity accounted investee, ZAO Park-City Investments, for the purpose of providing funds for commencement of development of a land plot in the center of Moscow. In 2006 ZAO Park-City Investments repaid RUR 1 393 million. At 31 December 2007 the amount of RUR 71 million (2006: RUR 71 million) is included in the balance of advances to contractors, as the development rights for the plot are registered with a related party.

(vii) Transactions with PSG Osnova

During 2007 the Group has made payment of RUR 38.9 million to PSG Osnova under property insurance contract.

(viii) 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 million;
- the Group rendered processing services to the same related party for a commission of RUR 105 million;
- the Group bought finished goods from the same related party for consideration of RUR 190 million.

There were no similar significant transactions in 2007.

33 Significant subsidiaries

As of 31 December 2007 the Group controlled 103 legal entities (31 December 2006: 57). Their assets, liabilities, revenues and expenses have been included in these consolidated financial statements. The following is a list of the most significant subsidiaries:

		Effective ownership		Voting rights	
	Country of incorporation	2007	2006	2007	2006
ZAO Pervaya Ipotechnaya Kompanya-Region (PIK-Region)	Russia	100%	100%	100%	100%
OAO DSK-2	Russia	98%	98%	98%	98%
OAO DSK-3	Russia	84%	84%	84%	84%
OOO PIK-Development	Russia	100%	100%	100%	100%
OOO PIK-Invest	Russia	100%	100%	100%	100%
OAO 100 KGI	Russia	92%	92%	92%	92%
OOO MFS-PIK	Russia	100%	100%	100%	100%
OOO TD Osnova	Russia	100%	100%	100%	100%
OOO PIK Nerud	Russia	100%	100%	100%	100%
Viniso Investments Limited	Cyprus	75%	-	75%	-
OAO 480 KZHI	Russia	100%	-	100%	-
Sturm Properties Limited	Cyprus	50%	-	50%	-

34 Events subsequent to the balance sheet date

In January 2008 the Group initiated a restructuring process with the view to establishing an organisational structure for the development operations on geographical basis. A number of new legal entities were established for this purpose to support the regional expansion of the Group's operations in certain Russian regions, the Ukraine and Kazakhstan.

In February 2008 the Group acquired a land plot in the city of Azov with an area of 2.6 hectares for a consideration of RUR 3 million. The Group intends to develop residential properties on this plot.

In February 2008 the Group acquired two land plots located in the city of Yaroslavl with an area of 88 hectares and in the Moscow Region (126 hectares) for a total consideration of RUR 2 768 million. The Group intends to develop real estate properties on these land plots.

In April 2008 the Group acquired a land plot in the south of Moscow with an area of 11 hectares. The Group intends to develop real estate properties on this land plot.

In April 2008 the Group received contributions from the Majority Shareholders in the amount of RUR 681 million as part of the transaction to acquire shares in subsidiaries - refer note 25(c).