

OOO Group LSR

**Consolidated Preliminary IFRS Financial
Statements for the year ended
31 December 2005**

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Independent Auditors' Report

Board of Directors of OOO Group LSR

We have audited the accompanying consolidated preliminary IFRS balance sheet of OOO Group LSR (the "Company") and its subsidiaries (the "Group") as at 31 December 2005, and the related consolidated preliminary IFRS statements of income and cash flows for the year then ended. These consolidated preliminary IFRS financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated preliminary IFRS financial statements based on our audit.

The consolidated preliminary IFRS financial statements have been prepared as part of the Group's adoption of International Financial Reporting Standards ("IFRSs"). Note 2(a) describes how IFRSs have been applied under IFRS 1 *First-time Adoption of IFRSs*, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of consolidated IFRS financial statements as at and for the year ending 31 December 2006.

Except as described in the following paragraph, we conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

We did not observe the counting of inventories stated at RUR 5,399,499 thousand as at 1 January 2005 because we were engaged as auditors of the Group only after that date. It was impracticable to satisfy ourselves as to those inventory quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to cost of sales, taxation expense and net profit for the year ended 31 December 2005.

In our opinion, except for the effects of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the preceding paragraph, the consolidated preliminary IFRS financial statements as at and for the year ended 31 December 2005 are prepared, in all material respects, in accordance with the basis of preparation described in Note 2(a).

Without further qualifying our opinion, we draw attention to Note 2(a), which explains why the consolidated preliminary IFRS financial statements may require adjustment before constituting the final consolidated IFRS financial statements as at and for the year ended 31 December 2005 when the Group prepares its first complete set of consolidated IFRS financial statements. In addition, as described in Note 2(a) to the consolidated preliminary IFRS financial statements, as part of its adoption of IFRSs the Group has prepared these consolidated preliminary IFRS financial statements to establish the financial position, results of operations and cash flows of the Group necessary to provide the corresponding figures expected to be included in the Group's first complete set of consolidated IFRS financial statements as at and for the year ending 31 December



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2006. These consolidated preliminary IFRS financial statements do not themselves include corresponding figures for the prior period.

Without further qualifying our opinion, we draw attention to the fact that the USD amounts in the accompanying consolidated preliminary IFRS financial statements, which are presented solely for the convenience of users as described in Note 2(d) and do not form part of the consolidated preliminary IFRS financial statements, are unaudited.

ZAO KPMG

7 September 2006

OOO Group LSR
Consolidated Preliminary IFRS Balance Sheet as at 31 December 2005

	Note	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
ASSETS					
Non-current assets					
Property, plant and equipment	11	8,121,466	7,200,994	282,167	250,187
Investment property under development	12	178,040	34,009	6,186	1,182
Intangible assets		24,269	23,081	843	802
Other investments	13	37,200	125,381	1,292	4,356
Deferred tax assets	14	304,381	148,239	10,575	5,150
Other non-current assets		477	10,195	18	354
		<u>8,665,833</u>	<u>7,541,899</u>	<u>301,081</u>	<u>262,031</u>
Current assets					
Other investments	13	574,668	352,981	19,966	12,264
Inventories	15	8,321,742	5,399,499	289,125	187,597
Income tax receivable		13,049	16,112	453	560
Trade and other receivables	16	3,661,381	1,899,261	127,209	65,987
Cash and cash equivalents	17	776,045	158,282	26,962	5,499
		<u>13,346,885</u>	<u>7,826,135</u>	<u>463,715</u>	<u>271,907</u>
Total assets		<u>22,012,718</u>	<u>15,368,034</u>	<u>764,796</u>	<u>533,938</u>

The consolidated preliminary IFRS balance sheet is to be read in conjunction with the notes to and forming part of the consolidated preliminary IFRS financial statements set out on pages 10 to 47.

* The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).

OOO Group LSR
Consolidated Preliminary IFRS Balance Sheet as at 31 December 2005

	Note	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
LIABILITIES					
Net assets attributable to shareholders of the Company	18	2,559,147	1,547,180	88,914	53,755
Minority interest		455,858	884,021	15,838	30,714
Non-current liabilities					
Loans and borrowings	19	1,500,559	1,817,229	52,134	63,137
Deferred tax liabilities	14	743,464	841,790	25,830	29,246
Trade and other payables		3,119	878	109	30
		2,247,142	2,659,897	78,073	92,413
Current liabilities					
Bank overdraft		9,467	5,400	329	188
Loans and borrowings	19	5,639,038	2,854,582	195,919	99,178
Income tax payable		78,420	19,131	2,725	665
Trade and other payables	22	10,703,900	6,985,767	371,889	242,709
Provisions	20	319,746	412,056	11,109	14,316
		16,750,571	10,276,936	581,971	357,056
Total liabilities and net assets attributable to shareholders		22,012,718	15,368,034	764,796	533,938

The consolidated preliminary IFRS balance sheet is to be read in conjunction with the notes to and forming part of the consolidated preliminary IFRS financial statements set out on pages 10 to 47.

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

	2005	2005
	'000 RUR	'000 USD*
OPERATING ACTIVITIES		
Net profit for the year	113,359	3,940
Adjustments for:		
Depreciation and amortisation	987,182	34,296
Loss on disposal of property, plant and equipment	93,516	3,249
Interest expense	806,585	28,023
Interest income	(35,273)	(1,226)
Other non-cash movement	(28,849)	(1,001)
Income tax expense	77,954	2,708
Operating profit before changes in working capital and provisions	2,014,474	69,989
Increase in inventories	(2,906,867)	(100,994)
Increase in trade and other receivables	(1,711,194)	(59,453)
Increase in trade and other payables	3,693,735	128,332
Decrease in provisions	(92,310)	(3,207)
Cash flows from operations before income taxes and interest paid	997,838	34,667
Income taxes paid	(276,883)	(9,620)
Interest paid	(752,355)	(26,139)
Cash flows utilised by operating activities	(31,400)	(1,092)

The consolidated preliminary IFRS statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated preliminary IFRS financial statements set out on pages 10 to 47.

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

	2005	2005
	'000 RUR	'000 USD*
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	134,679	4,679
Interest received	35,273	1,226
Sale of investments	86,592	3,008
Acquisition of property, plant and equipment	(1,425,178)	(49,516)
Acquisition of investment property under development	(144,031)	(5,004)
Loans given	(560,993)	(19,490)
Loans repaid	340,895	11,843
Acquisition of subsidiaries, net of cash acquired	(2,448)	(85)
Cash flows utilised by investing activities	(1,535,211)	(53,339)
FINANCING ACTIVITIES		
Proceeds from borrowings	7,867,322	273,337
Repayment of borrowings	(5,510,776)	(191,463)
Contribution from shareholder	318,409	11,065
Payment of finance lease liabilities	(454,234)	(15,782)
Purchase of minority interest	(40,414)	(1,404)
Cash flows from financing activities	2,180,307	75,753
Net increase in cash and cash equivalents	613,696	21,322
Cash and cash equivalents at beginning of year	152,882	5,311
Cash and cash equivalents at end of year (note 17)	766,578	26,633

The consolidated preliminary IFRS statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated preliminary IFRS financial statements set out on pages 10 to 47.

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1 Background

(a) Organisation and operations

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

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

The Group’s principal activity is construction of buildings in St. Petersburg and Moscow, production of construction materials at plants located in St. Petersburg and Leningradskaya Oblast and extraction of materials in different areas of Leningradskaya Oblast. These products are sold in the Russian Federation.

The Group is ultimately controlled (78.4%) by a single individual, Mr. Molchanov, who has the power to direct the transactions of the Group at his own discretion and for his own benefit. He also has a number of other business interests outside of the Group. Related party transactions are detailed in note 26.

(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 preliminary IFRS 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 preliminary IFRS financial statements have been prepared following the requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards* (IFRSs), as part of the Group’s preparation for the future adoption of IFRSs. When the Group prepares its first complete set of consolidated IFRS financial statements, as at and for the year ending 31 December 2006, they will be prepared in accordance with the Standards and Interpretations in effect as at that date.

Accordingly these consolidated preliminary IFRS financial statements, which are intended to form the comparative information in the Group’s first complete set of consolidated financial statements, have been prepared by management using its best knowledge of the Standards and Interpretations expected to be in effect at 31 December 2006, and the accounting policies expected to be applied in the Group’s first complete set of consolidated IFRS financial statements. Any changes to such Standards, Interpretations or accounting policies may require adjustment to these consolidated preliminary IFRS financial statements before they comprise such comparative information.

The Group has not prepared consolidated financial statements in accordance with Russian accounting principles. Accordingly, no reconciliation between the consolidated preliminary IFRS financial statements and consolidated financial statements prepared under Russian accounting principles has been prepared.

(b) Basis of measurement

The consolidated preliminary IFRS financial statements are prepared on the historical cost basis except that investments available-for-sale are stated at fair value; property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs; and the carrying amounts of assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUR”), which is the Company’s functional currency and the currency in which these consolidated preliminary IFRS financial statements are presented. All financial information presented in RUR has been rounded to the nearest thousand.

(d) Convenience translation

In addition to presenting the consolidated preliminary financial statements in RUR, supplementary information in USD has been prepared for the convenience of users of the consolidated preliminary financial statements.

All amounts in the consolidated preliminary financial statements are translated from RUR to USD at the closing exchange rate at 31 December 2005 of RUR 28.7825 to USD 1.

The RUR is not a readily convertible currency outside the Russian Federation and, accordingly, any conversion of RUR to USD should not be considered as a representation that the RUR amounts have been, could be, or will be in the future, convertible into USD at the exchange rate disclosed, or any other exchange rate.

(e) Use of estimates and judgments

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

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

- Note 11 – deemed cost of property plant and equipment;
- Note 20(a) – provision for loss making contracts;
- Note 20(b) – provision for site restoration; and

- Note 25 – contingencies.

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated preliminary IFRS financial statements. These accounting policies have been consistently applied.

(a) Basis of consolidation

(i) *Subsidiaries*

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated preliminary IFRS financial statements from the date that control effectively commences until the date that control effectively ceases.

(ii) *Special purpose entities*

The Group has established a number of special purpose entities (SPEs) for trading purposes. The Group does not have any direct or indirect shareholdings in these entities. However, the SPEs are established under terms that impose strict limitations on the decision-making powers of the SPE's management over the operations of the SPE. In addition, the benefits related to their operations and net assets are presently attributable to the Group via a number of agreements.

(iii) *Acquisitions from entities under common control*

Acquisitions of controlling interests in entities that are under the control of the same controlling shareholder as the Group are accounted for at the date of transfer of shares to the Group. The assets and liabilities acquired are recognised at their previous book values as recognised in the individual financial statements of the acquiree. Any difference between the book value of net assets acquired and consideration paid is recognised as contribution from shareholders in net assets attributable to shareholders.

(iv) *Acquisitions and disposals of minority interests*

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

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

(v) *Transactions eliminated on consolidation*

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

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Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(b) Foreign currencies

Transactions in foreign currencies are translated to RUR at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to RUR at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to RUR at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to RUR at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the income statement.

(c) Property, plant and equipment

(i) Owned assets

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. The cost of property, plant and equipment at the date of adopting IFRSs, 1 January 2005, was determined by reference to its fair value at that date ("deemed cost").

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the income statement as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of

internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated.

The estimated useful lives are as follows:

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

(d) Goodwill and negative goodwill

Goodwill / negative goodwill in relation to a business combination that occurred prior to the date of adopting IFRSs, 1 January 2005, was determined at that date as the difference between the cost of acquisition of the subsidiary, adjusted for hyperinflation until the end of 2002 where applicable, and the IFRS carrying amounts of the assets and liabilities of the subsidiary in the consolidated financial statements.

(e) Investments

Investments are recognised (derecognised) when the Group obtains (loses) control over the contractual rights inherent in that asset.

Except as outlined below, investments are accounted for as follows:

- Investments held-to-maturity are stated initially at cost. Subsequent to initial recognition they are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period to maturity on an effective interest basis.
- Other investments are classified as available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity.

The fair value of investments is their quoted bid price at the balance sheet date. 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.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(g) Trade and other receivables

Trade and other receivables are stated at amortised cost less impairment losses.

Amounts recoverable on contracts are stated at cost plus profit recognized to date (see accounting policy 3(p)) less a provision for foreseeable losses and less progress billings. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

(h) Cash and cash equivalents

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.

(i) Impairment

The carrying amount of goodwill is tested for impairment annually. The carrying amounts of the Group's other assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of the Group's held-to-maturity investments, and loans and receivables, is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. 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 an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a held-to-maturity investment, loan or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Share capital

(i) Share capital

According to Article 26 of Federal Law of Russian Federation on limited companies, a shareholder in a limited liability company may unilaterally withdraw from the company. In such circumstances, the company is obliged to pay the withdrawing shareholder its share of the net assets of the company in cash or, subject to the consent of the shareholder, by an in-kind transfer of assets. The payment should be made no later than six months after the end of the year of the withdrawal.

Accordingly, the share capital of the Company and retained earnings are grouped together and shown as net assets attributable to shareholders, which are liabilities of the Company.

(k) Loans and borrowings

Loans and borrowings are recognised initially at cost. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(l) Employee benefits

The Group makes contributions for the benefit of employees to Russia's State pension fund. The contributions are expensed as incurred.

(m) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, 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, where appropriate, the risks specific to the liability.

(n) Trade and other payables

Trade and other payables are stated at cost.

(o) Income tax

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

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; initial recognition of assets or liabilities that affect neither

accounting nor taxable profit; and investments in subsidiaries where the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Revenues

(i) *Goods sold and services rendered*

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from the sale of flats is recognized when the buyer takes occupation of the property.

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction to the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods also continuing management involvement with the goods.

(ii) *Construction contracts*

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract. The stage of completion is assessed as the proportion that contract costs incurred for work performed to date bear to estimated total contract costs. An expected loss on a contract is recognised immediately in the income statement.

(q) Financial income and expenses

Financial income and expenses comprise interest expense on borrowings, the accumulation of interest on provisions, interest income on funds invested, minority interests in limited liability subsidiaries, dividend income, foreign exchange gains and losses, and impairment losses and gains and losses on the disposal of available-for-sale investments.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of financial expenses.

Interest income is recognised as it accrues, taking into account the effective yield on the asset. Dividend income is recognised on the date that the Group becomes entitled to the dividend.

(r) Other expenses**(i) Operating leases**

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 in the income statement as an integral part of the total lease payments made.

(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.

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(t) New Standards and Interpretations not yet adopted

The following new Standards and Interpretations are not yet effective and have not been applied in preparing these consolidated preliminary IFRS financial statements. The Group plans to adopt these pronouncements when they become effective.

- IFRS 7 *Financial Instruments: Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Company's financial instruments.
- Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Company's capital.

4 Segment reporting

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

Inter-segment pricing in the case of certain transactions is not determined on an arm's length basis.

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

(a) Business segments

The Group comprises the following main business segments:

* The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).

Development. Development companies specialize in construction of residential buildings of different standards of comfort and implementation of country house projects.

Building materials. The building materials production companies are engaged in production of brick, concrete and ferroconcrete items, construction mixtures, lightweighted concrete blocks, and window blocks and doors.

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

Construction and construction services. Construction and construction services companies specialize in large panel residential buildings development and ferroconcrete pile driving.

Roads construction. Road construction companies provide a wide range of road development, construction and maintenance services.

(b) Geographical segments

The operations of the Group are conducted and managed in Nord-West region of Russia, cities of St. Petersburg and in Moscow where production facilities and sales offices of the Group are located and, accordingly, no geographical segmental information is presented.

(i) Business segments

	Development		Building materials		Aggregates		Roads construction		Construction and construction services segment		Other entities segment		Eliminations		Consolidated	
	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005
	'000 RUR	'000 USD	'000 RUR	'000 USD	'000 RUR	'000 USD	'000 RUR	'000 USD	'000 RUR	'000 USD	'000 RUR	'000 USD	'000 RUR	'000 USD	'000 RUR	'000 USD
Revenue from external customers	2,360,803	82,022	4,981,855	173,086	2,222,371	77,213	2,634,902	91,546	3,014,883	104,748	342,955	11,915	-	-	15,557,769	540,530
Inter-segment revenue	2,002	70	355,249	12,343	353,020	12,265	127,814	4,440	682,617	23,716	416,772	14,480	(1,937,474)	(67,314)	-	-
Total revenue	<u>2,362,805</u>	<u>82,092</u>	<u>5,337,104</u>	<u>185,429</u>	<u>2,575,391</u>	<u>89,478</u>	<u>2,762,716</u>	<u>95,986</u>	<u>3,697,500</u>	<u>128,464</u>	<u>759,727</u>	<u>26,395</u>	<u>(1,937,474)</u>	<u>(67,314)</u>	<u>15,557,769</u>	<u>540,530</u>
Segment result	8,683	302	540,473	18,777	355,334	12,346	(128,597)	(4,468)	301,282	10,468	109,235	3,795	(48,716)	(1,692)	1,137,694	39,528
Unallocated expenses															(252,839)	(8,784)
Financial income															136,372	4,738
Financial expenses															(829,914)	(28,834)
Income tax expense															(77,954)	(2,708)
Net profit for the year															<u>113,359</u>	<u>3,940</u>
Segment assets	<u>8,664,327</u>	<u>301,027</u>	<u>4,879,402</u>	<u>169,527</u>	<u>2,472,736</u>	<u>85,911</u>	<u>1,539,247</u>	<u>53,479</u>	<u>3,408,548</u>	<u>118,424</u>	<u>1,000,395</u>	<u>34,757</u>	<u>(1,581,876)</u>	<u>(54,959)</u>	20,382,779	708,166
Unallocated assets															1,629,939	56,630
Total assets															<u>22,012,718</u>	<u>764,796</u>

	Development		Building materials		Aggregates		Roads construction		Construction and construction services segment		Other entities segment		Eliminations		Consolidated	
	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005
	'000 RUR	'000 USD	'000 RUR	'000 USD	'000 RUR	'000 USD	'000 RUR	'000 USD	'000 RUR	'000 USD	'000 RUR	'000 USD	'000 RUR	'000 USD	'000 RUR	'000 USD
Segment liabilities	<u>8,243,164</u>	<u>286,395</u>	<u>1,176,489</u>	<u>40,874</u>	<u>567,789</u>	<u>19,727</u>	<u>1,450,591</u>	<u>50,399</u>	<u>928,334</u>	<u>32,253</u>	<u>561,764</u>	<u>19,517</u>	<u>(1,448,867)</u>	<u>(50,338)</u>	11,479,264	398,827
Unallocated liabilities															7,518,449	261,217
Net assets attributable to shareholders															2,559,147	88,914
Total liabilities and net assets attributable to shareholders															<u>21,556,860</u>	<u>748,958</u>
Depreciation/amortisation	<u>7,973</u>	<u>277</u>	<u>227,008</u>	<u>7,887</u>	<u>347,202</u>	<u>12,061</u>	<u>82,462</u>	<u>2,865</u>	<u>204,212</u>	<u>7,095</u>	<u>118,325</u>	<u>4,111</u>	<u>-</u>	<u>-</u>	<u>987,182</u>	<u>34,296</u>
Capital expenditure	<u>27,426</u>	<u>953</u>	<u>910,015</u>	<u>31,617</u>	<u>318,205</u>	<u>11,056</u>	<u>349,310</u>	<u>12,136</u>	<u>254,719</u>	<u>8,850</u>	<u>472,873</u>	<u>16,429</u>	<u>(359,450)</u>	<u>(12,488)</u>	<u>1,973,098</u>	<u>68,553</u>

	Development		Building materials		Aggregates		Roads construction		Construction and construction services segment		Other entities segment		Eliminations		Consolidated	
	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004
	'000 RUR	'000 USD	'000 RUR	'000 USD	'000 RUR	'000 USD	'000 RUR	'000 USD	'000 RUR	'000 USD	'000 RUR	'000 USD	'000 RUR	'000 USD	'000 RUR	'000 USD
Segment assets	5,332,918	185,283	3,538,154	122,927	2,357,420	81,904	497,240	17,276	2,817,021	97,873	579,660	20,140	(498,095)	(17,305)	14,624,318	508,098
Unallocated assets															743,716	25,840
Total assets															15,368,034	533,938
Segment liabilities	5,088,194	176,781	728,162	25,298	492,323	17,105	609,110	21,162	845,194	29,365	201,014	6,984	(410,740)	(14,270)	7,553,257	262,425
Unallocated liabilities															5,383,576	187,044
Net assets attributable to shareholders															1,547,180	53,755
Total liabilities and net assets attributable to shareholders															14,484,013	503,224

5 Acquisition and disposals of subsidiaries

(a) Acquisition of subsidiary

On 4 April 2005 the Group acquired all of the shares in ZAO Stroitrest 28 for RUR 2,874 thousand/ USD* 100 thousand, which was settled in cash, from a company controlled by the ultimate controlling party. The impact of acquiring the subsidiary was to increase net profit for the year by RUR 27,496 thousand / USD* 955 thousand.

If the acquisition had occurred on 1 January 2005, Group revenue for the year would have increased by RUR 117,000 thousand/ USD*4,065 thousand and the net profit for the year would have increased by RUR 772 thousand/ USD*26 thousand.

The acquisition of the subsidiary had the following effect on the Group's assets and liabilities at the date of acquisition:

	Recognised book values on acquisition	
	'000 RUR	'000 USD*
Non-current assets	153,162	5,321
Property, plant and equipment	153,150	5,321
Intangible assets	12	-
Current assets	57,021	1,981
Investments	11	-
Inventories	15,376	534
Income tax receivable	1,413	49
Trade and other receivables	39,795	1,383
Cash and cash equivalents	426	15
Non-current liabilities	(23,711)	(824)
Loans and borrowings	(20,750)	(721)
Deferred tax liability	(2,961)	(103)
Current liabilities	(91,120)	(3,166)
Loans and borrowings	(10,250)	(356)
Trade and other payables	(80,870)	(2,810)
Net identifiable assets, liabilities and contingent liabilities	95,352	3,312
Minority interest	(52,453)	(1,822)
Net identifiable assets, liabilities and contingent liabilities acquired	42,899	1,490
Difference between net assets acquired and consideration paid recognised in net assets attributable to shareholders	(40,025)	(1,390)

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

Consideration paid	2,874	100
Cash acquired	(426)	(15)
Net cash outflow	2,448	85

6 Administrative expenses

	2005	2005
	'000 RUR	'000 USD*
Wages and salaries	1,017,702	35,358
Services	469,000	16,295
Materials	343,741	11,943
Depreciation and amortisation	128,546	4,466
Taxes other than profit tax	119,584	4,155
Social expenditure	33,062	1,149
Insurance	12,671	440
Other administrative expenses	245,504	8,529
	2,369,810	82,335

7 Other expenses

	2005	2005
	'000 RUR	'000 USD*
Loss on disposal of property, plant and equipment	93,552	3,250
Loss on disposal of other assets	2,561	89
	96,113	3,339

8 Total personnel costs

	2005	2005
	'000 RUR	'000 USD*
Cost of sales	1,570,439	54,563
Administrative expenses	1,017,702	35,358
Distribution expenses	78,614	2,731
	2,666,755	92,652

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9 Financial income and expenses

	2005 '000 RUR	2005 '000 USD*
Financial income		
Foreign exchange gain	59,077	2,053
Gain from sale of available-for-sale investments	41,862	1,454
Interest income	35,273	1,226
Dividend income	160	5
	136,372	4,738
Financial expenses		
Interest expense	(806,585)	(28,023)
Minority interest in limited liability subsidiaries	(23,329)	(811)
	(829,914)	(28,834)

10 Income tax expense

	2005 '000 RUR	2005 '000 USD*
Current tax expense		
Current year	339,235	11,786
Deferred tax expense		
Origination and reversal of temporary differences	(261,281)	(9,078)
	77,954	2,708

The Group's applicable tax rate is the corporate income tax rate of 24%.

Reconciliation of effective tax rate:

	2005 '000 RUR	%	2005 '000 USD*	%
Profit before tax	191,313	100.00	6,648	100.00
Income tax at applicable tax rate	45,915	24.00	1,596	24.00
Non-deductible items	64,924	33.93	2,256	33.93
Non-taxable items	(32,885)	(17.18)	(1,144)	(17.18)
	77,954	40.75	2,708	40.75

* The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).

11 Property, plant and equipment

'000 RUR	Land and buildings	Machinery and equipment	Transportation equipment	Other fixed assets	Assets under construction	Total
Cost/Deemed cost						
At 1 January 2005	3,159,426	1,613,761	994,810	744,114	728,658	7,240,769
Acquisitions through business combinations	84,045	53,248	4,634	12,722	-	154,649
Additions	173,933	595,984	386,261	306,908	518,114	1,981,200
Disposals	(121,030)	(259)	(12,636)	(61,595)	(79,958)	(275,478)
Transfers	77,339	496,786	25,329	36,180	(635,634)	-
At 31 December 2005	<u>3,373,713</u>	<u>2,759,520</u>	<u>1,398,398</u>	<u>1,038,329</u>	<u>531,180</u>	<u>9,101,140</u>
Depreciation and impairment losses						
At 1 January 2005	(371)	-	(38,569)	(835)	-	(39,775)
Depreciation charge	(240,190)	(303,310)	(273,693)	(169,989)	-	(987,182)
Disposals	6,066	8,721	17,097	15,399	-	47,283
Transfers	-	-	(201)	201	-	-
At 31 December 2005	<u>(234,495)</u>	<u>(294,589)</u>	<u>(295,366)</u>	<u>(155,224)</u>	<u>-</u>	<u>(979,674)</u>
Net book value						
At 1 January 2005	<u>3,159,055</u>	<u>1,613,761</u>	<u>956,241</u>	<u>743,279</u>	<u>728,658</u>	<u>7,200,994</u>
At 31 December 2005	<u>3,139,218</u>	<u>2,464,931</u>	<u>1,103,032</u>	<u>883,105</u>	<u>531,180</u>	<u>8,121,466</u>
'000 USD*	Land and buildings	Machinery and equipment	Transportation equipment	Other fixed assets	Assets under construction	Total
Cost/Deemed cost						
At 1 January 2005	109,769	56,068	34,563	25,853	25,316	251,569
Acquisitions through business combinations	2,920	1,850	161	442	-	5,373
Additions	6,043	20,704	13,420	10,663	18,001	68,831
Disposals	(4,205)	(9)	(439)	(2,140)	(2,778)	(9,571)
Transfers	2,687	17,260	880	1,257	(22,084)	-
At 31 December 2005	<u>117,214</u>	<u>95,873</u>	<u>48,585</u>	<u>36,075</u>	<u>18,455</u>	<u>316,202</u>
Depreciation and impairment losses						
At 1 January 2005	(13)	-	(1,340)	(29)	-	(1,382)

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Depreciation charge	(8,345)	(10,538)	(9,507)	(5,906)	-	(34,296)
Disposals	211	303	594	535	-	1,643
Transfers	-	-	(7)	7	-	-
At 31 December 2005	<u>(8,147)</u>	<u>(10,235)</u>	<u>(10,260)</u>	<u>(5,393)</u>	<u>-</u>	<u>(34,035)</u>
Net book value						
At 1 January 2005	<u>109,756</u>	<u>56,068</u>	<u>33,223</u>	<u>25,824</u>	<u>25,316</u>	<u>250,187</u>
At 31 December 2005	<u>109,067</u>	<u>85,638</u>	<u>38,325</u>	<u>30,682</u>	<u>18,455</u>	<u>282,167</u>

(a) Determination of deemed cost

In 2005 management commissioned American Appraisals to independently appraise property, plant and equipment as at 1 January 2005 in order to determine its deemed cost.

The majority of the Group's property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales of comparable property, plant and equipment for using a market-based approach for determining fair value.

Consequently the fair value of property, plant and equipment was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

The depreciated replacement cost was estimated based on internal sources and analysis of the Russian and international markets for similar property, plant and equipment. Various market data were collected from published information, catalogues, statistical data etc, and industry experts and suppliers of property, plant and equipment were contacted both in the Russian Federation and abroad.

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

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

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

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

The above estimates are particularly sensitive in the following areas:

- An increase of one percentage point in the discount rate used would have decreased the depreciated replacement cost values by RUR 221 million/USD* 8 million.
- A 10% decrease in future planned production would have decreased depreciated replacement cost values by RUR 1,571 million/USD*55 million.

(b) Security

Properties with a carrying amount of RUR 5,036,858 thousand/ USD* 174,997 thousand are subject to a registered debenture to secure bank loans (2004: RUR 1,972,530 thousand/ USD* 68,532 thousand) (see note 19).

(c) Leased plant and machinery

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 2005 the net book value of leased plant and machinery was RUR 1,276,380 thousand/ USD* 44,345 thousand. The leased equipment secures lease obligations.

12 Investment property under development

'000 RUR	Total
<i>Cost</i>	
At 1 January 2005	34,009
Costs capitalised	144,031
At 31 December 2005	178,040
'000 USD*	Total
<i>Cost</i>	
At 1 January 2005	1,182
Costs capitalised	5,004
At 31 December 2005	6,186

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

13 Other investments

	2005	2004	2005	2004
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
<i>Non-current</i>				
Available-for-sale investments:				
Stated at cost	30,308	117,466	1,053	4,081
Originated loans	6,892	7,915	239	275
	37,200	125,381	1,292	4,356
<i>Current</i>				
Available-for-sale investments:				
Stated at fair value	14,636	14,070	509	489
Originated loans	560,032	338,911	19,457	11,775
	574,668	352,981	19,966	12,264

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

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

14 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

'000 RUR	Assets		Liabilities	
	2005	2004	2005	2004
Property, plant and equipment	(12,578)	(12,923)	1,050,516	1,090,492
Investments	(403)	(403)	6,649	-
Inventories	(220,560)	(97,006)	15,658	6,246
Trade and other receivables	(74,754)	(61,537)	22,940	6,361
Loans and borrowings	(223,410)	(170,968)	-	39,490
Provisions	(36,237)	(65,164)	-	-
Trade and other payables	(111,331)	(94,925)	22,593	53,888
Tax (assets)/liabilities	(679,273)	(502,926)	1,118,356	1,196,477
Set off of tax	374,892	354,687	(374,892)	(354,687)
Net tax (assets)/liabilities	<u>(304,381)</u>	<u>(148,239)</u>	<u>743,464</u>	<u>841,790</u>

(b)

'000 USD*	Assets		Liabilities	
	2005	2004	2005	2004
Property, plant and equipment	(437)	(449)	36,498	37,887
Investments	(14)	(14)	231	-
Inventories	(7,663)	(3,370)	544	217
Trade and other receivables	(2,597)	(2,138)	797	221
Loans and borrowings	(7,762)	(5,940)	-	1,372
Provisions	(1,259)	(2,264)	-	-
Trade and other payables	(3,868)	(3,298)	785	1,872
Tax (assets)/liabilities	(23,600)	(17,473)	38,855	41,569
Set off of tax	13,025	12,323	(13,025)	(12,323)
Net tax (assets)/liabilities	<u>(10,575)</u>	<u>(5,150)</u>	<u>25,830</u>	<u>29,246</u>

* The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).

15 Inventories

	2005	2004	2005	2004
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Work in progress, construction of buildings	4,855,737	3,911,275	168,704	135,891
Raw materials and consumables	1,123,408	638,890	39,031	22,197
Finished goods, construction of buildings	1,772,344	552,680	61,577	19,202
Finished goods and goods for resale	452,813	255,878	15,732	8,890
Work in progress	117,440	40,776	4,081	1,417
	<u>8,321,742</u>	<u>5,399,499</u>	<u>289,125</u>	<u>187,597</u>

Inventories with a carrying amount of RUR 81,437 thousand/ USD* 2,829 thousand are subject to a registered debenture to secure bank loans (2004: RUR 84,646 thousand/ USD* 2,941 thousand) (see note 19). During 2005 there was a write-down of inventories in amount of RUR 10,000 thousand/ USD* 347 thousand and no reversal of previous write-downs took place.

16 Trade and other receivables

	2005	2004	2005	2004
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Accounts receivable – trade	989,959	499,057	34,394	17,339
Prepayments	920,229	525,048	31,972	18,242
VAT receivable	546,692	348,343	18,994	12,103
Prpayments for flats	391,586	229,519	13,605	7,974
Notes receivable	102,929	119,536	3,576	4,153
Deferred expenses	117,246	61,920	4,074	2,151
Accounts due from customers for contract work	78,800	18,309	2,738	636
Employee receivables	40,043	15,556	1,391	540
Other receivables	618,333	209,908	21,483	7,294
	<u>3,805,817</u>	<u>2,027,196</u>	<u>132,227</u>	<u>70,432</u>
Provision for doubtful debtors	<u>(144,436)</u>	<u>(127,935)</u>	<u>(5,018)</u>	<u>(4,445)</u>
	<u>3,661,381</u>	<u>1,899,261</u>	<u>127,209</u>	<u>65,987</u>

* The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).

17 Cash and cash equivalents

	2005	2004	2005	2004
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Petty cash	42,104	10,143	1,463	352
Current accounts	658,671	130,937	22,884	4,549
Bank promissory notes	75,270	17,202	2,615	598
Cash and cash equivalents in the balance sheet	776,045	158,282	26,962	5,499
Bank overdrafts	(9,467)	(5,400)	(329)	(188)
Cash and cash equivalents in the statement of cash flows	766,578	152,882	26,633	5,311

18 Net assets attributable to shareholders

	Net assets attributable to shareholders	
	'000 RUR	'000 USD*
Balance at 1 January 2005	1,547,180	53,755
Net profit for the year attributable to shareholders of the Company	10,563	368
Shareholder contributions	318,409	11,065
Excess of book values of net assets acquired for entities under common control over consideration paid	870,887	30,253
Excess of consideration paid for entities under common control over book values of net assets acquired	(198,375)	(6,892)
Shares issued	10,483	365
Balance at 31 December 2005	2,559,147	88,914

19 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 23.

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

	2005	2004	2005	2004
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Non-current				
Secured bank loans	1,068,950	1,290,373	37,139	44,832
Unsecured other loans	6,626	55,176	230	1,917
Finance lease liability	424,983	471,680	14,765	16,388
	<u>1,500,559</u>	<u>1,817,229</u>	<u>52,134</u>	<u>63,137</u>
Current				
Secured bank loans	3,195,932	1,448,411	111,037	50,323
Current portion of secured bank loans	761,930	659,335	26,472	22,907
Current portion of unsecured other loans	15,065	41,628	524	1,446
Unsecured bank loans	-	207,900	-	7,223
Unsecured other loans	160,436	118,570	5,574	4,120
Unsecured bond issue	1,000,000	-	34,743	-
Current portion of finance lease liability	505,675	378,738	17,569	13,159
	<u>5,639,038</u>	<u>2,854,582</u>	<u>195,919</u>	<u>99,178</u>

Finance lease liabilities are payable as follows:

	2005 – '000 RUR			2005 – '000 USD*		
	Payments	Interest	Principal	Payments	Interest	Principal
Less than one year	592,255	86,580	505,675	20,577	3,008	17,569
Between one and five years	471,748	46,765	424,983	16,390	1,625	14,765
	<u>1,064,003</u>	<u>133,345</u>	<u>930,658</u>	<u>36,967</u>	<u>4,633</u>	<u>32,334</u>

Bank loans are secured by the following:

- property, plant and equipment with a carrying amount of RUR 5,036,858 thousand/ USD* 174,997 thousand (2004: RUR 1,972,530 thousand/ USD* 68,532 thousand). – see note 11(b).
- inventories with a carrying amount of RUR 81,437 thousand/ USD* 2,829 thousand (2004: RUR 84,646 thousand/ USD* 2,941 thousand) – see note 15.

The finance lease liabilities are secured by the leased assets (see note 11(c)).

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

- 100% of ZAO GDSK
- 100% of OAO Lenrechport
- 88.8% of OAO Granit Kuznechnoe

* The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).

- 100% of OAO GATP-1

20 Provisions

'000 RUR	Site restoration	Loss-making contracts	Provision for litigation	Total
Balance at 1 January 2005	140,556	240,461	31,039	412,056
Provisions raised during the year	-	14,380	-	14,380
Provisions used during the year	(63,929)	(42,761)	-	(106,690)
Balance at 31 December 2005	<u>76,627</u>	<u>212,080</u>	<u>31,039</u>	<u>319,746</u>

'000 USD*	Site restoration	Loss-making contracts	Provision for litigation	Total
Balance at 1 January 2005	4,883	8,355	1,078	14,316
Provisions raised during the year	-	499	-	499
Provisions used during the year	(2,221)	(1,485)	-	(3,706)
Balance at 31 December 2005	<u>2,662</u>	<u>7,369</u>	<u>1,078</u>	<u>11,109</u>

(a) Loss-making contracts

The provision for loss-making contracts relates mainly to a range of contracts for the construction of roads. The Group expects to complete the related contracts over the next year.

(b) Site restoration

The Group records provisions in respect of the Group's obligation to clean up the surrounding area after construction of apartment buildings in St. Petersburg. The damage caused during construction is cleaned up after the construction of buildings is completed.

(c) Provison for litigation

The Group has recognized a provision for litigation with one of the suppliers of the Group (see note 25(b)).

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

21 Earnings per share

The calculation of earnings per share is based on the profit attributable to the shareholders of the Company divided by the number of ordinary shares issued in July 2006 when the Company re-registered as an OAO company (see note 28(c)).

22 Trade and other payables

	2005	2004	2005	2004
	'000 RUR	'000 RUR	'000 USD*	'000 USD*
Prepayments received for flats	7,142,552	4,351,332	248,156	151,180
Accounts payable – trade	1,364,072	820,567	47,392	28,509
Advances from customers	524,164	169,853	18,211	5,901
Accounts due to customers for contract work	412,411	113,864	14,329	3,956
Notes payable	345,779	800,546	12,014	27,814
Other taxes payable	245,418	142,625	8,527	4,955
Employee related liabilities	213,030	126,415	7,401	4,392
Interest payable	55,144	914	1,916	32
Minority interest in limited liability subsidiaries	38,341	41,289	1,332	1,435
Deferred income	10,157	4,352	353	151
Dividends payable	101	76	4	3
Other payables	352,731	413,934	12,254	14,381
	<u>10,703,900</u>	<u>6,985,767</u>	<u>371,889</u>	<u>242,709</u>

23 Financial instruments

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

(a) Credit risk

The Group does not require collateral in respect of financial assets. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

At the balance sheet date there was a significant concentration of credit risk in respect of amounts receivable from related parties. The total amount receivable from BaltstroyKomplekt was RUR 207,466 thousand / USD* 7,208 thousand.

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

(b) Interest rate risk

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

The following table shows the period in which interest-bearing financial assets and liabilities reprice.

2005 '000 RUR	Average interest rate		0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs	Total
	Contractual	Effective								
Assets										
Originated loans – RUR*	-	-	299,344	260,688	6,289	-	-	-	-	566,321
Liabilities										
Secured bank loans:										
RUR*	10.5%-14%	11.24%	764,043	1,205,199	100,598	-	-	-	-	2,069,840
USD*	11%-14.03%	10.3%	1,226,690	-	227,504	46,948	57,782	-	-	1,558,924
EUR*	7.5%-8.8%	8.86%	-	-	257,681	287,880	87,382	3,175	-	636,118
Current portion of secured long term loans:										
EUR*	7.5%-8.8%	8.86%	24,484	215,049	-	-	-	-	-	239,533
USD*	12%-12.5%	10.3%	-	252,397	-	-	-	-	-	252,397
RUR*	15.75%	11.24%	270,000	-	-	-	-	-	-	270,000
Current portion of unsecured other loans:										
RUR*	-	-	-	15,065	-	-	-	-	-	15,065
Unsecured other loans:										
RUR*	13%	13%	13,502	146,934	6,626	-	-	-	-	167,062
Unsecured bond issues:										
RUR*	14%	14%	1,000,000	-	-	-	-	-	-	1,000,000
Finance lease liabilities – RUR*	11%-35%	14.8%	274,122	231,553	251,240	128,296	45,447	-	-	930,658
			<u>3,872,185</u>	<u>2,326,885</u>	<u>849,938</u>	<u>463,124</u>	<u>190,611</u>	<u>3,175</u>	<u>-</u>	<u>7,705,918</u>

* Fixed rate

* The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).

2004 '000 RUR	Average interest rate		0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs	Total
	Contractual	Effective								
Assets										
Originated loans – RUR*	-	-	102,220	236,691	7,915	-	-	-	-	346,826
Liabilities										
Secured bank loans:										
RUR*	12.5%-15%	11.24%	584,350	355,909	-	-	-	-	-	940,259
USD*	12%-14.03%	10.3%	55,498	445,394	237,184	190,989	5,323	6,552	-	940,940
EUR*	7.5%-12.5%	8.86%	4,381	2,879	237,007	255,156	273,305	84,857	-	857,585
Unsecured bank loans:										
RUR*	13.6%-16%	14.38%	207,900	-	-	-	-	-	-	207,900
Current portion of secured long term loans:										
EUR*	7.5%-8.8%	8.86%	106,578	182,757	-	-	-	-	-	289,335
RUR*	15.75%	11.24%	370,000							370,000
Current portion of unsecured other loans:										
RUR*	-	-	1,797	39,831	-	-	-	-	-	41,628
Unsecured other loans:										
RUR*	13%	-	116,184	2,386	55,176	-	-	-	-	173,746
Finance lease liabilities – RUR*	11%-35%	14.8%	190,774	187,964	328,799	67,956	40,559	34,366	-	850,418
			<u>1,739,682</u>	<u>1,453,811</u>	<u>866,081</u>	<u>514,101</u>	<u>319,187</u>	<u>125,775</u>	<u>-</u>	<u>5,018,637</u>

* Fixed rate

* The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).

2005 '000 USD*	Average interest rate		0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs	Total
	Contractual	Effective								
Assets										
Originated loans – RUR*	-	-	10,400	9,057	219	-	-	-	-	19,676
Liabilities										
Secured bank loans:										
RUR*	10.5%-14%	11.24%	26,545	41,873	3,495	-	-	-	-	71,913
USD*	11%-14.03%	10.3%	42,619	-	7,904	1,631	2,008	-	-	54,162
EUR*	7.5%-8.8%	8.86%	-	-	8,953	10,002	3,036	110	-	22,101
Current portion of secured long term loans:										
EUR*	7.5%-8.8%	8.86%	851	7,471	-	-	-	-	-	8,322
USD*	12%-12.5%	10.3%	-	8,769	-	-	-	-	-	8,769
RUR*	15.75%	11.24%	9,381	-	-	-	-	-	-	9,381
Current portion of unsecured other loans:										
RUR*	-	-	-	524	-	-	-	-	-	524
Unsecured other loans:										
RUR*	13%	13%	469	5,105	230	-	-	-	-	5,804
Unsecured bond issues:										
RUR*	14%	14%	34,743	-	-	-	-	-	-	34,743
Finance lease liabilities – RUR*										
	11%-35%	14.8%	9,524	8,045	8,729	4,457	1,579	-	-	32,334
			<u>134,532</u>	<u>80,844</u>	<u>29,530</u>	<u>16,090</u>	<u>6,623</u>	<u>110</u>	<u>-</u>	<u>267,729</u>

* Fixed rate

* The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).

2004 '000 USD*	Average interest rate		0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs	Total
	Contractual	Effective								
Assets										
Originated loans – RUR*	-	-	3,551	8,223	275	-	-	-	-	12,049
Liabilities										
Secured bank loans:										
RUR*	12.5%-15%	11.24%	20,305	12,364	-	-	-	-	-	32,669
USD*	12%-14.03%	10.3%	1,928	15,474	8,240	6,636	185	228	-	32,691
EUR*	7.5%-12.5%	8.86%	152	100	8,234	8,865	9,496	2,948	-	29,795
Unsecured bank loans:										
RUR*	13.6%-16%	14.38%	7,223	-	-	-	-	-	-	7,223
Current portion of secured long term loans:										
EUR*	7.5%-8.8%	8.86%	3,703	6,350	-	-	-	-	-	10,053
RUR*	15.75%	11.24%	12,854	-	-	-	-	-	-	12,854
Current portion of unsecured other loans:										
RUR*	-	-	62	1,384	-	-	-	-	-	1,446
Unsecured other loans:										
RUR*	13%	-	4,037	83	1,917	-	-	-	-	6,037
Finance lease liabilities – RUR*										
	11%-35%	14.8%	6,629	6,530	11,424	2,361	1,409	1,194	-	29,547
			60,444	50,508	30,090	17,862	11,090	4,370	-	174,364

* Fixed rate

* The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).

(c) Foreign currency risk

The Group incurs foreign currency risk on borrowings that are denominated in a currency other than RUR. The currencies giving rise to this risk are primarily USD and Euro. Management does not hedge the Group's exposure to foreign currency risk.

The following exchange rates applied at 31 December:

	USD	Euro	USD	Euro
	2005	2005	2004	2004
RUR 1 equals	0.03474	0.02925	0.03604	0.02645

(d) Fair values

The fair value of unquoted equity investments is discussed in note 13. In other cases management believes that the fair value of its financial assets and liabilities approximates their carrying amounts:

In assessing fair values, management used the following major methods and assumptions:

Quoted securities. Quoted market prices at the balance sheet date without any deduction for transaction costs.

Loans and borrowings. Expected future principal and interest cash flows were discounted at rates that approximated contractual rates.

Promissory notes. Expected future principal and interest cash flows were discounted at rates that approximated contractual rates.

Trade and other receivables and payables. For receivables and payables with a maturity of less than six months fair value is not materially different from the carrying amount because the effect of the time value of money is not material.

24 Commitments

At 31 December 2005, the Group was committed to purchase property, plant and equipment for approximately RUR 72,531 thousand / USD* 2,520 thousand.

25 Contingencies

(a) Insurance

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

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

(b) Litigation

As at 31 December 2005 the Group was involved in a dispute relating to a promissory note of an insolvent third party which was endorsed by the Group in 2003. The holder of the promissory note successfully sued the Group on the endorsement. The Group recognized a provision for the amount of the claim of USD 1,080 thousand.

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

(c) Taxation contingencies

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

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

(d) Environmental liabilities

The Group is engaged in dredging sand from the sea bed and quarrying sand in forested areas. There is no liability to perform any restoration work in relation to the sea bed after the dredging is complete but liability arises in relation to quarrying sand. The Group rents land from which sand is quarried from a related party which is liable for the restoration work. The related party that rented land to the Group was acquired by the Group in June 2006. As at the date of purchase by the Group, the site restoration recorded in books of the acquired company amounted to RUR 23,683 thousand/USD* 823 thousand.

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

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

26 Related party transactions

(a) Control relationships

The Company is controlled by Mr. Molchanov. In addition, the Group has a controlling relationship with all of its subsidiaries (see note 27 for a list of significant subsidiaries).

(b) Transactions with management and close family members

The Directors, and their close family members control 21.6% of the voting shares of the Company.

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 8):

	2005 '000 RUR	2005 '000 USD*
Salaries and bonuses	38,162	1,325

(ii) Other transactions

Loans to executive directors amounting to RUR 9,030 thousand / USD* 314 thousand are included in "employee receivables" (see note 16). No interest is payable on these loans. The loans are expected to be repaid within 4 years.

(c) Transactions with other related parties

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

(i) Revenue

	Outstanding balance 2005 '000 RUR	Transaction value 2005 '000 RUR	Outstanding balance 2004 '000 RUR	Outstanding balance 2005 '000 USD*	Transaction value 2005 '000 USD*	Outstanding balance 2004 '000 USD*
Sale of goods:						
Other	22,444	399,463	6,016	780	13,879	209
Fellow subsidiaries	600	356	-	21	12	-
Services provided:						
Other	5,334	189,669	22,209	185	6,589	771
Fellow subsidiaries	7,512	2,802	13,037	261	97	453
	<u>35,890</u>	<u>592,290</u>	<u>41,262</u>	<u>1,247</u>	<u>20,577</u>	<u>1,433</u>

* The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).

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

(ii) Expenses

	Outstanding balance	Transaction value	Outstanding balance	Outstanding balance	Transaction value	Outstanding balance
	2005	2005	2004	2005	2005	2004
	'000 RUR	'000 RUR	'000 RUR	'000 USD*	'000 USD*	'000 USD*
Purchase of goods:						
Other	45,415	987,102	59,797	1,578	34,295	2,078
	<u>45,415</u>	<u>987,102</u>	<u>59,797</u>	<u>1,578</u>	<u>34,295</u>	<u>2,078</u>

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

(iii) Loans

	Outstanding balance	Amount loaned	Outstanding balance	Outstanding balance	Amount loaned	Outstanding balance
	2005	2005	2004	2005	2005	2004
	'000 RUR	'000 RUR	'000 RUR	'000 USD*	'000 USD*	'000 USD*
Loans received:						
Fellow subsidiaries	49,225	37,538	98,704	1,710	1,304	3,429
Other	76,698	98,550	78,240	2,665	3,424	2,718
Loans given:						
Fellow subsidiaries	445,130	546,416	184,353	15,465	18,984	6,405
Other	15,476	1,294	544	538	45	19
	<u>586,529</u>	<u>683,798</u>	<u>361,841</u>	<u>20,378</u>	<u>23,757</u>	<u>12,571</u>

The loans from fellow subsidiaries bear no interest and are repayable based on contractual terms.

The loans to fellow subsidiaries and entities under significant influence bear no interest and are repayable based on contractual terms.

27 Significant subsidiaries

	Country of incorporation	Ownership/voting	Ownership/voting
		2005	2004
ZAO Gatchinsky DSK	Russia	98.23%	98.23%
OAO SKV SPb	Russia	71.98%	65.47%

* The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).

OOO Gatchinsky DSK	Russia	100.00%	100.00%
OAO Lenstroirekonstruktsiya	Russia	99.99%	82.00%
ZAO NPO Keramika	Russia	75.83%	75.83%
OAO Lenstroikeramika	Russia	87.28%	87.28%
OAO Granit-Kuznechnoye	Russia	83.98%	68.23%
OAO Rudas	Russia	86.55%	87.34%
OAO Leningradsky rechnoy port	Russia	100.00%	100.00%
ZAO Skanmix SPb	Russia	100.00%	100.00%
ZAO Vertikal	Russia	100.00%	100.00%
ZAO PO Barrikada	Russia	88.87%	88.87%
ZAO DSK Blok	Russia	100.00%	18.10%
ZAO UM-260	Russia	94.11%	97.11%
OAO SPb rechnoy port	Russia	100.00%	100.00%
OAO Obyedineniye 45	Russia	92.07%	91.85%
ZAO Mosstroirekonstruktsiya	Russia	100.00%	100.00%
OAO GATP-1	Russia	74.62%	87.49%
ZAO Pobeda LSR	Russia	99.86%	98.93%
OOO PSF Dorstroiproekt	Russia	100.00%	95.00%
OOO Aerok Sankt-Peterburg	Russia	100.00%	100.00%
OOO Osobnyak	Russia	100.00%	100.00%
OOO Kwartira LuxServis	Russia	100.00%	100.00%
ZAO Stroitrest 28	Russia	89.63%	-
OOO Stroitrest 28	Russia	50.00%	-
ZAO GSK Petrostroyinvest	Russia	100.00%	100.00%
OOO Torgoviy dom Granit-Kuznechnoye	Russia	100.00%	-
ZAO GATP Blok	Russia	100.00%	-
ZAO Paradny kvartal (Naberezhnaya Evropy)	Russia	100.00%	-

* The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).

OOO Upravlyayushchaya kompaniya	Russia	100.00%	100.00%
OOO Paradny kvartal	Russia	100.00%	100.00%
OOO Nevsky portal	Russia	100.00%	-
OOO Novy kvartal	Russia	100.00%	100.00%
OOO Nisk	Russia	74.00%	-
OOO LSK-ecologiya	Russia	100.00%	-
OOO OP Agis	Russia	100.00%	100.00%
OOO PSG LSR	Russia	90.00%	90.00%
OOO Promyshlenny leasing	Russia	100.00%	-
PT Aerok	Russia	100.00%	100.00%
OOO Martynovka*	Russia	50.00%	50.00%
ZAO Chekalovskoye	Russia	90.83%	81.33%
OAO Stroydetal	Russia	94.79%	85.53%
OOO Sevzapmostostroy	Russia	100.00%	100.00%
ZAO Nazievsky kombinat	Russia	98.67%	98.67%
OOO Vyborgstroyrekonstruktsiya*	Russia	-	-
OOO Yuna*	Russia	-	-
DNP Alakul*	Russia	-	-
DNP Penaty 2*	Russia	-	-
DNP Severnoye pomestye*	Russia	-	-
GDSK Invest companies*	Russia	-	-
MSR companies*	Russia	-	-

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

28 Events subsequent to the balance sheet date

(a) Sale of subsidiaries

Subsequent to 31 December 2005, the Group has entered into contracts to sell for cash all the controlled shares in OOO PSF Dorstroiproekt and OOO Sevzapmostrostroy both of which were from roads construction segment on 10 January 2006, and all the shares in NPO Keramika and OAO Lenstroikeramika both of which were from building materials segment on 23 June 2006 to related parties. On 28 June 2006 the Group has entered into contracts to sell for cash all the controlled shares in OOO Upravlyayushchaya kompaniya and ZAO Paradny kvartal both of which were from development segment and in OAO Stroydetal and ZAO Chekalovskoye both of which were from other entities segment to related parties. The price received for sold shares was close to cost of shares in Company's books and in total amounted to RUR 90,411 thousand/ USD* 3,141 thousand. No loss to the Group arose as a result of these transactions.

(b) Acquisition of subsidiaries

Subsequent to 31 December 2005, the Group has entered into contracts to buy for cash controlling shares in OAO JBI-6 and Aeroc International AS, OOO Galernaya, OOO LSSMO Promstroimontage, OAO MTO Arhproekt from unrelated parties and controlling shares in ZAO Severnaya Venetsiya, ZAO Vsevolgskoe SMP, OOO Yakornaya, OOO Baltstroikomplekt, OOO GDSK Invest-35, OOO GDSK Invest-49 from related parties.

(c) Re-registration of the Company from OOO to OAO

In July 2006 the Company changed its legal form from limited liability company to open joint stock company as defined in the Civil Code of the Russian Federation. As a result, share capital has been converted into 85,148,936 ordinary shares with a nominal value 0.25 roubles each. The nominal value of registered share capital equalled RUR 21,287,234.

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*