

## RISK FACTORS

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

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

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

### **Risks Relating to our Business**

***The Russian real estate market is cyclical in nature and, in the event of a continuation or worsening of the recent global financial and economic crisis, our business, financial condition, results of operations and the value of our properties could be materially adversely affected.***

The recent global financial and economic crisis has had a pronounced negative effect on the Russian economy, as evidenced by the contraction in GDP, decline in foreign investment in Russia, severe liquidity constraints and substantial declines in the values of both commercial and residential real estate. In late 2008, the Russian government announced plans to initiate more than \$200 billion in emergency financial assistance measures in order to ease taxes, refinance foreign debt and encourage lending. Anti-crisis measures adopted by the Russian government for 2010 are estimated at approximately RUB 195 billion and include measures designed to enhance the social security and the pension systems, including the increase in social benefits and pensions by approximately 10%; increased focus on creating job opportunities and offering professional training courses; government assistance to banks to encourage lending; measures aimed at increasing the internal demand; diversification of the Russian economy; and modernization of the existing large-scale manufacturing facilities. There can be no assurance that these or other measures adopted by the Russian government to ameliorate the effect of the recent financial and economic crisis will result in a recovery of the Russian economy. The impact of the global financial and economic crisis on the Russian economy led to, among other things, a reduction in the disposable income of the general population, a crisis of bank liquidity, a significant depreciation of the Rouble against the US Dollar and Euro, the rise of unemployment and an increase in the inflation rate. Demand for real estate and construction materials depends primarily on income levels and the general economic and financial situation in the Russian Federation. The crisis has had a material adverse effect on our group and the real estate, construction, and building materials and aggregates sectors in Russia in general, as evidenced by a 47% decrease in housing sales, a 68% decline in new housing supply and a 5.2 times decrease in mortgage lending in 2009 compared to 2008, according to SPb Realty. Additionally, markets for sand, crushed granite, ready-mix concrete, reinforced concrete and bricks declined on average by over 40% during the same period, according to Reshenie.

In the event of a continuation or worsening of the recent global financial and economic crisis that would affect business profitability and employment levels in Russia, the demand for properties, and particularly residential properties, office space and retail space in shopping centers, could be directly and materially adversely affected. Additionally, a decrease in demand for properties could result in a decline in construction activity and a related decrease in demand for building materials and aggregates. Consequently, a continuation or worsening of the ongoing global financial and economic crisis in the markets in which we operate could materially adversely affect our business, financial condition and results of operations.

Furthermore, the Russian real estate market is cyclical in nature and is generally dependent on the state of the Russian economy, the growth of which also tends to be cyclical. Any future economic downturn in Russia could result in a corresponding downturn in the Russian real estate market, which would materially adversely affect our business, financial condition and results of operations.

***Our revenues depend on a number of factors, any or all of which may result in adverse fluctuations in the Russian real estate market, which could materially adversely affect our business, financial condition, results of operations and the value of our properties.***

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

- regional and local economic conditions;
- the quality and proximity of competition presented by other residential and commercial properties;
- changes in customer preferences;
- availability and cost of land and real property;

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

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

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

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

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

Our real estate investments may also decrease in value. As a result of the global financial and economic crisis, the Market Value of our real estate portfolio has decreased by 25% from RUB 139 billion as of December 31, 2007 to RUB 104 billion as of December 31, 2009. The Market Value of the real estate assets we own could decline further or be adversely affected if government authorities make more land available for development or if the real estate market is further affected by the ongoing global financial and economic crisis. In such case, the sale price of property we intend to develop on land we currently own would be adversely affected, which could have a material adverse effect on our business, financial condition and results of operations. Moreover, although as part of our normal course of business we research, conduct valuations and market studies and verify legal and technical requirements of the properties that we intend to acquire, we can give no assurance that properties we have acquired or acquire in the future will not be subject to material risks that were not apparent at the time of acquisition, including, without limitation, environmental risks and legal restrictions. These risks could cause the value of our properties to decline, lead to claims for damages, require us to incur significant additional costs or, in some circumstances, require us to delay or cease developing certain properties, any of which could have a material adverse effect on our business, financial condition and results of operations.

In addition, many of our development projects have been and may continue to be delayed as a result of the economic slowdown, and the resulting decrease in market demand or preferences for the types of projects we intend to develop. For example, the prospects of the commercial real estate market in St. Petersburg significantly worsened during the recent financial and economic crisis, which lead us to reposition and reclassify properties, such as the Europe City and Smolny Quarter developments, from commercial to residential developments to maximize profits from these projects. This has resulted in our having to incur additional costs, including re-design costs, construction costs and costs relating to zoning modifications. Delays in project completion or associated additional costs and our inability to ensure that there will be adequate demand for redesigned or future projects at favorable financial returns could have a material adverse effect on our business, financial condition and results of operations.

***Our indebtedness or the enforcement of certain provisions of our financing arrangements could have a material adverse effect on our business.***

We have significant indebtedness owing to banks, other financial institutions and bondholders. In order to secure some of these financings, we have pledged land, buildings, machinery, equipment, share capital in our subsidiaries and certain leasehold rights, and provided guarantees and suretyships. In addition, certain of our loan agreements, including our credit agreement from ABN AMRO and HSBC, contain financial covenants that limit our ability to incur debt based on certain ratios of EBIT (as defined in the relevant loan agreement) to interest expense and debt to EBITDA, which may limit our operational flexibility. We expected to

breach the EBIT to interest expense financial covenant in the ABN AMRO and HSBC credit agreement in relation to both our financial statements for the period ending June 30, 2009 and the year ending December 31, 2009 and, therefore, in 2009, prior to the relevant measurement date, we requested and received amendment letters from the lenders under this credit agreement for those periods. We also expect to breach the financial covenant when it is next tested in the autumn of 2010 in respect of our reviewed IFRS interim financial statements for the period ending June 30, 2010. We are accordingly in discussions with the lenders for a further amendment letter. Although we expect to receive this amendment letter, we would need to refinance the €114 million loan if our request is declined. Failure to comply with this (or other) financial covenants or failure to obtain amendment letters could result in a default, making these loans and others which we are also a party to immediately due and payable.

Among other things, our indebtedness could potentially limit our ability to obtain additional financing; limit our flexibility in planning for, or reacting to, changes in the markets in which we compete; place us at a competitive disadvantage relative to our competitors with less indebtedness; lead to a partial or complete loss of control over some of our property or the businesses operated by affected subsidiaries; render us more vulnerable to general adverse economic and market conditions; or require us to dedicate substantially all or a significant portion of our cash flow to service our debt.

Bankruptcy or liquidation of certain of our subsidiaries could also trigger adverse consequences under certain of our loan agreements, which could have a material adverse effect on our business, results of operations, financial condition and prospects. Additionally, some of our loan agreements provide the relevant bank with a general right to demand the early repayment of the loan where circumstances arise which, in the reasonable opinion of the bank, may prevent the relevant member of our group from meeting its payment obligations in full or in a timely manner.

Our ability to make payments on our debt depends upon our ability to maintain our operating performance at a certain level, which is subject to general economic and market conditions and to financial, business and other factors, many of which we cannot control. If our cash flow from operating activities is insufficient to service our debt, we could be forced to take certain actions, including delaying or reducing capital or other expenditures in an attempt to restructure or refinance our debt; selling our assets or operations; or seeking additional equity capital. We might be unable to take any of these actions on favorable terms, in a timely manner or at all. Furthermore, such actions might not be sufficient to allow us to service our debt obligations in full and, in any event, could have a material adverse effect on our business, results of operations, financial condition and prospects. Our inability to service our debt through internally generated cash flow or other sources of liquidity would put us in default of our obligations to our creditors, which would result in a material adverse effect on our business, results of operations, financial condition and prospects and could result in the loss of your entire investment in the Shares or GDRs.

***We operate in highly competitive industries.***

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

Additionally, since our group of companies provides contractor services for our pre-fabricated concrete panel building developments only (i.e., our mass-market residential projects), we depend on, and must compete for, contractors, subcontractors and workers to construct our other development projects. Increased competition for the services of quality contractors and subcontractors may force us to agree to subcontracting terms that are less favorable than have previously been available, which could result in increased development costs and an increased risk of delays to development. By relying on subcontractors, we also become subject to a number of risks relating to these entities, including quality of performance, differing work ethics, shortage of workers, performance delays, construction defects and financial reliability.

Furthermore, although we are the market leader in St. Petersburg in the building materials market, we still face significant competition in that market as well as in Moscow, the Moscow region and Yekaterinburg. Despite the fact that the prices of building materials decreased by on average approximately 40% in 2009, the significant competition in the markets where we operate may lead to further declines in the prices of building materials. The inability to compete successfully in any of our businesses could result in reduced operating margins and an inability to increase our market share, which, in turn, may materially adversely affect our business, financial condition and results of operations.

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

DTZ Russia, an independent real estate appraiser, has prepared the Valuation Report on the basis of certain forecasts and assumptions regarding the Russian real estate market and the projects in our portfolio. See the Valuation Report and “*Business—Valuation of Our Properties*”. A number of factors could result in the values that have been ascribed to these properties and projects differing materially from the actual market value of such projects. For example, while we believe that we have supplied reliable information to DTZ Russia, DTZ Russia’s assumptions as to our ownership share or right to develop any given property in the manner reflected in the report may prove to be different from our actual ownership share or development rights.

The valuations in the Valuation Report are stated as of December 31, 2009, and there can be no assurance that these figures accurately reflect the market value of our properties as of any other date. Moreover, the values ascribed should not be taken as an indication of the amounts that could be obtained by us upon disposal of such properties, whether in the context of the sale of individual properties or the portfolio as a whole.

In addition, the use of different valuation methodologies and assumptions would likely produce different valuation results. For example, in the Valuation Report, DTZ Russia used the residual site appraisal method, cross-checked with comparable evidence, in the valuation of our properties, except for those properties held as investments.

DTZ Russia believes that this is the most suitable methodology for valuing those properties. However, this methodology is not universally adopted in the Russian market, where valuers have more commonly used methodologies that include discounted cash flow (DCF) predictions. DTZ Russia believes that, because the Russian real estate market is immature, it is very difficult to make such predictions with any degree of accuracy and accordingly believes that the residual site appraisal method is the most suitable for the majority of the subject properties. As a result, a meaningful comparison of such valuation information across development companies in Russia may be difficult or impossible. Prospective investors are urged to read the Valuation Report in its entirety. For the reasons stated above and in the Valuation Report, we cannot assure you that the real estate appraisals included in this prospectus reflect the properties’ actual market values or that such values will not decline over time. A decline in the properties’ actual market values would materially adversely affect our business, financial condition and results of operations.

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

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

- increases in the rate of inflation;
- increases in payroll expenses and energy costs;
- increases in costs associated with contractors;
- increases in real estate taxes and other statutory charges;
- increases in the price of materials, especially those not produced by us and prices of which are therefore not naturally hedged, such as cement;
- changes in laws, regulations or government policies (including those relating to health and safety and environmental compliance) which increase the costs of complying with such laws, regulations or policies;
- increases in insurance premiums;
- unforeseen increases in the costs of developing properties, including the costs of raw materials and labor;
- unforeseen capital expenditure arising as a result of defects affecting properties that need to be rectified or the failure of sub-contractors to perform their obligations adequately; and
- delays in completion of real estate development projects due to, for example, shortages of labor or materials.

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

***If we are unable to obtain adequate funding, we may not be able to fund the working capital and capital expenditure requirements of our business and may have to limit our operations substantially, which could have a material adverse effect on our business, financial condition and results of operations.***

We have in the past needed, and may in the future need, to attract equity or debt financing to fund the working capital and capital expenditure requirements of our business, including the acquisition of land or properties for development. Debt financing in Russia, particularly long-term debt financing on commercially acceptable terms, has been and may continue to be generally difficult to obtain. In addition, recently, some of Russia’s largest banks became shareholders in large distressed real estate development companies and projects due to those distressed companies, inability to find sufficient funding and liquidity during the financial and economic crisis. For example, the Savings Bank of the Russian Federation (“**Sberbank**”) recently became an owner of a 10% stake in the construction project Rublevo-Arkhangelskoe and OJSC VTB Bank (“**VTB Bank**”) obtained a controlling stake in the development company Sistema Hals. These banks may prefer to finance and arrange funding for the

companies or projects in which they are shareholders. As a result, access to funding for other companies or projects may become more constrained. We also may not be able to borrow on the international capital markets on acceptable terms or at all in the future. In addition, the global financial and economic crisis has resulted in significantly higher interbank lending rates, which is one of the factors making debt financing even more difficult and costly to obtain at present.

In addition, our ability to raise equity capital by issuing Ordinary Shares in the form of GDRs may be limited in the future. Prior to January 1, 2010, the FSFM regulations limited the amount of shares in Russian companies that could be represented by GDRs to 30% of the Company's issued and outstanding shares. After January 1, 2010, that limit was reduced to a maximum of 25%. However, in 2007 at the time of our initial public offering, we received approval from the FSFM for 13,623,832 of our Ordinary Shares to be in the form of GDRs and in 2008 we received another approval from the FSFM for additional 14,465,952 of our Ordinary Shares to be circulated outside Russia, including in the form of GDRs, which together amounted to 29.99% of our then outstanding Ordinary Shares. After the Offering and completion of the Open Subscription, our current FSFM permissions would allow only 5,099,569 additional Ordinary Shares to be deposited into our GDR program. On or prior to the Closing Date, the Selling Shareholder will deposit the Shares and Mr. Molchanov will deposit Ordinary Shares in the GDR program. Accordingly, absent changes to the FSFM regulations, our ability to raise equity in the future through sales of Ordinary Shares in the form of GDRs will not be possible unless we increase the number of issued and outstanding Ordinary Shares. The limitation on the number of Ordinary Shares that can be in the form of GDRs may make it more difficult for us to raise equity capital from investors in the international markets in the future.

If we cannot obtain adequate funds to satisfy our working capital and capital expenditure requirements, we may be forced to limit our operations significantly, which would have a material adverse effect on our business, financial condition and results of operations.

***Our projects, a significant majority of which are at the early stages of planning and development, as well as real estate development, construction and acquisition activities in general, may be subject to delay, non-completion and financial loss.***

Approximately 72% of our portfolio projects by value are in the preliminary design or design stages. Real estate development, construction and acquisition activities are subject to significant risks of delay, non-completion and financial loss due to, among other factors:

- changing market conditions, which may result in diminished demand for developed properties and lower than expected sale prices;
- competition from other real estate developers, which may restrict our ability to acquire desired properties or sites on favorable terms or at all. Even if we enter into agreements for the acquisition of properties or sites, these agreements are subject to customary conditions to closing, including completion of due diligence investigations;
- budget overruns and completion delays with respect to real estate development projects;
- inability to obtain financing;
- inability to identify and participate in development projects with or obtain or renew land lease rights from government authorities;
- delays or refusals in obtaining all necessary land use, building, occupancy and other required governmental permits and authorizations, including investment contracts with local and regional authorities;
- title or other defects in acquired and developed properties, including latent defects that may not reveal themselves until many years after the development of a property;
- compulsory purchase of developed properties by the State triggered by government infrastructure development plans;
- liabilities relating to acquired land, properties or entities owning properties for which we may have limited or no recourse;
- obligations for the development of adjacent properties and the relocation of tenants and owners of properties to be demolished and/or redeveloped;
- obligations relating to the preservation and protection of the environment and the historic and cultural heritage of Russia, as well as social obligations;
- restrictions and encumbrances in land leases, as well as provisions governing the assignment or disposal of land lease rights or other provisions affecting property value;
- liabilities relating to warranties and guarantees given by us for the quality of construction work performed subsequent to the date on which the project was transferred to the customer;
- availability of energy and other utilities and adequate transportation infrastructure;
- our inability to dispose of our investments on acceptable terms or at all;
- changes in laws and governmental regulations and tax laws or the interpretation or application thereof;
- changes in town planning and zoning regulations or the interpretation or application thereof;
- inability to fulfil the terms of investment contracts; and

- possible industrial accidents, deterioration of ground conditions (e.g. presence of underground water), and potential liability under environmental laws (e.g. for soil and site contamination, air contamination and contamination of adjacent areas and the use of hazardous substances) and other laws.

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

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

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

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

Our historical growth and profitability have been attributable in part to our ability to locate and acquire land at attractive prices and on favorable terms and conditions, and the success of our business strategy and future profitability depends upon our continuing ability to do so. It is unlikely that we will be able to replenish any substantial portion of our portfolio at similar price levels. Paying higher prices for development land in the future could adversely affect our operating margins and the profitability of our real estate development segment. In addition, we face the risk that competitors may anticipate certain potential investment opportunities ahead of us and exploit them before we are able to do so.

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

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

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

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

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

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

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

The production of reinforced concrete and ready-mix concrete requires, in addition to sand and crushed granite, cement, which is supplied to us by one supplier in St. Petersburg and the Leningrad region, CJSC Eurocement Trade (“Eurocement”), a significant proportion of whose regional production is sold to us. In the event of any disruption to the business of this supplier, we may

experience shortages in supply and may not be able to find a suitable replacement within an adequate period of time and on similar terms and conditions (or at all).

We are in the process of constructing a new cement plant, which is expected to be completed and operational by the end of 2010, will have a design capacity of 1.86 million tons per year, and is expected to fully meet the internal cement demands for our group in addition to providing extra capacity for third party sales. If our cement supplier is unable to meet our cement requirements prior to our new cement plant becoming operational, if the completion of the new cement plant is delayed, or if the new cement facility is unable to produce enough cement to meet our requirements, our ability to produce concrete could be materially adversely affected, which would have a material adverse effect on our business, financial condition and results of operations.

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

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

***We may have liabilities related to acquired entities.***

Historically, we have acquired entities and expect to continue to do so in the future. We may make investments by acquiring existing entities that may have undisclosed or unascertained liabilities. For example, we are and have been involved in litigation relating to the development projects of our subsidiary CJSC NOVA-Stroy (“**NOVA-Stroy**”), which commenced before it became our subsidiary in 2008. See “—*Challenges to our ownership interests or lease rights in land could have a material adverse effect on our business, financial condition and results of operations.*” We may also be subject to claims of individual investors (*dolshiki*) with respect to the quality of apartments in completed development projects. When making acquisitions, we seek to obtain appropriate contractual protection. However, we cannot guarantee that we will be able to obtain comprehensive protection nor can we guarantee the adequacy and enforceability of such protection (to the extent obtained). If our contractual protection is not sufficient to protect us from any liabilities of acquired entities, such liabilities may materially impair the prospects for profitability and/or levels of profitability from any relevant investment.

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

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

***Our group-wide management controls and processes are not fully developed and may fail to ensure proper oversight, reporting and control of our business.***

Our group has grown largely through acquisitions, and today consists of numerous operating companies that function day to day on a decentralized basis. Our group-wide policies, procedures and systems, including management controls and corporate governance practices, are not as sophisticated or robust as those of companies in Western Europe or the United States and there can be no assurance that they will function as designed. Notwithstanding the above, we believe that our internal control systems are sufficient to ensure compliance with the UKLA’s Disclosure and Transparency Rules as a listed entity. Failure of our group-wide management controls and processes to ensure proper oversight, reporting and control of our operations could have a material adverse effect on our business, results of operations, financial condition and prospects.

***Salary increases in Russia may reduce our profit margins.***

Salaries in Russia have historically been significantly lower than salaries in the more economically developed countries of North America and Europe for similarly skilled employees, although they have increased significantly in recent years. If, after the

Russian economy recovers, salaries in Russia begin to increase as rapidly as they were increasing in the years preceding the recent financial and economic crisis, our margins could be reduced. Unless we are able to continue to increase the efficiency and productivity of our employees in line with or at a faster rate than the rate of salary increases, salary increases could have a material adverse effect on our business, results of operations, financial condition and prospects.

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

Our success will depend, in part, on our ability to continue to attract, retain and motivate qualified personnel. Competition in Russia for personnel with relevant expertise, in particular qualified management personnel and IFRS-qualified financial and accounting personnel, is intense, due to the small number of qualified individuals. For example, from time to time we experience difficulties in recruiting experienced and qualified management and financial personnel needed to operate companies that we acquire and to complement our internal accounting function. Moreover, even if we are able to hire such individuals, we are not insured against damage that may be incurred in case of loss or dismissal of our key personnel. Our failure to successfully manage our growth and personnel needs could have a material adverse effect on our business, financial condition and results of operations.

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

In common with many Russian companies, we have identified areas in our financial controls which require improvement. We do not have a fully integrated or automated information system for the preparation of IFRS financial statements, and our internal control frameworks and development methodologies may not be as robust as might otherwise be the case at companies operating in the United States and Western Europe. Each of our subsidiaries prepares separate financial statements under Russian accounting standards (“RAS”) for statutory purposes. The preparation of our IFRS financial statements is a combination of automated and manual processes that involve, first, the transformation of the statutory financial statements of our subsidiaries into an IFRS format from which IFRS consolidated financial statements can be prepared through accounting adjustments and, second, the consolidation of these financial statements. This process is complicated and time-consuming, requires significant attention from our senior accounting personnel, and may increase the likelihood of errors in our financial statements. We have taken, and plan to continue to take, steps to further improve our accounting systems and internal controls. Notwithstanding the above, we believe that our financial systems are sufficient to ensure compliance with the UKLA’s Disclosure and Transparency Rules as a listed entity.

***The assumptions underlying our growth strategy in the regions where we commenced operations recently may prove to be incorrect or we may fail to properly implement this strategy.***

In recent years, we have commenced operations in Moscow and the Moscow region, Yekaterinburg and the Sverdlovsk region, Ukraine, Lithuania, Estonia and Latvia. Our growth strategies in these regions may prove to be incorrect, and we may not be successful in identifying profitable future projects and/or developing existing projects on a profitable basis in these regions due to, among other factors, the potentially higher costs associated with doing business in non-home market regions, our relative lack of experience and knowledge of these regional markets and our lack of established relationships with the authorities of these regions. Should we fail to successfully execute our regional development strategy, our financial condition and results of operations could be materially adversely affected. See “*Business—Strategy*”.

***We may have difficulty integrating our acquisitions or we may not realize their anticipated benefits.***

We have experienced strong growth and development in a relatively short period of time. Since our formation in 1992, we have completed a significant number of material acquisitions of building materials, real estate development and construction businesses. In addition, many of our projects involve expanding into new product or geographic markets in which we lack experience. As part of our mid- to long-term strategy, we may undertake growth through selective acquisitions in the future. The integration of future acquisitions into our existing business poses significant management, administrative, operational and financial challenges. These challenges include, among others:

- integration of management information and financial control systems, legal and compliance oversight;
- transfer, assignment and re-registration of agreements and permits and consents following an acquisition;
- additional or unexpected capital expenditure requirements;
- retention of customers and suppliers;
- integration of different company and management cultures; and
- retention, hiring and training of key personnel.

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

***Government land leases and investment contracts may be revoked due to delays in development.***

A significant proportion of the land obtained by us from government authorities for development is leasehold. Each lease or investment contract requires that we develop the relevant land by a particular date. Any extension of the agreed date is at the discretion of the government authority. If we do not complete the development by the agreed date, we face the risk that the government authority may impose fines, reject our request to extend the term of the lease or the investment contract, and/or seek to terminate the lease or the investment contract in court and sell development rights to another developer at an auction, in which case we would only be entitled to recover a portion of the development costs we have incurred in the development. If we are unable to complete any of our developments by the agreed date, any fines, cancellation of leases or forced auctions could adversely affect our business, financial condition and results of operations. In particular, with respect to the Novy Balchug project, we are currently in breach of the timeframe requirement in the investment agreement with the Moscow Government for relocation of residents of some of the buildings situated on the development plot. Although we expect that the Moscow Government will agree to approve changes to the development timeframe requirement contained in the investment agreement, no assurance can be given that this will occur.

***We are subject to specific governmental regulations due to our dominant market share in certain segments of the building materials and aggregates markets, which significantly affects our operational flexibility and pricing policy.***

We currently maintain a leading market position in St. Petersburg and the Leningrad region in most of the segments of the building materials market in which we operate, and a dominant position in the reinforced concrete, sand and brick markets. Since we have established a dominant position in these markets, the Federal Anti-Monopoly Service (the “FAS”), has imposed certain conditions upon our activity within these markets. In particular, we are required to notify the FAS of any change in pricing or production volumes of these products, state the rationale behind such changes and provide quarterly reports discussing the pricing and volume of our sales. Moreover, we are prohibited from withdrawing any of these building materials and aggregates from the markets with the intention of manipulating supply or price, or if such actions may result in the scarcity of these building materials or aggregates or lead to price increases. Furthermore, we are not allowed to reduce production volumes of sand until July 2013 unless we obtain the FAS’s prior consent. We are also prohibited from taking actions which prevent other companies from accessing or entering the building materials and aggregates markets in which we occupy a dominant position. We are also required to act on an arm’s length basis with companies within our group, refrain from discriminating against other customers that are not members of our group (including by refusing to enter into a contract with any such customer on fair market conditions unless we are unable to perform under such contract), and, more generally, not to abuse our dominant position in these market segments.

Should we fail to comply with any of these requirements, we may be subject to a fine of at least RUB 100,000 per violation or an amount of up to 0.15% of our revenues from the sale of that product and, in certain cases, the transactions that violated these requirements may be invalidated by a Russian court based on a claim brought by the FAS. There can be no assurance that the FAS or other regulatory authorities will not impose even more restrictive regulations upon us in the future, which could result in a material adverse effect on our business, financial condition and results of operations.

Moreover, compliance with these requirements was a prerequisite to receiving the consent necessary to complete certain of our acquisitions by, or consolidations of other companies into, our group. Should we fail to comply with any of these requirements, the relevant acquisition or consolidation agreement may be invalidated by a Russian court pursuant to a claim brought by the FAS. Furthermore, repeated violations of these requirements or certain other provisions of federal anti-monopoly legislation may result in forced liquidation, reorganization or demerger ordered by the court on the basis of a claim by the anti-monopoly authority or the imposition of administrative penalties. Such sanctions, if imposed, could have a material adverse effect on our business, financial condition and results of operations.

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

Since 1998, ownership rights to, and certain transactions in respect of, real estate require State registration with the Unified State Register of Rights to and Transactions with Real Property (the “Land Register”) and take effect only as of the time the relevant record in the Land Register is entered. Despite the fact that entries in the Land Register are considered to be the only conclusive evidence of the existence of the relevant ownership right or transaction, any interested party may challenge in court rights registered with the Land Register. Furthermore, ownership or other rights acquired prior to 1998 (when the requirement for State registration was introduced) are recognized without registration and the Land Register does not provide comprehensive guidance regarding ownership or other rights acquired prior to 1998. In addition to the Land Register, there is currently a separate State database, the Real Estate Cadastre, which contains records regarding physical characteristics of real estate, such as the measurements and boundaries of land plots.

Although both the Land Register and the Real Estate Cadastre are expected to give clear guarantees relating to the accuracy and completeness of the information contained in these databases, there are occasions on which this has not been the case. Therefore, although we may be forced to rely upon the information contained in these databases when acquiring real property, we may not have effective redress against the State if the information upon which we relied was inaccurate, misleading or incomplete. The information in these databases may also be subject to challenge in the courts by any interested party. In general, we may only acquire title to assets which is as good as the title of the seller of such assets to us. It can be difficult, or impossible in certain cases, to establish beyond doubt that such title is incapable of challenge. Any successful challenge to the validity of the seller’s

title to an asset may have adverse consequences for our title to such asset, which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

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

Historically, all title to land in the Russian Federation was held by the State and, in most regions (including St. Petersburg, the Leningrad region, Moscow and the Moscow region), the federal and local authorities still maintain significant influence over the privatization, sale and leasing of land. In Moscow, the city government rarely transfers title to land, preferring to offer leases for real estate developments, thereby maintaining a key long-term role in the real estate market. Russian governmental authorities have broad discretion when allocating land and approving real estate projects. We have a long-standing relationship with the government and maintaining this relationship is important for our business. In addition, we entered into several agreements with the RF Ministry of Defense and the Government of St. Petersburg pursuant to which we develop and sell to the government or construct for the government (i.e. act as a building contractor) several mass-market residential properties, and therefore the government is also one of our major customers. Our business therefore depends on maintaining positive working relationships with the relevant governmental authorities. Our business would be adversely and materially affected if our relationships with governmental authorities were to deteriorate in the future.

***Some of our current construction projects are funded from the State budget and therefore may be subject to delayed or reduced payments, which will have a material adverse effect on our business.***

Some of our current construction projects are funded from the Russian State budget. For example, in June 2009 we won a RUB11,385 million tender held by the RF Ministry of Defense in respect of a contract to construct 49 nine to 17 floor residential properties in the Osinovaya Roscha area in St. Petersburg, with completion planned for June 2011. In addition, in July 2009, we entered into a contract with the Morton group of companies, the general contractor for the construction of a residential neighborhood for military personnel in Balashikha, Moscow region, to implement the Balashikha project jointly. Morton was selected as the general contractor for this development at an auction held by the RF Ministry of Defense. Pursuant to the contract and the approved design documentation, we will be constructing a residential complex comprising six 14 to 17 floor buildings with a total net sellable area of 140 thousand square meters. The amount of the contract is RUB 3,898 million and project completion is planned for June 2011. During 2009, we received RUB15,135.7 million in funds from the State budget in connection with these and other Governmental projects.

State budget revenues in Russia greatly depend on the prices of oil and gas, which have decreased significantly in the past few years. In addition, the financial and economic crisis in Russia also negatively affected State revenues. Should State revenues decline for these or other reasons, State funding of our development projects funded from the State budget may be delayed or reduced. Even if State revenues remain stable, the government may decide to delay or attempt to renegotiate the payment terms or amounts, for example if the government decides to reprioritize its payment obligations. In the event that the sums due for such projects are not paid in full and/or on time, our business would be adversely and materially affected.

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

Our operations and properties are subject to regulation by various governmental entities and agencies in connection with obtaining and renewing various licenses, permits, approvals and authorizations, as well as with ongoing compliance with existing laws, regulations and standards. The planning and approval process in most parts of the Russian Federation is bureaucratic and involves uncertainty. A number of preliminary planning and architectural design approvals are necessary to receive the right to construct on a land plot. For any project being developed in Russia, the construction documentation must be approved by several administrative bodies within the appropriate local or regional government. In addition, each project must receive administrative approvals from various governmental agencies, including fire, health and safety, environmental protection and sanitary departments, as well as technical approvals from various utility providers, including electricity, gas and sewage services. For example, we must obtain certain permits to begin operating our cement production facility in the Leningrad region which is currently under construction. Moreover, there are certain discrepancies with regard to the permitted use of the land relating to the Europe City, Sophia, Hermitage View House, Deputatskaya, 34 and Michurinsky projects as well as the Ruch'i development. While in accordance with the recently adopted town-planning and zoning regulations, the relevant land plots are intended for construction of residential and commercial real estate, the records in the Real Estate Cadastre still show that the permitted use of those land plots is for industrial use (Europe City and Sophia), construction of hotels (Hermitage View House) or agricultural purposes (Ruch'i). Therefore, in the course of development we will need to resolve this conflicting information in the Real Estate Cadastre with the relevant State authorities in order to bring the cadastral documents into compliance with the recently adopted town-planning and zoning regulations. These requirements may hinder, delay or significantly increase the costs of our development activities.

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

Furthermore, if we are found to be in violation of the requirements contained in the design documentation or the construction permit after construction of the building has been completed, we will not be able to obtain ownership rights to the building, and the building will be registered by a court order in the name of the owner of the underlying land plot, while we may only be entitled to be compensated for the actual costs associated with the construction of the building.

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

In addition, some licenses may require us to begin extraction or reach certain levels of production by a specified date. In October 2009 and January 2010, we received Governmental orders with respect to three licenses held by our subsidiary LLC Cement because we did not commence extraction within the designated period and, as a result, we did not produce the required volumes of cement clays and limestone under the terms of the licenses. While we believe that we will be able to meet the requirements of the Governmental orders, failure to do so may result in our licenses being revoked. Due to the financial and economic crisis, we also failed to comply with the required levels of production in respect of other quarries and deposits. We believe that it is unlikely that we will receive further Governmental orders with respect to these quarries and deposits. Nevertheless, there can be no assurance that no Governmental orders will be issued or that our licenses will not be revoked.

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

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

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

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

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

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

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

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

and buildings may be challenged by governmental authorities or third parties, and our construction projects may be delayed or canceled.

Under Russian law, transactions involving real estate may be challenged on many grounds, including where the seller or assignor of rights to real estate did not have the right to dispose of such real estate, tenants' failure to notify assignment of rights under the lease agreements to the landlord, breach of internal corporate approval requirements by a counterparty, failure to receive appropriate permissions from local authorities to amend provisions relating to permitted use of property in a land lease and failure to register the transfer of title in the Land Register. As a result, defects in any of our previous real estate transactions may lead to the invalidation of those transactions, which would affect our title or lease rights to such real estate. Further, Russian law does not require certain encumbrances over real estate (including leases of less than one year, easements created by virtue of law and other similar statutory encumbrances) to be registered in the Land Register in order to validly encumber the property. In addition, the law contains no time limits within which any registerable encumbrances have to be registered. As a result, third parties may successfully register or assert the existence of encumbrances over real estate owned or leased by us of which we had no prior knowledge. While in certain cases such occurrences would be covered by the representation of the seller of the land plot, or the representation of the seller of the entity owning the land plot, as to the validity of the underlying ownership interests and/or lease rights in land in the agreement governing the sale, grant or transfer of such ownership or lease interests, effective recourse against the seller may not always be possible as the seller may have limited resources, and/or the enforcement of claims against the seller may be difficult. There can be no assurance that our ownership interests and/or lease rights in land will not be successfully challenged again, including in cases where effective recourse against the seller is not possible, which may have an adverse material effect on our business, financial condition and results of operations.

For example, certain land lease rights of our subsidiary NOVA-stroy in Yekaterinburg in respect of development projects at Cherepanova Street; Tekhnicheskaya, Sortirovochnaya, and Kourovskaya Streets; and Repina, Nachdiva Vasilieva, and Zavodskaya Streets, all of which were in the early, pre-construction stages of development, were successfully challenged by the prosecutor's office in 2007-2009 alleging that the land plots relating to these projects were granted to NOVA-stroy by the Yekaterinburg Government in violation of the procedure for allocation of land plots for developments which was prescribed by law. First instance courts nullified these land plots grants, and appeal courts have affirmed these decisions. The Supreme Arbitrazh Court dismissed our claim to review the court decisions in respect of the development project at Repina, Nachdiva Vasilieva and Zavodskaya Streets and the court decision has entered into force. The third instance court affirmed the appeal court decisions in respect of the Cherepanova Street development project and the Tekhnicheskaya, Sortirovochnaya, and Kourovskaya Streets project. We plan to appeal its decisions to the Supreme Arbitrazh Court. However, we have written-off RUB 529.1 million in respect of these three developments in the income statement in the 2009 Audited Financial Statements. This amount comprised the fair market value of the properties at the time of purchase in August 2008, as valued by American Appraisal, and subsequent investments in the properties during the period prior to December 31, 2009.

We purchased NOVA-stroy from a third party seller in 2008 pursuant to a sale and purchase agreement in which payments were made subject to an installment schedule. In respect of the development project at Repina, Nachdiva Vasilieva and Zavodskaya Streets, we had claimed against the seller of NOVA-stroy for breach of several representations given by the seller in the agreement for the sale and purchase of shares in NOVA-stroy. As a result of negotiations with the seller, we waived the claim in return for more favourable conditions of payment of the purchase price for the shares in NOVA-stroy. The more favorable terms included (i) annulment of the provision of the agreement requiring us to pay 8% annual interest accruing on the amount of the outstanding purchase price, and (ii) the extension of the timeframe for payment of the purchase price.

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

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

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

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

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

***Compliance with the Pre-Sale Law brings additional complexity to the process of financing our development projects.***

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

***Some of our developments may be subject to historical preservation laws.***

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

***Inflation could increase our costs and decrease operating margins.***

The Russian economy has been characterized by high rates of inflation. According to the CBR, the annual inflation rate in Russia was approximately 11.9% in 2007, 13.3% in 2008 and 8.8% in 2009. Certain of our costs, including salaries, rents and energy costs, are sensitive to inflation in Russia and, consequently our costs will generally rise as a result of inflation. However, due to competitive pressures or other factors, we may not be able to raise the prices we charge for our developments or our building materials to offset such increases and thereby to preserve our operating margins. Accordingly, high rates of inflation in Russia could adversely affect our business, financial condition and results of operations.

***We may have a lower level of mineral reserves than our estimates indicate, and such reserves may be depleted more rapidly than anticipated.***

Currently, we estimate that, based on pre-crisis production levels, our reserves of crushed granite will allow for approximately 110 additional years of crushed granite extraction, our sand deposits will be sufficient for approximately an additional 7 years and our reserves of clay will allow for approximately 63 additional years of clay extraction based on 2008 production levels, assuming, in each case, that our extraction permits are renewed. However, our reserves estimates may change substantially if new information subsequently becomes available or our production needs change. Fluctuations in the price of aggregates, variations in production costs and/or changes in recovery rates may result in our estimated reserves being revised. If such a revision were to indicate a substantial reduction in reserves, it could negatively affect our results of operations, financial condition and prospects.

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

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

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

A number of our building materials compete with other products that we do not produce. For example, brick-monolithic technology, which is a construction method that involves pouring the concrete between the outer and inner shells of the building and constructing outer walls using bricks, has recently become more widely used. The application of this technology has resulted in a substantial decrease in the amount of brick used, as concrete load-bearing frames partially replaced brick as a building material. We have responded to this development by building a new cement production facility in the Leningrad region, which is expected to be completed and operational by the end of 2010, as cement is one of the key components in the production of concrete load-bearing frames used in brick-monolithic technology. Any significant replacement of any of our other building products by substitute products that we do not produce could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

***We do not carry all of the types of insurance coverage customary in other countries for a business of our size and nature, and we may be unable to obtain adequate insurance cover, which could have a material adverse effect on our business, financial condition and results of operation.***

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

Additionally, the insurance policies we maintain are subject to varying levels of deductibles. In addition, while we maintain mandatory insurance policies for our hazardous activities, there is a possibility that the liability limits on these policies may be exceeded. Losses up to the deductible amounts and in excess of applicable insurance limits are accrued based on our estimates of

the ultimate liability for claims incurred and an estimate of claims incurred but not reported. The lack of insurance or occurrence of claims or costs above our estimates could materially adversely affect our business, financial condition and results of operation.

In addition, the insurance market in Russia remains relatively underdeveloped and we may find it difficult or impossible to obtain adequate insurance cover at rates which are commercially viable. For example, insurance in respect of environmental liabilities we may incur is currently unlikely to be available.

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

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

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

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

We own less than 100% of the shares in some of our subsidiaries. In addition, certain of our wholly owned subsidiaries have had other shareholders in the past. Some of our subsidiaries have in the past carried out, and continue to carry out, numerous transactions with other subsidiaries and affiliates, which may be considered “interested party” transactions under Russian law, requiring approval by disinterested directors, disinterested independent directors or disinterested shareholders. The provisions of Russian law defining which transactions must be approved as “interested party” transactions are subject to different interpretations. In addition, the concept of “interested parties” is defined with a reference to the concepts of “affiliated persons” and “group of persons” under Russian law, which are subject to many different interpretations. We cannot assure you that our and our subsidiaries’ application of these concepts will not be subject to challenge by former and current shareholders. Any such challenges, if successful, could result in the invalidation of transactions, which could have a material adverse effect on our business, financial condition and results of operations and the value of the Shares and GDRs.

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

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

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

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

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