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For immediate release

20 April 2009

PRESS RELEASE

St. Petersburg

Revenues of LSR Group for 2008 is up by 39% and EBITDA is up by 67%

On 17 April 2009, the Board of Directors of OJSC LSR Group (LSE: LSRG, MICEX, RTS: LSRG) approved the 2008 consolidated financial statements prepared in accordance with the IFRS standards. The independent audit of the financial statements was carried out by KPMG.

In 2008 LSR Group demonstrated dynamic growth and achieved record operating financial results:

- Sales revenues rose by 39% to reach RUR 49,813 million
- EBITDA grew by 67% to RUR 13,178 million, and EBITDA margin grew from 22% to 26%.
- Normalised operating profit increased by 75% to RUR 11,130 million.
- Normalised net profit was up by 72% to RUR 5,298 million.

Igor Levit, CEO and member of the Board of Directors of LSR Group commented:

“2008 was a year of record achievements for our company: we demonstrated dynamic growth and showed high levels of revenue and EBITDA.

In 2008, we went on implementing a strategy aimed at strengthening our positions in the core segments of our home market as well as at expanding our influence in the key market regions. In particular, at the Urals we acquired building materials production facilities and the leading prefabricated construction company, and also a major real estate development company having a sizable land bank. As a result we succeeded in replicating the integrated business model of our company in the Yekaterinburg and the Urals region market strategically important for us.

In 2008, we obtained a dominating position in the Ukrainian aerated concrete market through launching a new aerated concrete plant and finalizing the acquisition of a major aerated concrete producer in the Kiev region.

We continued the realization of programmes aimed at increasing the efficiency of our manufacturing facilities and in accordance with our time table carried on with the construction of a cement plant we will be ready to put into operation in the second half of 2010.

On the other part, one cannot disregard the fact that last year was a year of dramatic changes in the economic development worldwide. The crisis affected the 2008 results of LSR Group too, causing a reduction in demand in the second part of 2008 and bringing about a negative result of the revaluation of our investment property. However, it is important to note, that even though the loss from revaluation reduces the profit recognized in the income statement, it has no effect on the cash flows and liquidity of

the company. In addition, since the valuation parameters depend greatly on the market environment, we are convinced that once the crisis is over the valuation will be reconsidered in the positive direction.

In autumn 2008, we developed and launched an anti-crisis strategy and implemented cost reduction programme. We believe that we will emerge from the current economic cycle even stronger than before”.

Notes to Editors:

OJSC LSR Group is a real estate and building materials company founded in 1993 and operating in a number of complementary market segments. Its core business areas are building materials, construction and real estate development. The Group includes enterprises for extraction and processing of aggregates, production and transportation of building materials, and housing construction — from mass market large-panel housing to elite property built after designs made by leading domestic and foreign architects. LSR Group has operations and offices in a number of cities in the Leningrad region, in St. Petersburg, Moscow, Yekaterinburg, Lithuania, Latvia, Estonia, Ukraine and Germany.

In 2007, the sales revenues of LSR Group (IFRS) - were RUR 35,838 million, in 2008– RUR 49,813 million.

LSR Group is a public company, with its GDRs listed and traded on the London Stock Exchange and its shares listed and traded on MICEX and RTS. In 2007, LSR Group was awarded ‘The Company of the Year’ National Award in the ‘Construction’ category.

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KEY FINANCIALS

RUR m	2006	2007	2008
Revenue	21,111	35,838	49,813
EBITDA	3,626	7,897	13,178
EBITDA margin	17%	22%	26%
Normalised operating profit	2,505	6,343	11,130
Normalised operating profit %	12%	18%	22%
Normalised net profit	1,002	3,072	5,298
Changes in fair value of investment property	130	8,037	(16,143)
Impairment of goodwill	-	-	(391)
Reported net profit	1,101	9,180	(8,007)
Gross cash flow	3,790	7,942	13,335
Operating cash flow	557	(8 491)	4,374
Amortisation and depreciation	1,121	1,554	2,049
Capitalised capital expenditure	2,965	6,519	10,330
Total debt	14,478	24,151	36,874
Net debt	12,870	15,498	33,628
Net debt/ EBITDA	3.5	2.0	2.6

Consolidated Profit and Loss Statement

RUR m	2006	2007	2008	Change from 2007 to 2008, %
Sales revenue	21,111	35,838	49,813	39%
Cost of sales	(13,796)	(23,861)	(31,807)	33%
Gross profit	7,314	11,976	18,006	50%
Distribution expenses	(1,702)	(1,754)	(2,226)	27%
Administrative expenses	(3,051)	(3,755)	(4,446)	18%
Other receipts and expenditures	(56)	(124)	(203)	64%
Impairment of goodwill	-	-	391	
Changes in the fair value of investment property	130	8,037	(16,143)	
Operating profit (loss)	2,635	14,380	(5,404)	(138%)
Net financing expenses	(876)	(1,889)	(4,858)	157%
Profit (loss) before tax	1,759	12,491	(10,262)	(182%)
Income tax	(658)	(3,311)	2,255	(168%)
Net profit (loss)	1,101	9,180	(8,007)	(187%)

Normalised items:

Normalised operating profit	2,505	6,343	11,130	75%
Normalised operating profit %	12%	18%	22%	
Normalised net profit	1,002	3,072	5,298	72%
EBITDA	3,626	7,897	13,178	67%
EBITDA %	17%	22%	26%	

EBITDA equals to operating profit plus depreciation and amortization of fixed assets and intangible assets less changes in the fair value of investment property plus impairment of goodwill. EBITDA margin equals to the ratio between EBITDA and sales revenue.

Normalised operating profit equals to operating profit less the effects of revaluation of investment property and impairment of goodwill, which are non-cash items.

Normalised net profit calculated as net profit excluding effects of revaluation of investment property (incl. recalculation of deferred tax) and impairment of goodwill.

Normalised earnings per share calculated as earnings per share excluding effects of revaluation of investment property (incl. recalculation of deferred tax) and impairment of goodwill.

Total debt calculated as the sum of non-current loans and borrowings, current loans and borrowings and bank overdraft.

Gross cash flow represents operating profit before changes in working capital and provisions

Net debt calculated as total debt minus cash and cash equivalents.

Total debt/ EBITDA and Net debt/ EBITDA ratios are calculated on annualised basis

The measures described above are not defined in the International Financial Reporting Standards and should therefore be regarded only as supplementary information.

The financial indicators in this press release are rounded to whole numbers in RUR millions, and percentage changes in indicators are calculated using data in RUR thousands.

The complete consolidated financial statements of LSR Group for 2008 can be downloaded at www.lsrgroup.ru/results.

Annual financial report for 2008 prepared in accordance with Disclosure and Transparency Rules requirements will be released in our website 30 April 2009.

In 2008 we achieved record sales revenues, EBITDA and normalised operating profit figures in spite of the worsening economic situation towards the second half of the year.

Revenues

The sales revenues of LSR Group went up by 39%, to RUR 49,813 million. Despite the financial crisis and lower sales volumes in the second half of the year all business segments showed a considerable growth of revenues from sales and EBITDA.

Gross profit

Gross profit grew by 50% to RUR 18,006 million. The principal growth drivers of gross profit and profitability were:

- higher average sales prices as compared to the previous year;
- high sales of a number of some of core products, namely aggregates and panel construction leading to lower unit costs due to economies of scale;
- operating profitability of a number of products grew because new, more efficient equipment had been commissioned under the existing programme of capacity upgrade.

Gross margin went up from 33% to 36%.

Distribution and administrative expenses

In 2008 the absolute figure of overheads increased because of the growth in the scope of business, however, its percentage in the revenues went down, thus resulting in higher operating profitability.

In 2008 distribution expenses grew by 27%, to RUR 2,226 million. The main growth factor of the increase in distribution expenses was higher cost of product delivery due to higher sales, and an increase in some other expense items. At the same time, the percentage of distribution expenses in regard to revenues was down, from 5% to 4%.

Administrative expenses grew by 18%, to RUR 4,446 million. At the same time, the percentage of administrative expenses in regard to revenues was down, from 10% to 9%.

The lower percentage of overheads in the revenues is explained, on the one hand, by higher revenues, and on the other hand – by measures taken by all business divisions to cut the overheads in the second half of 2008.

Changes in the fair value of investment property

The IFRS standards require that the valuation of the fair value of investment property were made by each reporting date and the results of valuation are reflected in the financial statements. In compliance with the IFRS standards, the following two categories of investment property have to be revaluated:

1. Operating commercial property rented to third-party tenants;

2. Land plots owned by the company and intended for the development of commercial property to be rented to third-party tenants.

The revaluation of the fair value of eight properties of both categories was carried out as of the 31st December 2008. Other commercial property projects at the development stage (particularly those where the company holds rights other than ownership rights to the plot), are not subject to revaluation for the IFRS purposes, and were accounted at cost.

In 2008 the revaluation of investment property produced a negative effect, to the amount of RUR 16,143 million. While the loss from the revaluation reduces the reported operating profit in 2008, it does not affect the cash flows and liquidity of the company.

Due to financial crisis the key valuation parameters as capitalisation rates, forecasted vacancy rates, expected cash flows from rent etc. deteriorated, resulting in considerably lower value of investment property. In view of the financial crisis we also suspended a number of projects, which in turn produced a negative effect on the assessment of their value.

Independent valuation of the investment property was conducted by DTZ.

EBITDA and Operating Profit

EBITDA grew by 67% to RUR 13,178 million. EBITDA margin rose from 22% to 26%. Normalised operating profit grew by 75% amounting to RUR 11,130 million, with normalised operating profit margin growing from 18% to 22%.

Net Financing Costs

The net financing costs increased by 157% to RUR 4,858 million. The increase in net financial costs was connected with an increase in debt, caused by the need to finance the investment programme of the company, and with a growth of costs of financing in the second half of 2008.

Income Tax Expenses

IFRS standards require that the income tax should include full reserves for the deferred taxes with the revaluation of the investment property taken into account. In this connection the profit and loss statement for 2008 shows the tax benefit in the amount of RUR 2,255 million, because of the reduction of deferred tax obligations over the previous accounting periods as a result of the growth in the value of investment property. Since the 2008 revaluation yielded negative results, these reserves, accumulated over the previous periods, also decreased.

In 2008 the income tax rate as established by the law did not change and remained at 24%. Starting from 1 January 2009 income tax rate decreased to 20% which affected the deferred tax amount.

Net Profit

In 2008 we received normalised net profit on the amount of RUR 5,298 million. The net loss, with the negative effect of the investment property revaluation taken into account, amounts to RUR 8,007 million.

Cash Flows and Liquidity

Consolidated Cash Flow Statement

RUR m	2007	2008
Net Income	9,180	(8,007)
Depreciation & amortization	1,560	2,049
Other, net	(2,797)	19,293
Operating profit before changes in working capital and provisions	7,942	13,335
<i>Change in Inventories</i>	<i>(12,269)</i>	<i>(12,166)</i>
<i>Change in Trade and Other Receivables</i>	<i>(3,938)</i>	<i>(1,810)</i>
<i>Change in Trade and Other Payables</i>	<i>2,554</i>	<i>10,548</i>
<i>Increase/ decrease in provisions</i>	<i>484</i>	<i>176</i>
Cash flow from operations before income taxes and interest paid	(5,226)	10,083
<i>Income Taxes Paid</i>	<i>(1,466)</i>	<i>(2,752)</i>
<i>Interest Paid</i>	<i>(1,799)</i>	<i>(2,957)</i>
Cash flow from (utilised by) operating activities	(8,491)	4,374
Capital Expenditures	(4,925)	(9,346)
Acquisitions	(2,074)	(5,573)
Disposals	442	395

Other	264	(3, 624)
Cash flow from (utilised by) investing activities	(6, 294)	(18, 149)
Debt issued (repaid)	7, 432	8, 276
Proceeds from equity issuance	14, 531	-
Other	-	(40)
Cash flow from (utilised by) financing activities	21, 963	8, 236
Net change in cash	7, 177	(5, 539)
Cash at beginning of period	1, 582	8, 593
Exchange rate fluctuations	(166)	134
Cash and end of period	8, 593	3, 188

In 2008 cash flow from operations amounted RUR 4,374 million.

The year's results show an increase in the operating profit before changes of the working capital of 70%, amounting to RUR 13,335 million.

The working capital increased by RUR 3,251 million. The main factor of its growth was the expansion of the developer's business resulting in the significant increase of inventory. On the other hand, the amount of advance payments from buyers also grew substantially.

Changes in the amount of inventory, of accounts receivable and payable in the building materials business generally matched the rate of business growth of the company.

Interest payments in 2008 went up by 64%, amounting to RUR 2,957 million. This growth is connected with the overall growth of the company's debt portfolio, and with the growth of interest rates in the second half of 2008.

Profit tax expenses grew by 88% and amounted to RUR 2,752 million, following the growth of the company's operations and taxable profit.

The cash flow utilised by investing activities was RUR 18,149 million.

The cash flow from financial activities was RUR 8,236 million, representing the increase in the Group's debt portfolio.

The cash balance as of the end of 2008 was RUR 3,189 million, excluding bank overdraft of RUR 58 million and the restricted cash of RUR 4,259 million, connected with the long-term credit line from ABN AMRO/HSBC and reflected in the balance sheet as a part of non-current assets.

Capitalised Capital Expenditure

RUR m	2007	2008
Building materials	3,103	6,663
Aggregates	1,295	854
Construction services	1,039	1,164
Real estate development	234	225
Construction	622	1,239
Commercial property	4	1
Other	225	300
Intragroup eliminations	(3)	(116)
TOTAL	6,519	10,330

The capital expenditure into fixed assets capitalised in the balance sheet increased by 58% in 2008, amounting to RUR 10,330 million. The capital investments were channelled both into growth of production and improvement of the efficiency of existing capacities. The bulk of the investment went into the building materials business, primarily, into the construction of a new cement plant, upgrading of house-building factories of LSR Group and commissioning of new aerated concrete facility in Ukraine.

Besides, we invested considerable funds in the development of property and in the acquisition of land. LSR Group reserves for real estate development, capitalised in the balance sheet, grew by 52% from RUR 29,927 million as of December 31, 2007 to RUR 45,472 million as of December 31, 2008.

Debt

In 2008 we considerably increased the amount of debt which is related to our investment programme. The total amount of debt of the LSR Group, including leasing liabilities, grew by 53% to RUR 36,874 million as of December 31, 2008. At the same time the net debt amounted to RUR 33,628 million and net debt/ EBITDA ratio was 2.6 as of the end of 2008.

In August 2008 LSR Group placed its 4th rouble bond of RUR 5 billion in the Russian financial market. Its maturity is three years, with a put option in one and a half years.

Debt Structure

RUR m	31.12.07	31.12.08
Bank and other loans	16,313	25,894
Bond issues	5,953	8,911
Finance lease liability	1,826	2,011
Bank overdraft	60	58
Total debt	24,151	36,874
Less cash and its equivalents	8,654	3,246
Net debt	15,498	33,628

The bulk of the loan portfolio (71%) consisted of loan facilities obtained from Sberbank and VTB, and from a number of other banks. Rouble bond issues accounted for 24% and finance lease liability – for 5% of the total debt.

In the second half of 2008 the cost of debt financing increased because of the credit crunch.

Credit Ratings

In May 2008, Fitch assigned a B+ long-term credit rating to LSR Group, with a stable outlook. Moody's Investors Service confirmed the B1 rating for January – October, 2008, with a stable outlook.

Against the backdrop of worsening macroeconomic situation Moody's revised the outlook to negative in October 2008. Later, in January 2009, Moody's lowered the credit rating of LSR Group to B3, with a stable outlook, while Fitch lowered the rating to B, placing it on the list "Rating Watch Negative".

Acquisitions in 2008

We acquire selected companies in the construction sector, using this strategy to get faster access to new markets and to obtain a stronghold in the existing markets. Besides, we acquire rights to land plots, in order to fill and diversify our developer's portfolio, on condition that the acquisition price guarantees the targeted profit margin of our business as developers.

In 2008, we made a number of strategic acquisition in Yekaterinburg. We obtained control of OJSC Betfor Prefabricated Concrete Factory, the biggest house-building company in the region, which also produces building materials, OOO Uralscheben – crushed granite manufacturer, OOO SMU Nova-Story construction company, CJSC Nova-Story developer, OOO PKU Nova-Story Proekt design office, and the rights to a number of land plots where over a million of square metres of property can be erected.

In St. Petersburg we acquired the rights to the land plot in Vasilyevsky Island district of St. Petersburg at the address: 1 Michmanskaya Street. The plot is ready for the development of residential property of elite and business class segments. We also acquired investor's rights in regard to land plots earmarked for mass market residential development: 9A Belysheva Street (Aurora project) and 19A Badayeva Street. (Vostok project).

In Moscow we acquired the rights to several land plots with a total area of 1.8 hectares at Leningradsky highway where we are planning a residential development project.

In Ukraine we acquired a 97% stake in of one of the major manufacturers of aerated concrete, OJSC Obukhiv Porous Concrete Plant.

FINANCIAL INDICATORS BY BUSINESS SEGMENTS AND PRODUCT BUSINESS UNITS

Business Segment	Revenue, RUR m	Revenue growth in 2008	EBITDA, RUR m	EBITDA margin
Building materials	19,692	20%	3,609	18%
Aggregates	8,520	54%	3,147	37%
Construction services	2,752	15%	852	31%
Real estate development	12,218	20%	4,002	33%
Construction	13,119	127%	3,121	24%
Commercial property	181	93%	105	58%
Other and eliminations	(6,668)		(639)	
Unallocated expenses	-		(1,018)	
TOTAL	49,813	39%	13,178	26%

Financial Results by Business Segments

The sales revenues in Building Materials segment went up by 20% to RUR 19,692 million, EBITDA grew by 9% to RUR 3,609 million. The operating profit grew by 4% to RUR 2,892 million.

Aggregates segment in 2008 reported sales revenues of RUR 8,520 million, up by 54% on last year results. EBITDA and the operating profit went up by 57% and 66% to RUR 3,147 million and RUR 2,634 million respectively. In 2008, our sales of sand and crushed granite were record-high, which together with an increase in the average product prices, resulted in the growth of revenues and profit margin.

The sales revenues of Construction Services segment were RUR 2,752 million, up by 15% on the previous year's results. EBITDA grew by 26% to RUR 852 million, and the operating profit went up by 26% to RUR 574 million.

The sales revenues of the Real Estate Development segment increased by 20% to RUR 12,218 million, EBITDA grew to RUR 4,002 million. The normalised operating profit was RUR 3,971 million. An increase in the profit margin of real estate development was due to the recognition in the 2008 financials of housing price increases that occurred during the reporting year and the preceding years when housing was sold to buyers.

2008 saw a negative effect of the revaluation of investment property in the amount of RUR 15,494 million.

The sales revenues in Construction segment more than doubled and amounted to RUR 13,119 million, EBITDA was up by 273% to reach RUR 3,121 million. The operating profit more than tripled and was RUR 2,700 million. The aforesaid indicators grew because of substantial growth of prefabricated construction, as well as the effect of economies of scale that resulted in lower unit costs. In addition, 2008 also saw an increase in the average prices for prefabricated construction services. The acquisitions in Yekaterinburg also contributed to 2008 results.

Commercial Property segment in 2008 reported sales revenues of RUR 181 million, EBITDA was RUR 105 million. The negative effect of the revaluation of the existing office centres owned by LSR Group amounted to RUR 545 million.

BUILDING MATERIALS, AGGREGATES AND CONSTRUCTION SERVICES

BUILDING MATERIALS

RUR m	2006	2007	2008	Change 2007-08, %
Revenue	9,295	16,474	19,692	20%
incl. revenue from inter-group sales	496	981	1,229	25%
EBITDA	1,157	3,318	3,609	9%
EBITDA %	12%	20%	18%	
Operating profit	811	2,769	2,892	4%
Operating profit%	9%	17%	15%	

The Building Materials segment includes five business units: Reinforced Concrete, Ready-Mix Concrete, Bricks, Aerated Concrete and Cement.

In 2008, all the business units demonstrated high revenue and EBITDA despite the reduction in demand that began in the second part of the year. The Building Materials segment had the sales revenues of RUR 19,692 million (+20%) and EBITDA of RUR 3,609 million (+9%), which represents 35% of the sales revenues and 24% of EBITDA of LSR Group. The operating profit grew by 4% to reach RUR 2,892 million. The EBITDA margin decreased from 20% to 18%. The operating profit margin was 15%. In 2008, our business units excluding the sales in Yekaterinburg sold 265 millions of bricks, around 1.5 million cub.m of ready-mix concrete, 550 thousand cub.m of reinforced concrete products and approx. 835 thousand cub.m of aerated concrete.

Reinforced concrete

RUR m	2006	2007	2008	Change 2007-08, %
Sales (th cub.m)	505	578	550	(5%)
Revenue	3,340	5,556	6,332	14%
incl. revenue from inter-group sales	283	608	857	41%
EBITDA	387	1,406	1,476	5%
EBITDA %	12%	25%	23%	
Operating profit	269	1,231	1,269	3%
Operating profit %	8%	22%	20%	

In 2008, the sales of reinforced concrete products amounted to 550 thousand cub.m, 5% less than in 2007. 445 thousand cub.m accounted for the sales in St. Petersburg, 86 thousand cub.m accounted for Moscow and 19 thousand cub.m accounted for other regions.

The sales results in the first and second half of 2008 were differently directed. While the first half of 2008 saw an increase in sales, in the second half the sales started decreasing against the background of a generally deteriorating economic situation.

The sales revenues in 2008 went up by 14% to RUR 6,332 million, EBITDA increased by 5% to RUR 1,476 million, the operating profit grew by 3% to RUR 1,269 million. The EBITDA margin was 23% and the operating profit margin was 20%.

In 2008, we carried out the upgrading of manufacturing facilities in St. Petersburg aiming at increasing the production efficiency and reducing the costs and put into service a whole series of new production equipment such as a prestressed linear products stand, new turn and tilt tables, cassette production plant for wall panels and internal partitions.

In the course of 2008, we worked towards changing the company's product change introducing new high-margin types of products including triple wall panels, partition panels, prestressed brace panels etc.

On addition, in 2008, a construction and erection department was formed at a St. Petersburg-based business unit so that the company got a chance to enter the precast construction market. In May a license was obtained to build buildings and structures of responsibility levels 1 and 2 in accordance with the national standard. We started employing braced frames of our own design that can be used both for economy class housing construction and for social premises construction. Braced frames were used in 2008 to build a kindergarten for 200 children as well as are used now for the construction of a residential compound under a public procurement order of the Government of St. Petersburg for the account of the city budget.

The average annual capacity as of the end of 2008, was 630 thousand cub.m including 495 thousand cub.m in St. Petersburg, and 136 thousand cub.m in Moscow.

Ready-mix concrete

RUR m	2006	2007	2008	Change 2007-08, %
Sales (th cub.m)	1 217	1 600	1 493	(7%)
Revenue	3,158	5,091	5,732	13%
incl. revenue from inter-group sales	644	283	168	(41%)
EBITDA	188	490	619	26%
EBITDA %	6%	10%	11%	
Operating profit	130	314	353	12%
Operating profit %	4%	6%	6%	

In 2008, we sold 1,493 thousand cub.m of ready-mix concrete, 7% less than in 2007. It includes 1,121 thousand cub.m sold in St. Petersburg and 372 thousand cub. m in Moscow.

In St. Petersburg in 2008, the company supplied ready-mix concrete to a number of major construction projects: Baltic Pearl, Orlovsky Tunnel, Gazprom-Arena Stadium, Nissan car factory», Sea Passenger Terminal, South and Sowthwest CHP, Circular Road, Western High Speed Diameter and others.

The sales increased significantly in the first half of 2008 but in the second half of the year demand started going down due to the impact of the economic crisis, and as a result Moscow and St. Petersburg developers postponed a number of new housing and commercial property construction projects in the second half of 2008. However, the financial results of 2008 were generally good.

The sales revenues grew by 13% to RUR 5,732 million, EBITDA went up by 26% to reach RUR 619 million, the operating profit grew by 12% to RUR 353 million. The EBITDA margin was 11% and the operating profit margin was 6%.

In 2008, we put into operation several new plants and modernised the part of existing production capacities.

The annual capacity as of the end of 2008, was 2.4 million cub.m including approx. 1.7 million cub.m in St. Petersburg and 0.6 million cub.m in Moscow.

Bricks

RUR m	2006	2007	2008	Change 2007-2008, %
Sales (mn units)	272	289	265	(8%)
Revenue	1,711	2,404	2,839	18%
incl. revenue from inter-group sales	10	103	68	(34%)
EBITDA	346	763	1,038	36%
EBITDA %	20%	32%	37%	
Operating profit	282	688	951	38%
Operating profit %	17%	29%	33%	

*Here and forthwith the sales volumes are shown in the number of non-formatted bricks

In 2008, the sales of bricks amounted to 265 million bricks, 8% less than in 2007. Most of our products were distributed in St. Petersburg, and insignificant quantities – in other regions.

The trends in the brick market are similar to the trends in other building materials markets i.e. in the first half of 2008 we reported increased sales, and in the second half of the last year they started falling. However, the deterioration of the market situation in the second half of the year did not have a material adverse effect on the financial results of 2008 as a whole.

The sales revenues in 2008 grew by 18% to RUR 2,839 million, EBITDA went up by 36% to RUR 1,038 million, the operating profit increased by 38% to RUR 951 million. The EBITDA margin was 37% and the operating profit margin was 33%.

An increase in the revenues and profit margin was achieved mainly due to increased product prices that kept growing in advance of production costs and overhead expenses.

In 2008, we assimilated the production of a number of new types of facing brick.

The annual production capacity as of the end of 2008, was 295 million standard bricks.

Aerated concrete

RUR m	2006	2007	2008	Change 2007-2008, %
Sales (th cub.m.)	473	555	835	51%
Revenue	1,060	1,581	2,590	64%
incl. revenue from inter-group sales	5	41	36	(13%)
EBITDA	173	443	310	(30%)

EBITDA %	16%	28%	12%	
Operating profit	75	332	174	(47%)
Operating profit %	7%	21%	7%	

In 2008, the sales of aerated concrete amounted to 835 thousand cub.m, 51% up on 2007. Around 65% of our products were sold in St. Petersburg, 17% in Ukraine and 18% in the Baltic States and Scandinavia. In the course of 2008, in addition to selling our own products we acted as dealers for third party producers. The sales of third party aerated concrete in 2008 amounted to 99 thousand cub.m in St. Petersburg and 93 thousand cub.m in Ukraine.

In 2008, we went on development of the aerated concrete production business in Ukraine. In October 2008, we obtained control of OJSC Obukhiv Porous Concrete Plant, the leading aerated concrete supplier in the Kiev region. The plant capacity at the time of acquisition was 150 thousand cub.m. Also in October 2008, we completed the construction and put into operation a new advanced aerated concrete plant with an annual capacity of 400 thousand cub.m. It is the first company in Ukraine producing new generation high quality aerated concrete meeting the highest European standards. The two initiatives made it possible for LSR Group to turn into the leader of the Ukrainian aerated concrete market already in 2008.

In the first half of 2008, the situation in the aerated concrete market in St. Petersburg developed extremely favourably, with high demand greatly exceeding the supply. As a result we were able to sell third party aerated concrete as dealers and also supplied aerated concrete from our plants in Latvia and Estonia where the economic situation worsened and the demand dropped as early as in 2007. In the second half the demand for aerated concrete decreased due to the influence of the financial crisis that resulted in reduced construction volumes.

The situation in Ukraine was similar – we had high level sales in the first six months and reduced sales in the second half of the year.

The sales revenues in 2008 grew by 64% to RUR 2,590 million, EBITDA went down by 30% to RUR 310 million and the operating profit decreased by 47% to RUR 174 million. The EBITDA margin was 12% and the operating profit margin was 7%.

The annual production capacity as of the end of 2008 was 1,350 thousand cub.m.

Cement

We are carrying out the construction of a cement plant in the Leningrad region. The new cement plant will allow LSR Group to fully meet its own needs for this material as well as to partially satisfy the needs of other cement consumers. The cement project is being implemented by OOO Cement, a business unit of the Group.

We are planning to put the plant into operation by the end of 2010 bringing it to the full capacity in 2011. The plant production capacity will be 1.85 million tons of cement per year.

Project progress in 2008

In January 2008, a gas quota was obtained from Gazprom for the supply of 165 million cub.m per annum. The site is fully prepared for construction work with all necessary infrastructure available.

In February, the construction of an access railway was completed to ensure the delivery of building materials and equipment.

In March, the construction of a temporary motor road to provide access to the construction site was completed as well as the construction of a yard to store general contractor's equipment and materials, a temporary road linking the site to the builders' camp, and a site for the builders' camp. Cement Northwest as the general designer proceeded with the development of design documentation.

In April, the construction of a concrete mixing plant was completed.

In May 2008, LSR Group held a foundation stone laying ceremony, and also completed the construction of a temporary customs control area, 100% of the pipeline components were delivered to the site, and their assembling started.

In June, the concrete mixing plant was put into operation to manufacture concrete for the construction project.

In July, piling work was completed for the raw meal silo and raw meal mill, and the first shipment of process equipment was received.

Construction and installation work was completed for casting transformer foundations.

In August, piling work was completed for the kiln department and cement silos.

In September, piling work was completed for the departments of raw meal feeders, heat exchangers, clinker storage and delivery to cement mills. Foundations were cast for the raw materials storage facilities, cement silos and the kiln department.

In October, piling work was completed at the cement mills department. Foundations were cast in the areas of additives storage, clinker storage and delivery to cement mills. A crane was installed to construct the raw meal silo. 100% of transformers were installed.

In November, the foundation was cast for the meal feeding area at the meal mill.

In December, FLSmidth as the general equipment supplier placed 100% of equipment manufacture orders. A tower crane was installed for constructing heat exchangers.

In 2008, we spent RUR 4,177 million (inclusive of VAT) to purchase equipment and carry out construction work.

Project progress in 2009

In 2009, we continue the implementation of the cement plant construction project.

In January, the integrated package of process equipment was supplied by 100 heavy-cargo trucks. A foundation was completed in the clinker cooling area. A permission was obtained to conduct blasting works at the Duboyom limestone quarry.

In February, the construction of camps was completed for the builders of the general contractor, Hefei Cement Research and Design Institute. Concrete casting work is underway on 19 structures.

In March, work began on such challenging sites as the limestone and pyrites reception and grinding area, gypsum and slag reception area, where earthwork and foundation work are in progress.

The construction of the laboratory to control the quality of raw materials and final products is now in full swing as well as the construction of the central control room and the administrative building.

The delivery of process equipment continues so as of the end of March, a total of 200 heavy-cargo trucks delivered equipment accounting for around 22% of the supply volume. The first single blast was conducted at the Duboyom limestone quarry.

In April, work started to install metal structures at the clinker feeding line.

The company will begin to assemble the process equipment shortly.

Currently, we are funding the construction work using our own resources and are in negotiations with a number of Russian and foreign financial institutions to obtain long-term financing for construction work. The RF Ministry of Regional Development and the RF Ministry of Economic Development have prepared a list of nine cement plants to be given priority for allocating government aid. The list includes the cement plant of LSR Group. The specific conditions and scope of government aid are yet to be determined.

We believe that after the economic crisis ends and the volume of construction increases, cement will be one of the most sought-after building materials in our markets.

AGGREGATES

RUR m	2006	2007	2008	Change 2007-08, %
Revenue	4,422	5,523	8,520	54%
incl. revenue from inter-group sales	833	992	1,318	33%
EBITDA	1,382	2,000	3,147	57%
EBITDA %	31%	36%	37%	
Operating profit	957	1,587	2,634	66%
Operating profit %	22%	29%	31%	

Aggregates business segment of LSR Group includes two business units: Sand and Crushed Granite.

In 2008, the sales volume of our business units was 18 million cub.m of sand and 5.4 million cub.m of crushed granite.

In 2008, the sales revenues of the Aggregates business segment were RUR 8,520 million (+54%) and EBITDA amounted to RUR 3,147 million (+57%), which accounts for 15% of the sales revenues and 21% of EBITDA of LSR Group. The operating profit reached RUR 2,634 million. The EBITDA margin was 37% and the operating profit margin rose to 31%.

Sand

RUR m	2006	2007	2008	Change 2007-08, %
Sales (th cub.m)	11,673	13,451	17,957	33%
Revenue	2,571	2,975	4,553	53%
incl. revenue from inter-group sales	244	236	359	52%
EBITDA	868	1,241	2,014	62%
EBITDA %	34%	42%	44%	
Operating profit	562	983	1,713	74%
Operating profit %	22%	33%	38%	

Our sales in 2008 amounted to 18 million cub.m of sand, 33% up on 2007.

An important driver of business development was the implementation of infrastructure projects requiring large volumes of quality materials, and we supplied sand for such construction projects. Above all, it was the Ring Road with its numerous bridges and decouplings, the Flood Prevention Facility (the Dam), the Western High Speed Diameter, the Sea Front land reclamation project. We also supplied sand to industrial and commercial projects (e.g., for the construction of the Nissan and Hyundai factories, and the Magnum warehousing terminal) and housing construction projects (e.g., the Baltic Pearl compound).

The sales revenues rose by 53% to RUR 4,553 million, EBITDA went up by 62% to RUR 2,014 million, the operating profit increased by 74% to reach RUR 1,713 million. The EBITDA margin was 44% and the operating profit margin grew to 38%. The increase in the margin was due to the growth of sand prices as well as the growth of sales and reduction of production costs per unit of output.

In 2008, we started extraction from two new quarries in Kallelovo and Priluzhskoye with a total licensed volume of reserves of 22.3 million cub.m (as of 31 December 2008).

In 2008, we implemented a programme of production facilities upgrading that included the upgrading of our fleet and equipment, and the construction of temporary roads for new quarries.

Crushed granite

RUR m	2006	2007	2008	Change 2007-08, %
Sales (th cub.m)	3,596	4,275	5,407	26%
Revenue	1,879	2,575	4,001	55%
incl. revenue from inter-group sales	617	783	993	27%
EBITDA	488	759	1,132	49%
EBITDA %	26%	29%	28%	
Operating profit	369	603	921	53%
Operating profit %	20%	23%	23%	

The sales revenues were RUR 4,001 million, up by 55% the result in 2007. EBITDA rose by 49% to RUR 1,132 million. The EBITDA margin was 28% and the operating profit margin was 23%.

St Petersburg

Our sales in 2008 amounted to 5.3 million cub.m of crushed granite, up by 24% on 2007. Crushed granite was supplied both to the market of St. Petersburg and the Leningrad region and to the market of Moscow and the Moscow region that does not have crushed rock deposits of its own.

In June 2008, we started crushed granite production in a new area, Zabolotnoye, at the Gavrilovo deposit in the Vyborgsky district, Leningrad region. We put into operation a new mobile crushing and screening machine fitted with state-of-the-art mining equipment. The annual capacity of the plant is 600 thousand cub.m.

The geographical location of the deposit is advantageous for efficient logistics maximizing the potential of rail and motor transport. The use of direct truck delivery to construction projects in the north of St. Petersburg ensured an additional competitive advantage.

The rock from the new deposit meets the strictest requirements for physical characteristics making possible the use of the crushed granite for all types of projects including housing construction.

Also in 2008, we made a number of investments to renovate and increase the efficiency of production facilities.

Crushed Granite Urals

In August 2008, we obtained control of OOO Uralscheben, a major crushed granite producer in Yekaterinburg. OOO Uralscheben holds licenses to extract crushed granite from two quarries with a proven reserves volume of around 160 million cub.m. From the acquisition date through 31 December 2008, the company's sales were 102 thousand cub.m of crushed granite and its revenues were RUR 56 million (included in the table above).

CONSTRUCTION SERVICES

RUR m	2006	2007	2008	Change 2007-08, %
Revenue	1,126	2,397	2,752	15%
incl. revenue from inter-group sales	356	778	689	(11%)
EBITDA	397	676	852	26%
EBITDA %	35%	28%	31%	
Operating profit	274	456	574	26%
Operating profit %	24%	19%	21%	

Construction Services business segment of LSR Group includes three business units providing tower cranes services, pile driving services and building materials transportation.

In 2008, the sales revenues of the Construction Services business segment were RUR 2,752 million (+15%) and its EBITDA was RUR 852 million (+26%), which account for 5% of the revenues and 6% of EBITDA of LSR Group. The operating profit rose by 26% to reach RUR 574 million. The EBITDA margin was 31% and the operating profit margin was 21%.

Tower cranes services

RUR m	2006	2007	2008	Change 2007-2008, %
Number of tower cranes as of 31 December 2008	148	193	245	27%
Revenue	628	964	1,335	38%
incl. revenue from inter-group sales	101	123	163	33%
EBITDA	253	423	624	48%
EBITDA %	40%	44%	47%	
Operating profit	187	300	436	45%
Operating profit %	30%	31%	33%	

The trends in the tower cranes services market in 2008 were typical of the construction market as a whole - our sales grew in the first six months and started dropping in the half of 2008. However, the worsening of the

market situation in the second half of the year did have an adverse effect on our financial results for 2008 as a whole.

In 2008, our sales revenues were RUR 1,335 million, up by 38% on 2007. EBITDA in 2008 grew by 48% to reach RUR 624 million, the operating profit went up by 33% to RUR 436 million. The EBITDA margin was 47% and the operating profit margin was 33%.

An increase in the sales revenues for 2008 were due to the launching of additional tower cranes and other equipment as well as an increase in the average annual price of services.

In the course of 2008, the crane fleet increased by 52 units. The purchase of new equipment was funded via finance lease.

As of the end of 2008, we had 245 tower cranes at our disposal.

In 2008, we entered the market of Yekaterinburg.

Number of tower cranes	31 Dec. 07	31 Dec. 08
St. Petersburg	155	194
Moscow	33	45
Other regions	5	6
Total	193	245

Over the period from 2003 through 2008 we renewed our equipment fleet by more than two thirds. Outdated Russian-made cranes were replaced with new, more efficient and easy-to-operate cranes, mostly imported, primarily from Liebherr and Potain.

Makes of tower cranes	31 Dec. 08	%
Imported cranes	146	60%
Russian-made cranes	99	40%
Total for cranes	245	100%

Pile driving services

RUR m	2007	2008	Change 2007-08, %
Revenue	896	983	10%
incl. revenue from inter-group sales	290	163	(44%)
EBITDA	184	157	(15%)
EBITDA %	20%	16%	
Operating profit	155	131	(16%)
Operating profit %	17%	13%	

In 2008, our sales revenues were RUR 983 million, 10% up on 2007. EBITDA in 2008 went down by 15% to RUR 157 million, the operating profit was RUR 131 million. The EBITDA margin was 16% and the operating margin was 13%.

An increase in the sales revenues in 2008 was due to the growth of the equipment fleet - at the end of 2007 we put into operation two PVE high-capacity drilling rigs for impact driving of reinforced concrete piles. The rigs operated throughout 2008.

In the second half of 2008, in view of a significant reduction in demand from the housing construction segment we reoriented our sales to target the industrial and infrastructure construction segments.

In 2008, we put into operation new equipment:

- two Soilmec and Junttan drilling rigs, SF-70 and SF-120 for driving cast-in-situ piles;
- two MKGS-32 erection cranes.

Transportation of building materials

LSR Group includes a business unit providing services for the delivery of building materials and cargoes in St. Petersburg and the Leningrad region.

In 2008, the sales revenues of the company were RUR 437 million. The business unit mainly meets the internal needs of LSR Group for building materials delivery.

EBITDA was RUR 71 million and the operating profit was RUR 8 million.

REAL ESTATE DEVELOPMENT, CONSTRUCTION AND COMMERCIAL REAL ESTATE

REAL ESTATE DEVELOPMENT

RUR m	2006	2007	2008	Change 2007-08, %
Revenue	3,275	10,172	12,218	20%
EBITDA	270	2,466	4,002	62%
EBITDA %	8%	24%	33%	
Normalised operating profit	256	2,446	3,971	70%
Normalised operating profit %	8%	24%	34%	
Changes in fair value of investment property	126	6,839	(15,494)	(327%)

Our Real Estate Development business segment includes five business units: Elite Real estate, Mass Market and Business Class Real Estate, Gated Communities, Real estate in Yekaterinburg and Real estate in Moscow. Also we carry out two small development projects in Germany.

In 2008 business segment Real Estate Development generated sales revenues of RUR 12,218 million. (+20 %), and EBITDA of RUR 4,143 million. (+62%) which represents 22% of revenue and 27% of EBITDA of LSR Group. The EBITDA margin grew from 24 % to 34 %. In 2008 negative effect from revaluation of the commercial real estate under development amounted to RUR 15,494 million.

Elite Real Estate

RUR m	2006	2007	2008	Change 2007-08, %
Completed (th sq m)	30	33	54	63%
New contract sales (th sq m)	33	18	27	44%
Transferred to customers (th sq m)	33	41	18	(55%)
Revenue	1,765	3,404	3,985	17%
EBITDA	332	1,313	1,819	39%
EBITDA %	19%	39%	46%	
Normalised operating profit	324	1,298	1,798	39%
Normalised operating profit %	18%	38%	45%	
Changes in fair value of investment property	126	6,839	(15,494)	(327%)

In 2008 we completed the development of following projects in elite real estate segment:

- phase 2 and 3 of the elite residential complex “Dom u Morya” (Seaside House) with net sellable area of 11 th sq m. “Dom u Morya” residential complex was awarded with Golden diploma of XVI International Festival “Zodchestvo 2008”,
- residential building of “Kamenoostrovskaya Kolleksiya” project with net sellable area of 13 th sq m.
- residential building of “Paradny Kvartal” complex with area of 19 th sq m.

In 2008 we signed new sales contracts with the customers for 27 th sq m of elite residential and commercial real estate. In 2008 share of mortgage sales in our elite residential real estate sales was relatively low - just 7%. For comparison in 2006 and 2007 mortgages accounted for 13% and 18% of total sales respectively.

Also in 2008 we completed the development of three class “A” office buildings in “Paradny Kvartal” with net rentable area of 10.6 th sq m.

One of those buildings with total area of 5.1 th sq m was sold to external buyer and another one was transferred to business segment “Commercial real estate” of LSR Group for subsequent leasing it out.

In 2008 we transferred to customers 18 th sq m of net sellable area and 258 parking lots. The decrease of the number of square meters transferred to customers in comparison to year 2007 was driven by to the construction schedule – major part of properties was completed in the end of 2008 and was only partially

transferred to the customers in the same year. In 2009 we will continue to transfer the properties completed in 2008 to the customers and therefore they will be reflected in financial statements of 2009.

Revenue in 2008 increased by 17% to RUR 3,985 million., EBITDA increased by 39% to RUR 1,819 million. EBITDA margin was 46%.

The significant margin increase resulted from a growth of real estate prices that took place in period of 2006-2008 and was recognized in the financial statements after the properties completed were transferred to customers in 2008.

Mass market and business class real estate

RUR m	2006	2007	2008	Change 2007-08, %
Completed (th sq m)	109	94	122	30%
New contract sales (th sq m)	85	123	141	14%
Transferred to customers (th sq m)	59	132	85	(36%)
Revenue	1 515	4,552	5,180	14%
EBITDA	39	780	1,588	103%
EBITDA %	3%	17%	31%	
Operating profit	36	778	1,586	104%
Operating profit, %	2%	17%	31%	

In 2008 we completed the development of the following projects:

- three buildings of net sellable area of more than 25 th sq m in the residential complex “Pulkovsky Posad”,
- one residential building in Komendantskiy prospect with net sellable area of 12 th sq m,
- six buildings of net sellable area of 62 th sq m in the residential complex “Dolgoozerniy”,
- two buildings of net sellable area of 22 th sq m in the residential complex “Antey”.

In 2008 we signed new sales contracts with the customers for 141 th sq m of net sellable area in mass market and business class real estate segments. Mortgages sales accounted for 27% of total new sales contracts in 2008. In 2006 and 2007 mortgages sales accounted for 10% and 24% respectively of total news sales contracts in this segment.

In 2008 we transferred to customers 85 th sq m of net sellable area in the completed projects. Transferred to customers amounts decreased in comparison to year 2007 according to the construction schedule – major part of properties completed in the end of 2008 and was only partially transferred to the customers in the same year. In 2009 we will continue to transfer properties completed in 2008 to the customers and therefore they will be reflected in financial statements of 2009.

Revenues increased by 14% to RUR 5,180 million, EBITDA increased to RUR 1,586 million, operating profit increased to RUR 1,586 million. EBITDA margin was 31%.

The increase was driven by: first, significant price growth for real estate in past years which was reflected in 2008 financial results, second improvement of operating effectivency, due to increase of development volumes and achieved economies of scale.

In 2008 our mass market and business class real estate business unit OOO GDSK became a winner in the 1st Public Contest among Housing Market Players, “Consumer’s Trust” initiated by the Realty Consumers Commission of the Consumers Society of St. Petersburg and the Leningrad Region. GDSK was awarded the 1st place in category “The Most Highly Trusted Investment and Construction Company in the Real Estate Market of St. Petersburg and the Leningrad Region.”

Gated communities

RUR m	2007	2008	Change 2007-08, %
Transferred to customers (th sq m)	2.9	2.6	(10%)
Revenue	90	146	61%
EBITDA	1	4	200%
EBITDA %	1%	2%	

In 2008 we completed the development of the first houses in “Novy mir” (New world) project and transferred to the customers about 3 th sq m of net sellable area and appox. 7 hectares of land plots.

Revenue in 2008 was RUR 146 million and EBITDA was RUR 4 million.

In 2008 we continued the sales of houses in “Zhemchuzhina Razliva” (Pearl of Razliv) and “Parkway” communities. Also we started the sales of land plots in “Elegia” (Elegy) and “Maloe Repino” communities. In 2008 we signed new sales contracts for 144 hectares of land.

Real estate in Moscow

RUR m	2006	2007	2008	Change 2007-08, %
Completed (th sq m)	-	29	-	-
New contract sales (th sq m)	13	3.2	1.6	(49%)
Transferred to customers (th sq m)	-	15.0	2.3	(84%)
Revenue	1	1,231	504	(59%)
EBITDA	(82)	317	245	(23%)
EBITDA %	-	26%	49%	
Operating profit	(84)	315	239	(24%)
Operating profit %	-	26%	47%	

In 2008 we continued construction and sales of flats in the residential complex “Grunwald” and design works on two other development projects in Moscow – office center on Sadovnicheskaya street and residential complex on Leningradskoe shosse.

In 2008 we signed new contracts for sales of 2.3 th sq m of residential properties. The decrease of sale was determined by the reducing of real estate offering due to small volumes of our development activity in Moscow in 2008.

In 2008 we have completed transferring flats in "House on the Davydovskaya", our first development project in Moscow completed in 2007, to the customers. 2.3 th sq m of flats were transferred to the customers.

Revenue in 2008 was RUR 504 million, EBITDA was equal to RUR 245 million. EBITDA margin was 49%.

Real estate in Yekaterinburg

RUR m	2008
Completed (th sq m)	50
New contract sales (th sq m)	24
Transferred to customers (th sq m)	43
Revenues	2,012
EBITDA	333
EBITDA %	17%
Operating profit	332
Operating profit %	17%

In the period from August 2008 till December 2008 (period of LSR Group control of the acquired businesses units in Yekaterinburg) our business units in Yekaterinburg completed 50 th sq m of net sellable area of residential real estate as part of 11 development projects.

We signed sales contracts for 24 th sq m of real estate and transferred to the customers 43 th sq m of net sellable area.

Revenue in 2008 was RUR 2,012 million, EBITDA RUR 333 million. EBITDA margin was 17%.

CONSTRUCTION

RUR m	2006	2007	2008	Change 2007-08, %	Plus acquisitions in Yekaterinburg*	Total 2008
Sales volume (th sq m)	346	311	445	43%	20	464
Revenue	4,893	5,771	10,980	90%	2,139	13,119
incl. revenue from inter-	269	1,489	2,926	97%	540	3,467

group sales						
EBITDA	663	837	2,704	223%	417	3,121
EBITDA %	14%	14%	25%		19%	24%
Operating profit	513	625	2,436	290%	263	2,700
Operating profit %	10%	11%	22%		12%	21%

*reported starting from the date of acquisition by LSR Group in 2008

St Petersburg

In 2008 housebuilding business units of LSR Group in St Petersburg transferred to the customers 445 th sq m of constructed houses. The volume of transferred to customers area increased in comparison with 2007 by 30%.

In 2008 our revenue from sales was RUR 10,980 million, EBITDA was 2,704 million and operating profit was 2,436 million. EBITDA margin grew to 25% and operating profit margin reached 22%.

Revenue and margin growth was determined by the following factors:

- significant growth of production and construction volumes, which was accompanied by average cost reduction per production unit, achieved due to economies of scale effect;
- price growth for panel housing construction services, which took place in 2008;
- in 2008 DSK "Blok" performed extended works as general contractor and designer, which also led to the growth of contract price per square meter. DSK "Blok" began to offer general contractor and designing services to its customers in 2007;
- also the margin was increased in 2008 comparing to the previous year as in 2007 the company has completed a number of low-margin contracts.

In 2008 "Gatchinsky DSK" developed and received necessary permits from the city authorities for the new project of 25-storey panel house, which allows the company to enter panel housing market with a new product – residential houses of 25 stores, new ceiling heights in the flats, more flexible layout and improved heat and noise insulation.

DSK Blok has successfully passed a certification conducted by Societe Generale de Surveillance for quality management system compliance to the requirements of the ISO 9001:2000 international standard.

Construction Urals

In April 2008 we acquired OJSC "Betfor Reinforced Concrete Factory" in Yekaterinburg. "Betfor" is the largest in Yekaterinburg prefabricated construction company. In addition, it has manufacturing facilities for reinforced concrete products, ready-mix concrete and aerated concrete. Also in August 2008 we acquired the construction company "SMU Nova-Stroy" which constructs buildings using Betfor products.

From the date of acquisition through 2008 our business units in Yekaterinburg transferred to the customers 20 th sq m of constructed panel houses.

Besides of this, we sold 70 th sq m of panels for panel housing construction, 82 th sq m of reinforced concrete products, 13 th sq m of ready-mix concrete and 79 th sq m of aerated concrete (in 2008 the sales of these products are also consolidated under the business unit "Construction Ural").

Sales revenue amounted to RUR 2,139 million, EBITDA RUR 417 million and operating profit RUR 263 million. Operating profit margin was 12%.

Production capacity and modernization program

In 2008 we continued to carry out the program of modernization and extension of our housebuilding capacities which began in 2007. The modernization program provides gradual replacement of the out-of-date facilities by modern production lines and also substantial capacity growth.

Modernization program objectives include:

- to increase operational efficiency
- to improve quality of the produced products
- to increase design flexibility of the produced houses
- to increase the annual production capacity in St. Petersburg from 370 th sq m in 2007 to 750 th sq m.

In 2008 house building units in St Petersburg installed a variety of new machinery in the workshops at the factories. For example, DSK "Blok" placed in operation new highly effective German production line in the casting floor, which replaced out-of-date soviet equipment and also carried out boiler-room modernization. "Gatchinsky DSK" also replaced part of machinery and began production of improved exterior wall panels.

In 2008 production capacity of house building companies in St. Petersburg was substantially increased.

In the conditions of a worsening economic situation in the end of 2008 we have decided to reduce investments for modernization of production capacities and partially change the schedule of the program.

Production capacity as of end year 2008:

St. Petersburg: 600 th sq m of panel housing

Yekaterinburg: capacities for production of panel housing construction equal to 200 th sq m of panel housing per year, as well as construction capacity for 60 th sq m per year.

Also in Yekaterinburg we possess production capacities for 130 th cub m of reinforced concrete products, 125 th cub m of aerated concrete, 100 cub m of ready-mix concrete.

COMMERCIAL REAL ESTATE

RUR m	2006	2007	2008	Change 2007-08, %
Net rentable area (th sq m)	5	12	15	26%
Revenue	18	93	181	93%
EBITDA	2	12	105	741%
EBITDA %	13%	13%	58%	
Normalised operating profit	4	12	103	754%
Normalised operating profit %	22%	13%	57%	
Changes in fair value of investment property	4	1,197	(649)	(154%)

In 2008 business segment “Commercial real estate” received revenue of RUR 181 million and EBITDA of RUR 105 million. The negative effect from the revaluation of operating office centers reflected in the profit and loss statement amounted to RUR 659 million.

As of the end of year 2008 there were 4 office centers in St. Petersburg under the company’s management with net rentable area of approx. 15 th sq m.: “Gelios”, “Litera”, “Apollo” and office center “Orlov”, which belongs to the 1st phase of “Paradny Kvartal” project. As of the end of year 2008 occupancy rate of 3 operating office centers “Gelios”, “Apollo” and “Litera” was more than 90%.

Office center “Orlov” was completed by business unit “Elite real estate” of LSR Group in July 2008 and most of its premises were pre-leased.

At 31 December 2008, the real estate portfolio of LSR Group includes 64 properties/projects in the residential elite class, business class and mass market property, gated communities and commercial property segments. The net sellable area of the projects included in the portfolio is 8,857 th sq m.

Real estate development projects of LSR Group are located in St. Petersburg, the Leningrad Region, Moscow and Yekaterinburg.

Breakdown of Real Estate Portfolio by Segment

The real estate portfolio of LSR Group is well-balanced across the various property segments thus making it possible to offer property targeting distinct consumer groups.

In terms of net sellable area, approximately 80% of the portfolio (incl. land plots held for future development) accounts for mass market residential real estate which is always characterized by higher demand.

The portfolio also includes residential elite (or high-end) and business class development projects, gated communities and offices. These segments account for a smaller part of the portfolio in terms of sellable area however they account for a substantial part of market value due to higher prices per square meter compared to mass market properties.

Segment of property	Net sellable / leasable area, th sq m	
		% of total
Mass-market	4,624	52.2%
Elite	513	5.8%
Business class	489	5.5%
Offices	331	3.7%
Operating offices	15	0.2%
Gated communities	20	0.2%

Held for future development	2,866	32.4%
Total	8,857	100%

*In addition the real estate portfolio comprises 160 ha of sellable area of land plots for sale in gated communities.

Breakdown of Property Portfolio by Stage of Development

At 31 December 2008 our real estate portfolio includes 908 th sq m are at the construction stage and 1,519 th sq m at design and permitting stage. We also have 207 th sq m of the completed and partially sold properties and 15 th sq m of net lettable area of the operating offices.

6,298 th sq m of net sellable area is at the stage of initial concept design including our long-term residential mass market project Tsvetnoy Gorod/Ruch'I which accounts for 4,700 th sq m.

Stage of development	Net sellable / leasable area, th sq m	% of total
Initial concept design	6,208	70.1%
<i>incl. Ruchi/Tsvetnoy Gorod*</i>	4,700	53.1%
Design and permitting	1,519	17.1%
Under construction	908	10.3%
Completed and partially sold	207	2.3%
Operating offices	15	0.2%
Total	8,857	100%

*partly held for future development

Breakdown of Property Portfolio by Region

Most of the properties – approximately 87% of our portfolio both by area and value – are located in our home market in St. Petersburg and Leningrad region.

In addition, as of 31 December, 2008 we have three projects at different stages of development in Moscow and fourteen in Yekaterinburg.

Region	Net sellable / leasable area, th sq m	% of total
St Petersburg	7,730	87.3%
Yekaterinburg	1,008	11.4%
Moscow	89	1.0%
Leningrad Region	31	0.4%
Total	8,857	100%

Valuation of Real Estate Portfolio

Prior to the second half of 2008, when the financial crisis started to significantly affect Russian economy on the whole and the real estate industry in particular, we regularly valued our real estate portfolio with an independent external valuer.

Due to low predictability and visibility of the key economic indicators as well as real estate valuation parameters (discount rates, yields, etc) at the moment we made the decision not to conduct the valuation of our real estate portfolio at 31 December 2008. While we fully recognize that the valuation of our portfolio is very likely to be materially reduced in the current economic conditions, we believe that the external valuation is not able to provide the adequate values and guidance today. The additional consideration of not conducting the valuation is the cost saving which we believe is beneficial for all our stakeholders in the current situation.

We will consider conducting the next valuation when the economic situation stabilises.

At 31 December 2008, we only conducted the external valuation of the eight properties in order to comply with the requirements of IFRS within the framework of preparation of our 2008 annual accounts.

Previous valuations of LSR's real estate portfolio undertaken by DTZ as independent external valuer are available at our corporate website at: http://www.lsrgroup.ru/en/inv/about/real_estate.

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