OJSC LSR Group
(formerly OOO Group LSR)

Consolidated Financial Statements for the year ended 31 December 2006

Contents

ZAO KPMG

19 Moscovsky Prospect
St. Petersburg 198005
Russia

Tel. +7 (812) 325 8348
Fax +7 (812) 325 8347
www.kpmg.ru

Independent Auditors' Report

Board of Directors of OJSC LSR Group (formerly OOO Group LSR)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OJSC LSR Group (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2006 and 31 December 2005, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis for Qualified Opinion

We did not observe the counting of inventories stated at RUR 5,399,499 thousand/USD 194,585 thousand as at 1 January 2005 because we were engaged as auditors of the Group only after that date. It was impracticable to satisfy ourselves as to those inventory quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to cost of sales, taxation expense and net profit for the year ended 31 December 2005.

Qualified Opinion

In our opinion, except for the effects on the corresponding figures of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the Basis for Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at each of 31 December 2006 and 31 December 2005, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

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25 May 2007

	Note	2006 '000 RUR	2005 '000 RUR	2006 '000 USD	2005 '000 USD
Continuing operations					
Revenues		21,110,751	13,085,517	776,553	462,608
Cost of sales		(13,796,464)	(9,371,320)	(507,498)	(331,301)
Gross profit		7,314,287	3,714,197	269,055	131,307
Distribution expenses		(1,702,328)	(693,999)	(62,620)	(24,535)
Administrative expenses	8	(3,051,103)	(1,890,586)	(112,234)	(66,837)
Fair value adjustment of investment property		130,106	-	4,786	-
Other expenses	9	(56,159)	(101,167)	(2,066)	(3,577)
Results from operating activities		2,634,803	1,028,445	96,921	36,358
Financial income	11	213,796	140,148	7,864	4,955
Financial expenses	11	(1,089,615)	(787,236)	(40,081)	(27,831)
Profit before income tax		1,758,984	381,357	64,704	13,482
Income tax expense	12	(658,039)	(118,184)	(24,206)	(4,178)
Net profit from continuing operations		1,100,945	263,173	40,498	9,304
Discontinued operations					
Loss from discontinued operations, net of income tax	5	-	(149,814)	-	(5,296)
Net profit for the year		1,100,945	113,359	40,498	4,008
Attributable to:					
Shareholders of the Company		984,514	10,563	36,215	374
Minority interest		116,431	102,796	4,283	3,634
		1,100,945	113,359	40,498	4,008
Basic and diluted earnings per share	23				
Ordinary shares		11.56 RUR	0.12 RUR	0.43 USD	0.004 USD
Continuing operations					
Ordinary shares		11.56 RUR	3.09 RUR	0.43 USD	0.11 USD

These consolidated financial statements were approved by management on 25 May 2007 and were signed on its behalf by:

I.M. Levit
Chief Executive Officer

E.V. Tumanova
Chief Financial Officer

The consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 12 to 65.

	Note	2006 '000 RUR	2005 '000 RUR	2006 '000 USD	2005 '000 USD
ASSETS					
Non-current assets					
Property, plant and equipment	13	10,621,122	8,121,466	403,368	282,167
Investment property under development	15	496,852	178,040	18,869	6,186
Investment property	16	1,046,666	-	39,750	-
Intangible assets	14	575,903	24,269	21,872	843
Other investments	17	327,088	37,200	12,422	1,292
Deferred tax assets	18	337,162	304,381	12,805	10,575
Other non-current assets		11,702	477	444	18
		13,416,495	8,665,833	509,530	301,081
Current assets					
Other investments	17	800,439	574,668	30,399	19,966
Inventories	19	13,950,288	8,321,742	529,803	289,125
Income tax receivable		58,412	13,049	2,218	453
Trade and other receivables	20	8,836,540	3,661,381	335,593	127,209
Cash and cash equivalents	21	1,608,222	776,045	61,077	26,962
Assets classified as held for sale	6	70,933	-	2,694	-
		25,324,834	13,346,885	961,784	463,715
Total assets		38,741,329	22,012,718	1,471,314	764,796

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 12 to 65.

	Note	2006 '000 RUR	2005 (Restated) '000 RUR	2006 '000 USD	2005 (Restated) '000 USD
EQUITY AND LIABILITIES					
Equity	22				
Share capital		30,106	30,106	1,078	1,078
Additional paid in capital		2,145,697	990,919	77,510	35,032
Foreign currency translation reserve		-	-	8,785	(3,503)
Retained earnings		2,522,636	1,538,122	91,639	55,424
Total equity attributable to shareholders of the Company		4,698,439	2,559,147	179,012	88,031
Minority interest		441,248	455,858	16,182	16,721
Total equity		5,139,687	3,015,005	195,194	104,752
Non-current liabilities					
Loans and borrowings	24	8,721,215	1,500,559	331,213	52,134
Deferred tax liabilities	18	939,735	743,464	35,689	25,830
Trade and other payables		12,954	3,119	492	109
		9,673,904	2,247,142	367,394	78,073
Current liabilities					
Bank overdraft		25,944	9,467	985	329
Loans and borrowings	24	5,730,721	5,639,038	217,641	195,919
Income tax payable		81,733	78,420	3,104	2,725
Trade and other payables	26	17,848,371	10,703,900	677,844	371,889
Provisions	25	213,040	319,746	8,091	11,109
Liabilities classified as held for sale	6	27,929	-	1,061	-
		23,927,738	16,750,571	908,726	581,971
Total liabilities		33,601,642	18,997,713	1,276,120	660,044
Total equity and liabilities		38,741,329	22,012,718	1,471,314	764,796

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 12 to 65.

	2006 '000 RUR	2005 '000 RUR	2006 '000 USD	2005 '000 USD
OPERATING ACTIVITIES				
Net profit for the period	1,100,945	113,359	40,498	4,008
Adjustments for:				
Depreciation and amortisation	1,120,731	987,495	41,227	34,911
Loss on disposal of property, plant and equipment	94,332	93,516	3,470	3,309
Change in fair value of investment property	(130,106)	-	(4,786)	
Interest expense	1,062,238	806,585	39,074	28,515
Interest income	(43,253)	(35,273)	(1,591)	(1,247)
Dividend income	(73,512)	-	(2,704)	-
Other non-cash movement	281	(30,936)	10	(1,096)
Income tax expense	658,039	79,728	24,206	2,818
Operating profit before changes in working capital and provisions	**3,789,695**	**2,014,474**	**139,404**	**71,218**
Increase in inventories	(4,213,754)	(2,906,867)	(155,002)	(102,766)
Increase in trade and other receivables	(1,709,160)	(1,711,194)	(62,871)	(60,495)
Increase in trade and other payables	4,404,448	3,693,735	162,016	130,583
Increase/(decrease) in provisions	113,436	(92,310)	4,173	(3,263)
Cash flows from operations before income taxes and interest paid	**2,384,665**	**997,838**	**87,720**	**35,277**
Income taxes paid	(770,924)	(276,883)	(28,358)	(9,789)
Interest paid	(1,056,365)	(752,355)	(38,858)	(26,598)
Cash flows from/(utilised by) operating activities	**557,376**	**(31,400)**	**20,504**	**(1,110)**

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 12 to 65.

	2006 '000 RUR	2005 '000 RUR	2006 '000 USD	2005 '000 USD
INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment	388,641	134,679	14,296	4,761
Interest received	43,253	35,273	1,591	1,247
Dividends received	73,512	-	2,704	-
Acquisition of property, plant and equipment	(1,886,871)	(1,425,178)	(69,408)	(50,384)
Acquisition of investment property under development	(218,368)	(144,031)	(8,033)	(5,092)
Loans given	(337,433)	(560,993)	(12,412)	(19,833)
Loans repaid	-	340,895	-	12,052
Disposal of discontinued operations net of cash disposed of	(14,187)	-	(522)	-
Disposal of subsidiaries net of cash disposed of	31,955	-	1,175	-
Acquisition of subsidiaries, net of cash acquired	(3,927,535)	(2,448)	(144,473)	(87)
Acquisition of minority interest	(34,285)	(40,414)	(1,261)	(1,429)
Purchase of other investments	(155,269)	86,592	(5,712)	3,061
Cash flows utilised by investing activities	**(6,036,587)**	**(1,575,625)**	**(222,055)**	**(55,704)**
FINANCING ACTIVITIES				
Proceeds from borrowings	21,621,324	7,867,322	795,334	278,131
Repayment of borrowings	(14,985,220)	(5,510,776)	(551,227)	(194,821)
Contribution from shareholder	226,663	318,409	8,338	11,257
Payment of finance lease liabilities	(567,856)	(454,234)	(20,888)	(16,058)
Cash flows from financing activities	**6,294,911**	**2,220,721**	**231,557**	**78,509**
Net increase in cash and cash equivalents	815,700	613,696	30,006	21,695
Cash and cash equivalents at beginning of period	**766,578**	**152,882**	**26,633**	**5,510**
Effect of exchange rate fluctuations on cash and cash equivalents	**-**	**-**	3,453	(572)
Cash and cash equivalents at end of period (note 21)	**1,582,278**	**766,578**	**60,092**	**26,633**

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 12 to 65.

’000 RUR	Attributable to shareholders of the Company				Minority interest	Total equity
	Share capital	Additional paid in capital	Retained earnings	Total		
Balance at 1 January 2005 (Restated)	19,623	-	1,527,559	1,547,182	884,021	2,431,203
Profit for the year	-	-	10,563	10,563	102,796	113,359
Total recognised income and expense for the year	-	-	-	10,563	102,796	113,359
Excess of minority interest acquired for entities under common control over consideration paid	-	870,886	-	870,886	(729,335)	141,551
Shareholder contributions	-	318,409	-	318,409	-	318,409
Participation of minority interest in additional issues of subsidiaries and effect of transfer of shares between subsidiaries	-	(198,376)	-	(198,376)	198,376	-
Shares issued	10,483	-	-	10,483	-	10,483
Balance at 31 December 2005 (Restated)	30,106	990,919	1,538,122	2,559,147	455,858	3,015,005
Profit for the year	-	-	984,514	984,514	116,431	1,100,945
Total recognised income and expense for the year	-	-	-	984,514	116,431	1,100,945
Excess of book values of net assets acquired for entities under common control over consideration paid	-	474,463	-	474,463	220,726	695,189
Excess of minority interest acquired for entities under common control over consideration paid	-	263,994	-	263,994	(298,279)	(34,285)
Excess of book values of net assets sold for entities under common control over consideration received	-	(234,370)	-	(234,370)	(53,488)	(287,858)
Excess of consideration received for entities under common control over book values of net assets sold	-	23,735	-	23,735	-	23,735
Excess of consideration received for entities under common control over book values of net assets sold from discontinued operations	-	333,714	-	333,714	-	333,714
Shareholder contributions	-	293,242	-	293,242	-	293,242
Balance at 31 December 2006	30,106	2,145,697	2,522,636	4,698,439	441,248	5,139,687

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 12 to 65.

'000 USD	**Attributable to shareholders of the Company**					**Minority interest**	**Total equity**
	Share capital	**Additional paid in capital**	**Foreign currency translation reserve**	**Retained earnings**	**Total**		
Balance at 1 January 2005 (Restated)	707	-	-	55,050	55,757	31,858	87,615
Profit for the year	-	-	-	374	374	3,634	4,008
Foreign exchange translation differences	-	-	(3,503)	-	(3,503)	-	(3,503)
Total recognised income and expense for the year	-	-	-	-	(3,129)	3,634	505
Excess of minority interest acquired for entities under common control over consideration paid	-	30,788	-	-	30,788	(25,784)	5,004
Shareholder contributions	-	11,257	-	-	11,257	-	11,257
Participation of minority interest in additional issues of subsidiaries and effect of transfer of shares between subsidiaries	-	(7,013)	-	-	(7,013)	7,013	-
Shares issued	371	-	-	-	371	-	371
Balance at 31 December 2005 (Restated)	1,078	35,032	(3,503)	55,424	88,031	16,721	104,752
Profit for the year	-	-	-	36,215	36,215	4,283	40,498
Foreign exchange translation differences	-	-	12,288	-	12,288	-	12,288
Total recognised income and expense for the year	-	-	-	-	48,503	4,283	52,786
Excess of book values of net assets acquired for entities under common control over consideration paid	-	17,453	-	-	17,453	8,119	25,572
Excess of minority interest acquired for entities under common control over consideration paid	-	9,711	-	-	9,711	(10,973)	(1,262)
Excess of book values of net assets sold under common control over consideration received	-	(8,621)	-	-	(8,621)	(1,968)	(10,589)
Excess of consideration received for entities under common control over book values of net assets sold	-	873	-	-	873	-	873
Excess of consideration received for entities under common control over book values of net assets sold from discontinued operations	-	12,276	-	-	12,276	-	12,276
Shareholder contributions	-	10,786	-	-	10,786	-	10,786
Balance at 31 December 2006	1,078	77,510	8,785	91,639	179,012	16,182	195,194

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 12 to 65.

1 Background

(a) Organisation and operations

OJSC LSR Group (formerly OOO Group LSR) (the "Company") and its subsidiaries (together referred to as the "Group") comprise Russian limited liability and open and closed joint stock companies as defined in the Civil Code of the Russian Federation, and companies located abroad.

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

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

The Group is ultimately controlled (78.4%) by a single individual, Mr. Molchanov, who has the power to direct the transactions of the Group at his own discretion and for his own benefit. He also has a number of other business interests outside of the Group. Related party transactions are detailed in note 30.

(b) Russian business environment

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

2 Basis of preparation

(a) Statement of compliance

These consolidated IFRS financial statements have been prepared following the requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRSs"). The Group has not prepared consolidated financial statements in accordance with Russian accounting principles. Accordingly, no reconciliation between the consolidated financial statements and consolidated financial statements prepared under Russian accounting principles has been prepared.

(b) Basis of measurement

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

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUR”), which is the Company’s functional currency and the currency in which these consolidated financial statements are presented. These consolidated financial statements are also presented in USD since management believes that this currency is useful for the users of the consolidated financial statements. All financial information presented in RUR and USD has been rounded to the nearest thousand. The RUR is not a readily convertible currency outside the Russian Federation and, accordingly, any conversion of RUR to USD should not be construed as a representation that the RUR amounts have been, could be, or will be in the future, convertible into USD at the exchange rate disclosed, or at any other exchange rate.

(d) Use of estimates and judgments

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

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

- Note 13 – deemed cost of property plant and equipment;
- Note 25(a) – provision for loss making contracts;
- Note 25(b) – provision for site restoration; and
- Note 29 – contingencies.

3 Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are described in note 3(a) to 3(s). These accounting policies have been consistently applied except for the following changes in accounting policy, which had a material impact on the Group’s financial position or result of operations:

Changes in classification

During the current year the Group modified the classification of its expenses in the income statement. Comparatives were reclassified for consistency, which resulted in RUR 306,532 thousand/ USD 10,836 thousand being reclassified from administrative to cost of sales in amount of 286,605 thousand/USD 10,132 thousand and distribution expenses in amount of RUR 19,927 thousand/USD 704 thousand.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are enterprises controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

(ii) Special purpose entities

The Group has established a number of special purpose entities ("SPE"s) for trading purposes. The Group does not have any direct or indirect shareholdings in these entities. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. SPEs controlled by the Group were established under terms that impose strict limitations on the decision-making powers of the SPEs' management and that result in the Group receiving all of the benefits related to the SPEs' operations and net assets.

(iii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Company are accounted for at the date of transfer of shares to the Group. The assets and liabilities acquired are recognised at their previous book values as recognised in the individual financial statements of the acquiree. Any difference between the book value of net assets acquired and consideration paid is recognised as contribution from or distribution to shareholders.

(iv) Disposals to entities under common control

Disposals of controlling interests in entities to the same controlling shareholder that controls the Company are accounted for at the date of transfer of shares from the Group. The assets and liabilities sold are derecognised at their previous book values as recognised in the individual financial statements of the Group. Any difference between the book value of net assets sold and consideration received is recognised as contribution from or distribution to shareholders.

(v) Acquisitions and disposals of minority interests

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

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

(vi) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(vii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currencies

(i) Foreign currency transactions

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

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to RUR at exchange rates at the reporting date. The income and expenses of foreign operations are translated to RUR at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in equity. Since 1 January 2005, the Group's date of transition to IFRSs, such differences have been recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to the income statement.

(iii) Translation to presentation currency

The assets and liabilities of Group enterprises are translated to USD at exchange rates at the reporting date. Income and expenses are translated to USD at rates approximating exchange rates at the dates of the transactions. Translation differences are recognised directly in equity in the foreign currency translation reserve.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

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

Held-to-maturity investments

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

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

Investments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in the income statement.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

(d) Share capital

Ordinary shares

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2005, the date of transition to IFRSs, was determined by reference to its fair value at that date.

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

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

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

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

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

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(f) Intangible assets

(i) Goodwill and negative goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates and joint ventures.

Acquisitions prior to 1 January 2005

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2005. The Group did not prepare consolidated financial statements under Russian GAAP. In respect of acquisitions prior to 1 January 2005, goodwill therefore represents the difference between the Company's interest in a subsidiary net identifiable assets on the date of transition and the cost of that interest.

Acquisitions on or after 1 January 2005

For acquisitions on or after 1 January 2005, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the income statement.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses. Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

(iv) Amortisation

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

(g) Leased assets

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

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

(h) Investment propery

Investment property is property held either to earn rental income or for capital appreciation or for both. Investment property is measured at fair value with any change therein recognised in the income statement. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(j) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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

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

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

(ii) Reversal of impairment

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

(iii) Non-financial assets

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

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

(k) Employee benefits

Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an expense in the income statement when they are due.

(l) Provisions

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

(i) Site restoration

In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration in respect of land suffered from quarrying, and the related expense, is recognised when the land is suffered from quarrying.

(ii) Onerous contracts

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

(m) Revenues

(i) Goods sold

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

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. Revenue from the sale of flats is recognised when the buyer takes occupation of the property.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Construction contracts

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

(n) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(ii) Social expenditure

To the extent that the Group’s contributions to social programs benefit the community at large and are not restricted to the Group’s employees, they are recognised in the income statement as incurred.

(o) Financial income and expenses

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group’s right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, minority interest in limited liability companies, dividends on preference shares classified as liabilities, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method, except for borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

(p) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

(q) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(r) Segment reporting

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

(s) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2006, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective. Of these pronouncements, potentially the following will have an impact on the Group's operations.

- IFRS 7 *Financial Instruments: Disclosures* and the *Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to Group's financial instruments and share capital.

- IFRS 8 *Operating Segments*, which is effective for annual periods beginning on or after 1 January 2009. The Standard introduces the "management approach" to segment reporting.
- IFRIC 8 *Scope of IFRS 2 Share-based Payment* addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Group's 2007 financial statements, with retrospective application required.
- IFRIC 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e. 1 January 2004).
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*, which is effective for annual periods beginning on or after 1 March 2007. The Interpretation addresses the classification of the share-based payment as equity-settled or cash-settled in the financial statements of the entity receiving the services.

4 Segment reporting

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

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

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

(a) Business segments

The Group comprises the following main business segments:

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

Commercial real estate. Commercial real estate companies own and operate business centers.

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

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

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

Construction services. Construction services companies specialize in renting of tower cranes and transportation of construction materials.

Roads construction. Road construction companies that provided a wide range of road development, construction and maintenance services. This segment was sold in January 2006.

(b) Geographical segments

The operations of the Group are conducted and managed in the North-West region of Russia, cities of St. Petersburg and in Moscow where production facilities and sales offices of the Group are located. The Group also has operations in Munich, Latvia and Estonia the volume of which is not significant to total operations of the Group and, accordingly, no geographical segmental information is presented.

(i) Business segments

2006 '000 RUR	**Development**	**Commercial real estate**	**Building materials**	**Aggregates**	**Construction**	**Construction services**	**Other entities**	**Eliminations**	**Consolidated**
Revenue from external customers	3,237,230	17,600	8,798,879	3,588,836	4,624,149	769,607	74,450	-	21,110,751
Inter-segment revenue	38,056	-	495,942	832,769	269,180	356,100	107,086	(2,099,133)	-
Total revenue	3,275,286	17,600	9,294,821	4,421,605	4,893,329	1,125,707	181,536	(2,099,133)	21,110,751
Segment result	382,608	3,931	810,952	957,236	512,750	273,566	50,984	170,288	3,162,315
Unallocated expenses									(527,512)
Financial income									213,796
Financial expenses									(1,089,615)
Income tax expense/(benefit)									(658,039)
Net profit/(loss) for the year									1,100,945
Depreciation/amortisation	13,327	2,161	346,111	424,394	150,389	123,324	61,025	-	1,120,731
Capital expenditure	37,129	996	2,257,824	470,916	188,258	469,626	310,436	(770,329)	2,964,856

2005 '000 RUR	**Development**	**Building materials**	**Aggregates**	**Roads construction (discontinued)**	**Construction**	**Construction services**	**Other entities**	**Eliminations**	**Consolidated**	**Less Roads construction (discontinued)**	**Continuing operations**
Revenue from external customers	2,408,733	4,981,855	2,222,371	2,634,902	2,552,102	639,354	118,391	-	15,557,708	(2,634,902)	12,922,806
Inter-segment revenue	20,008	355,249	353,020	127,814	680,641	220,888	184,410	(1,651,505)	290,525	(127,814)	162,711
Total revenue	2,428,741	5,337,104	2,575,391	2,762,716	3,232,743	860,242	302,801	(1,651,505)	15,848,233	(2,762,716)	13,085,517
Segment result	6,680	540,349	355,334	(128,960)	75,617	292,152	58,281	(57,413)	1,142,040	141,816	1,283,856
Unallocated expenses									(255,411)	-	(255,411)
Financial income									157,324	(17,176)	140,148
Financial expenses									(850,866)	63,630	(787,236)
Income tax expense/(benefit)									(79,728)	(38,456)	(118,184)
Net profit/(loss) for the year									113,359	149,814	263,173
Depreciation/amortization	8,275	226,915	350,179	82,466	155,012	81,931	82,717	-	987,495	(82,466)	905,029
Capital expenditure	31,124	910,015	318,023	349,310	164,019	168,372	414,677	(374,340)	1,981,200	(349,310)	1,631,890

2006 '000 USD	Development	Commercial real estate	Building materials	Aggregates	Construction	Construction services	Other entities	Eliminations	Consolidated
Revenue from external customers	119,081	647	323,664	132,014	170,098	28,310	2,739	-	776,553
Inter-segment revenue	1,400	-	18,243	30,633	9,902	13,099	3,939	(77,216)	-
Total revenue	120,481	647	341,907	162,647	180,000	41,409	6,678	(77,216)	776,553
Segment result	14,074	145	29,831	35,212	18,861	10,063	1,875	6,264	116,325
Unallocated expenses									(19,404)
Financial income									7,864
Financial expenses									(40,081)
Income tax expense/(benefit)									(24,206)
Net profit /(loss) for the year									40,498
Depreciation/amortization	490	79	12,732	15,611	5,532	4,536	2,247	-	41,227
Capital expenditure	1,366	37	83,053	17,323	6,925	17,275	11,419	(28,336)	109,062

2005 '000 USD	Development	Building materials	Aggregates	Roads construction (discontinued)	Construction	Construction services	Other entities	Eliminations	Consolidated	Less Roads construction (discontinued)	Continuing operations
Revenue from external customers	85,155	176,122	78,567	93,151	90,224	22,603	4,185	-	550,007	(93,151)	456,856
Inter-segment revenue	707	12,559	12,480	4,519	24,062	7,809	6,519	(58,384)	10,271	(4,519)	5,752
Total revenue	85,862	188,681	91,047	97,670	114,286	30,412	10,704	(58,384)	560,278	(97,670)	462,608
Segment result	236	19,104	12,562	(4,559)	2,673	10,328	2,060	(2,030)	40,374	5,014	45,388
Unallocated expenses									(9,030)	-	(9,030)
Financial income									5,562	(607)	4,955
Financial expenses									(30,080)	2,249	(27,831)
Income tax expense/(benefit)									(2,818)	(1,360)	(4,178)
Net profit/(loss) for the year									4,008	5,296	9,304
Depreciation/amortization	293	8,022	12,380	2,915	5,480	2,896	2,925	-	34,911	(2,915)	31,996
Capital expenditure	1,100	32,171	11,243	12,349	5,799	5,952	14,660	(13,233)	70,041	(12,349)	57,692

2006

’000 RUR	Development	Commercial real estate	Building materials	Aggregates	Construction	Construction services	Other entities	Eliminations	Consolidated
Segment assets	21,192,562	919,231	8,355,970	2,721,488	2,830,815	1,430,804	629	(1,559,699)	35,891,800
Unallocated assets									2,849,529
Total assets									38,741,329
Segment liabilities	15,782,512	507,723	2,410,980	513,385	717,166	296,248	1,170	(1,498,995)	18,730,189
Unallocated liabilities									14,871,453
Total liabilities									33,601,642

2005

’000 RUR	Development	Building materials	Aggregates	Roads construction (discontinued)	Construction	Construction services	Other entities	Eliminations	Consolidated
Segment assets	8,704,486	4,879,402	2,472,736	1,539,247	2,660,088	1,103,297	226,960	(1,604,043)	19,982,173
Unallocated assets									2,030,545
Total assets									22,012,718
Segment liabilities	8,282,203	1,176,489	567,789	1,450,591	820,918	175,743	70,376	(1,448,856)	11,095,253
Unallocated liabilities									7,902,460
Total liabilities									18,997,713

2006

’000 USD	Development	Commercial real estate	Building materials	Aggregates	Construction	Construction services	Other entities	Eliminations	Consolidated
Segment assets	804,849	34,910	317,342	103,356	107,508	54,339	24	(59,234)	1,363,094
Unallocated assets									108,220
Total assets									1,471,314
Segment liabilities	599,387	19,282	91,564	19,497	27,236	11,251	44	(56,929)	711,332
Unallocated liabilities									564,788
Total liabilities									1,276,120

2005

’000 USD	Development	Building materials	Aggregates	Roads construction (discontinued)	Construction	Construction services	Other entities	Eliminations	Consolidated
Segment assets	302,423	169,527	85,911	53,479	92,420	38,332	7,885	(55,730)	694,247
Unallocated assets									70,549
Total assets									764,796
Segment liabilities	287,751	40,875	19,727	50,398	28,521	6,106	2,445	(50,338)	385,485
Unallocated liabilities									274,559
Total liabilities									660,044

5 Discontinued operation

In January 2006 the Group sold its entire roads construction segment; the segment was not a discontinued operation or classified as held for sale as at 31 December 2005 and the comparative income statement has been re-presented to show the discontinued operations separately from continuing operations. Management commited to a plan to sell this division early 2006 due to the strategic decision to place greater focus on the Group's key competencies, being the manufacture of building materials, development, aggregates and construction and construction services.

Results attributable to the discontinued operation were as follows:

	2005	
	'000 RUR	**'000 USD**
Results of discontinued operation		
Revenue	2,762,716	97,670
Cost of sales	(2,740,253)	(96,877)
Administrative expenses	(169,333)	(5,986)
Other income	5,054	179
Financial income	17,176	607
Financial expenses	(63,630)	(2,249)
Loss from operating activities	(188,270)	(6,656)
Income tax benefit	38,456	1,360
Loss from operating activities, net of income tax	(149,814)	(5,296)
Basic and diluted loss per share	(1.76) RUR	(0.06) USD
Cash flows from discontinued operation		
Net cash utilised by operating activities	(350,630)	(12,397)
Net cash utilised by investing activities	(166,006)	(5,870)
Net cash from financing activities	557,149	19,697
Net cash utilised by discontinued operation	40,513	1,430

	As at 31 December 2005	
	’000 RUR	**’000 USD**
Effect of disposal on the financial position of the Group		
Property, plant and equipment	480,164	17,663
Deferred tax asset	157,682	5,800
Inventories	487,951	17,949
Trade and other receivables	876,411	32,239
Cash and cash equivalents	48,254	1,775
Trade and other payables	(1,132,791)	(41,669)
Other liabilities	(1,217,318)	(44,780)
Net identifiable assets and liabilities	(299,647)	(11,023)
Difference between net assets disposed and consideration received recognised in net assets attributable to shareholders	333,714	12,276
Consideration received, satisfied in cash	34,067	1,253
Cash disposed of	(48,254)	(1,775)
Net cash outflow	(14,187)	(522)

6 Non-current assets held for sale

Two entities within a Group are presented as disposal group held for sale following the commitment of the Group’s management to plan to sell these entities representing non-core businesses of the Group. Efforts to sell the disposal Group have commenced, and the sale is expected to take place withn 2007.

	As at 31 December 2006	
	’000 RUR	**’000 USD**
Assets classified as held for sale		
Property plant and equipment	53,182	2,020
Inventories	14,898	566
Receivables	2,135	81
Financial assets	718	27
	70,933	**2,694**
Liabilities classified as held for sale		
Trade and other payables	26,884	1,021
Deferred tax liabilities	1,045	40
	27,929	**1,061**

7 Acquisition and disposals of subsidiaries and minority interests

(a) Acquisition of subsidiaries

During 2006 the Group acquired controlling stakes, settled in cash, in 30 entities major of which were ZAO Galernaya (formerly OOO Galernaya), ZAO Severnaya Venecia, OOO BaltStroiKomplect, ZAO Ingeokom, OOO Zolotaya Kazanskaya, OAO MTO Ahproekt, OOO Velikan XXI, OOO LSR Invest from companies controlled by the ultimate controlling party and in OAO Zavod Zhelezobetonnich Izdeliy-6, Aeroc International AS, LSR Europe GmbH and OAO Zavod Electrik from unrelated parties. The impact of acquiring the subsidiaries was to increase net profit for the year ended 31 December 2006 by RUR 53,474 thousand /USD 1,967 thousand.

It has not been possible to determine the carrying amounts of the assets and liabilities of subsidiaries acquired from third parties on an IFRS basis immediately prior to the date of acquisition because the subsidiaries' financial statements were prepared in accordance with Russian accounting principles which are significantly different form IFRSs.

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

	Recognised fair/book values on acquisition	
	'000 RUR	**'000 USD**
Non-current assets		
Property, plant and equipment	1,843,625	67,816
Investment property under development	100,444	3,695
Investment property	916,560	33,715
Long-term investments	42,405	1,560
Intangible assets	436	16
Deferred income tax assets, net	53,426	1,965
Other non-current assets	133,057	4,894
Current assets		
Investments	100,287	3,689
Inventories	1,969,041	72,432
Income tax receivable	14,125	520
Trade and other receivables	4,305,484	158,376
Cash and cash equivalents	276,562	10,173
Assets classified as held for sale	70,764	2,603
Due from affiliates	258,888	9,523
Non-current liabilities		
Deferred tax liability	(222,240)	(8,175)

Loans and borrowings	(471,723)	(17,353)
Current liabilities		
Bank overdrafts	(13,134)	(483)
Loans and borrowings	(580,408)	(21,350)
Income tax payable	(6,300)	(232)
Provisions	(23,683)	(871)
Liabilities classified as held for sale	(27,929)	(1,027)
Trade and other payables	(2,121,167)	(78,027)
Due to affiliates	(2,182,945)	(80,299)
Net identifiable assets, liabilities and contingent liabilities	**4,435,575**	**163,160**
Minority interest	(220,726)	(8,119)
Minority interest in OOO companies	(86,506)	(3,182)
Net identifiable assets, liabilities and contingent liabilities acquired	4,128,343	151,859
Goodwill on acquisition	550,217	20,240
Difference between net assets acquired and consideration paid recognised in net assets attributable to shareholders	(474,463)	(17,453)
Consideration paid	4,204,097	154,646
Cash acquired	(276,562)	(10,173)
Net cash outflow/(inflow)	3,927,535	144,473

(b) Acquisition of minority interests

During 2006 the Group acquired additional minority interest in a number of subsidiaries for RUR 34,285 thousand/USD 1,261 thousand. The Group recognised a decrease in minority interest of RUR 298,279 thousand/USD 10,973 thousand, contribution from shareholders of RUR 263,994 thousand/USD 9,711 thousand was recognised directly in equity.

(c) Disposal of subsidiaries

During year ended 31 December 2006 the Group disposed of eight subsidiaries to companies controlled by the ultimate controlling party. The subsidiaries reduced the net profit for the year by RUR 59,241 thousand/USD 2,188 thousand. The net loss on disposal of RUR 210,635 thousand/USD 7,748 thousand was recognised in net assets attributable to shareholders. The Group also recognised income from disposal of discontinued operations in amount of RUR 333,714 thousand/USD 12,276 thousand (see note 5).

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

	Carrying amount at date of disposal	
	'000 RUR	**'000 USD**
Non-current assets		
Property, plant and equipment	213,945	7,870
Intangible assets	52	2
Investments	200	7
Long-term investments	56,857	2,091
Current assets		
Investments	835	31
Inventories	66,614	2,450
Income tax receivable	434	16
Trade and other receivables	290,616	10,690
Due from affiliates	3,018	111
Cash and cash equivalents	24,389	897
Non-current liabilities		
Deferred tax liability	(30,017)	(1,104)
Other non-current liabilities	(194)	(7)
Current liabilities		
Loans and borrowings	(22,849)	(840)
Bank overdrafts	(260)	(10)
Trade and other payables	(282,116)	(10,377)
Provisions	(55)	(2)
Income tax payable	(1,002)	(37)
Net identifiable assets and liabilities	**320,467**	**11,788**
Minority interest	(53,488)	(1,968)
Net identifiable assets, liabilities and contingent liabilities disposed	266,979	9,820
Excess of consideration received for entities under common control over book values of net assets sold	23,735	873
Excess of book values of net assets sold for entities under common control over consideration received	(234,370)	(8,621)
Consideration received	56,344	2,072
Cash disposed of	(24,389)	(897)
Net cash inflow	31,955	1,175

8 Administrative expenses

	2006 '000 RUR	2005 '000 RUR	2006 '000 USD	2005 '000 USD
Wages and salaries	1,264,334	942,388	46,508	33,316
Services	836,940	456,218	30,787	16,129
Materials	74,194	72,414	2,729	2,560
Depreciation and amortisation	36,120	48,575	1,329	1,717
Taxes other than profit tax	145,340	113,817	5,346	4,024
Social expenditure	314,973	33,062	11,586	1,169
Insurance	10,413	10,905	383	386
Other administrative expenses	368,789	213,207	13,566	7,536
	3,051,103	1,890,586	112,234	66,837

9 Other expenses

	2006 '000 RUR	2005 '000 RUR	2006 '000 USD	2005 '000 USD
Loss on disposal of property, plant and equipment	(94,332)	(83,146)	(3,470)	(2,940)
Gain on disposal of other assets	38,173	(18,021)	1,404	(637)
	(56,159)	(101,167)	(2,066)	(3,577)

10 Total personnel costs

	2006 '000 RUR	2005 '000 RUR	2006 '000 USD	2005 '000 USD
Wages and salaries:				
Cost of sales	2,881,893	1,426,813	106,010	50,442
Administrative expenses	1,264,334	942,388	46,508	33,316
Distribution expenses	144,849	78,614	5,328	2,779
	4,291,076	2,447,815	157,846	86,537

11 Financial income and expenses

	2006 '000 RUR	2005 '000 RUR	2006 '000 USD	2005 '000 USD
Financial income				
Foreign exchange gain	84,262	58,779	3,099	2,078
Interest income	43,253	39,320	1,591	1,390
Income from sale of available-for-sale investments	12,769	41,889	470	1,481
Dividend income	73,512	160	2,704	6
	213,796	140,148	7,864	4,955
Financial expenses				
Interest expense	(1,062,238)	(763,907)	(39,074)	(27,006)
Minority interest in limited liability subsidiaries	(27,377)	(23,329)	(1,007)	(825)
	(1,089,615)	(787,236)	(40,081)	(27,831)

12 Income tax expense/(benefit)

	2006 '000 RUR	2005 '000 RUR	2006 '000 USD	2005 '000 USD
Current tax expense				
Current year	791,028	304,833	29,098	10,777
Deferred tax expense				
Origination and reversal of temporary differences	(132,989)	(186,649)	(4,892)	(6,599)
Income tax expense	658,039	118,184	24,206	4,178
Income tax from continuing operations	658,039	118,184	24,206	4,178
Income tax from discontinued operations	-	(38,456)	-	(1,360)
	658,039	79,728	24,206	2,818

The Group's applicable tax rate is the corporate income tax rate of 24% (2005: 24%).

Reconciliation of effective tax rate:

	2006 ’000 RUR	%	2005 ’000 RUR	%	2006 ’000 USD	%	2005 ’000 USD	%
Profit for the period	1,100,945		113,359		40,498		4,008	
Income tax expense	658,039		79,728		24,206		2,818	
Profit before income tax	1,758,984	100	193,087	100	64,704	100	6,827	100
Income tax at applicable tax rate	422,156	24	46,341	24	15,529	24	1,638	24
Non-deductible and non-taxable items	235,883	13	33,387	17	8,677	13	1,180	17
	658,039	37	79,728	41	24,206	37	2,818	41

13 Property, plant and equipment

’000 RUR	Land and buildings	Machinery and equipment	Transportation equipment	Other fixed assets	Assets under construction	Total
Cost/Deemed cost						
At 1 January 2005	3,159,426	1,613,761	994,810	744,114	728,658	7,240,769
Acquisitions through business combinations	84,045	53,248	4,634	12,722	-	154,649
Additions	173,933	595,984	386,261	306,908	518,114	1,981,200
Disposals	(121,030)	(259)	(12,636)	(61,595)	(79,958)	(275,478)
Transfers	77,339	496,786	25,329	36,180	(635,634)	-
At 31 December 2005	3,373,713	2,759,520	1,398,398	1,038,329	531,180	9,101,140
At 1 January 2006	3,373,713	2,759,520	1,398,398	1,038,329	531,180	9,101,140
Acquisitions through business combinations	1,473,116	371,798	10,608	18,923	58,787	1,933,232
Additions	326,566	917,170	788,258	78,310	854,552	2,964,856
Disposals	(95,770)	(166,724)	(117,231)	(65,134)	(140,122)	(584,981)
Business disposals	(267,078)	(168,213)	(377,005)	(39,188)	(25,675)	(877,159)
Transfers	258,512	546,731	29,383	(513,629)	(343,573)	(22,576)
Effect of movements in exchange rates	3,526	3,860	(27)	185	651	8,195
At 31 December 2006	5,072,585	4,264,142	1,732,384	517,796	935,800	12,522,707
Depreciation and impairment losses						
At 1 January 2005	(371)	-	(38,569)	(835)	-	(39,775)

Depreciation charge	(240,190)	(303,310)	(273,693)	(169,989)	-	(987,182)
Disposals	6,066	8,721	17,097	15,399	-	47,283
Transfers	-	-	(201)	201	-	-
At 31 December 2005	(234,495)	(294,589)	(295,366)	(155,224)	-	(979,674)
At 1 January 2006	(234,495)	(294,589)	(295,366)	(155,224)	-	(979,674)
Depreciation charge	(236,050)	(550,243)	(233,483)	(100,713)	-	(1,120,489)
Acquisitions through business combinations	(53,510)	(22,374)	(6,919)	(6,804)		(89,607)
Disposals	9,604	46,906	21,588	23,910	-	102,008
Business disposals	45,049	29,689	101,650	6,662	-	183,050
Transfers	(1,502)	(61,006)	(6,008)	73,216	-	4,700
Effect of movements in exchange rates	(513)	(939)	(33)	(88)	-	(1,573)
At 31 December 2006	(471,417)	(852,556)	(418,571)	(159,041)	-	(1,901,585)
Net book value						
At 1 January 2005	3,159,055	1,613,761	956,241	743,279	728,658	7,200,994
At 31 December 2005	3,139,218	2,464,931	1,103,032	883,105	531,180	8,121,466
At 31 December 2006	4,601,168	3,411,586	1,313,813	358,755	935,800	10,621,122

'000 USD	**Land and buildings**	**Machinery and equipment**	**Transportation equipment**	**Other fixed assets**	**Assets under construction**	**Total**
Cost/Deemed cost						
At 1 January 2005	113,859	58,156	35,851	26,816	26,259	260,941
Acquisitions through business combinations	2,971	1,882	164	450	-	5,467
Additions	6,149	21,070	13,655	10,850	18,317	70,041
Disposals	(4,279)	(9)	(447)	(2,178)	(2,827)	(9,740)
Transfers	2,734	17,563	895	1,279	(22,471)	-
Effect of movements in exchange rates	(4,220)	(2,787)	(1,531)	(1,142)	(823)	(10,503)
At 31 December 2005	117,214	95,875	48,587	36,075	18,455	316,206
At 1 January 2006	117,214	95,875	48,587	36,075	18,455	316,206

Acquisitions through business combinations	54,188	13,676	390	696	2,162	71,112
Additions	12,013	33,738	28,996	2,881	31,434	109,062
Disposals	(3,523)	(6,133)	(4,312)	(2,396)	(5,154)	(21,518)
Business disposals	(9,824)	(6,188)	(13,868)	(1,442)	(944)	(32,266)
Transfers	9,509	20,111	1,081	(18,894)	(12,638)	(831)
Effect of movements in exchange rates	13,069	10,865	4,921	2,744	2,225	33,824
At 31 December 2006	192,646	161,944	65,795	19,664	35,540	475,589
Depreciation and impairment losses						
At 1 January 2005	(13)	-	(1,390)	(30)	-	(1,433)
Depreciation charge	(8,491)	(10,723)	(9,676)	(6,010)	-	(34,900)
Disposals	214	308	604	544	-	1,670
Transfers	-	-	(7)	7	-	-
Effect of movements in exchange rates	143	180	206	95	-	624
At 31 December 2005	(8,147)	(10,235)	(10,263)	(5,394)	-	(34,039)
At 1 January 2006	(8,147)	(10,235)	(10,263)	(5,394)	-	(34,039)
Depreciation charge	(8,683)	(20,241)	(8,589)	(3,705)	-	(41,218)
Acquisitions through business combinations	(1,968)	(823)	(255)	(250)		(3,296)
Disposals	353	1,725	794	880	-	3,752
Transfers	(55)	(2,244)	(221)	2,693	-	173
Business disposals	1,657	1,092	3,739	245	-	6,733
Effect of movements in exchange rates	(1,060)	(1,653)	(1,104)	(509)	-	(4,326)
At 31 December 2006	(17,903)	(32,379)	(15,899)	(6,040)	-	(72,221)
Net book value						
At 1 January 2005	113,846	58,156	34,461	26,786	26,259	259,508
At 31 December 2005	109,067	85,640	38,324	30,681	18,455	282,167
At 31 December 2006	174,743	129,565	49,896	13,624	35,540	403,368

Depreciation expense of RUR 1,074,859 thousand/USD 39,540 thousand has been charged in cost of goods sold, RUR 9,631 thousand/USD 354 thousand in distribution expenses and RUR 35,999 thousand/USD 1,324 thousand in administrative expense.

(a) Determination of deemed cost

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

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

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

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

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

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

- Cash flows were projected based on actual operating results and the five-year business plan.
- Total production at the Group companies for which assessment of the reasonablness of values has been done was projected at RUR 22,456 million/USD 829 million in the first year of the business plan. The anticipated annual production growth included in the cash flow projections was from 6% to 13% for each year since 2007 to 2011.
- Cash flows for further periods during which property plant and equipment is planned to be used were extrapolated assuming no further growth in production, and revenue and expenses increasing in line with inflation.
- Discount rates from 17.48% to 22.68% were applied in determining the recoverable amount of the plants. The discount rate was estimated based on an industry average weighted average cost of capital.

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

The above estimates are particularly sensitive in the following areas:

- An increase of one percentage point in the discount rate used would have decreased the depreciated replacement cost values by RUR 221 million/USD 8 million.
- A 10% decrease in future planned production would have decreased depreciated replacement cost values by RUR 1,571 million/USD58 million.

(b) Security

Properties with a carrying amount of RUR 3,619,920 thousand /USD 137,476 thousand are subject to a registered debenture to secure bank loans (2005: RUR 2,384,823 thousand /USD 82,856 thousand) (see note 24).

(c) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2006 the net book value of leased plant and machinery was RUR 1,699,923 thousand/USD 64,560 thousand (2005: RUR 1,276,380 thousand/ USD 44,346 thousand). The leased equipment secures the lease obligations.

14 Intangible assets

’000 RUR	**Goodwill**	**Other**	**Total**
Cost			
Balance at 1 January 2005	22,451	1,211	23,662
Additions	-	1,530	1,530
Disposals	-	(271)	(271)
Balance at 31 December 2005	22,451	2,470	24,921
Balance at 1 January 2006	22,451	2,470	24,921
Acquisitions through business combinations	-	411	411
Additions	550,218	1,289	551,507
Disposals	-	(126)	(126)
Balance at 31 December 2006	572,669	4,044	576,713
Amortisation and impairment losses			
Balance at 1 January 2005	-	(573)	(573)
Amortisation charge	-	(313)	(313)
Disposals	-	234	234
Balance at 31 December 2005	-	(652)	(652)
Balance at 1 January 2006	-	(652)	(652)
Amortisation charge	-	(242)	(242)
Disposals	-	84	84

Balance at 31 December 2006	-	(810)	(810)
Net book value			
At 1 January 2005	22,451	638	23,089
At 31 December 2005	22,451	1,818	24,269
At 31 December 2006	572,669	3,234	575,903

’000 USD	**Goodwill**	**Other**	**Total**
Cost			
Balance at 1 January 2005	809	44	853
Additions	-	54	54
Disposals	-	(10)	(10)
Effect of movements in exchange rates	(29)	(2)	(31)
Balance at 31 December 2005	780	86	866
Balance at 1 January 2006	780	86	866
Acquisitions through business combinations	-	15	15
Additions	20,240	47	20,287
Disposals	-	(5)	(5)
Effect of movements in exchange rates	729	11	740
Balance at 31 December 2006	21,749	154	21,903
Amortisation and impairment losses			
Balance at 1 January 2005	-	(21)	(21)
Amortisation charge	-	(11)	(11)
Disposals	-	8	8
Effect of movements in exchange rates	-	1	1
Balance at 31 December 2005	-	(23)	(23)
Balance at 1 January 2006	-	(23)	(23)
Amortisation charge	-	(9)	(9)
Disposals	-	3	3
Effect of movements in exchange rates	-	(2)	(2)
Balance at 31 December 2006	-	(31)	(31)

Net book value			
At 1 January 2005	809	23	832
At 31 December 2005	780	63	843
At 31 December 2006	21,749	123	21,872

(a) Impairment testing of goodwill

For the purposes of impairment testing, goodwill is allocated to the Group's entities. These units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to each entity, are as follows:

	Allocated goodwill	
	'000 RUR	**'000 USD**
Zavod Zhelezobetonich Izdeliy-6	254,173	9,655
Aeroc International AS	245,952	9,340
LSR Europe GmbH	50,093	1,902
OAO Construction corporation Revival of Saint-Petersburg (formerly SKV SPb)	22,451	852
	572,669	21,749

No impairment losses were recognised.

The recoverable amount of each entity represents value in use as determined by discounting the future cash flows generated from the continuing use of the entities.

The following key assumptions were used in determining the recoverable amounts of the respective entities:

- Cash flows were projected based on actual operating results and the five-year business plan.
- Total production at the entities for 2006 was approximately 98,643 m3 of reinforced concrete products at Zavod Zhelezobetonich Izdeliy-6, 519,665 m3 of lightweighted concrete blocks at Aeroc International AS, 3,300 m2 of real estate development at LSR Europe GmbH and 42,827 m2 of real estate development at OAO Construction corporation Revival of Saint-Petersburg. The anticipated annual production growth included in the cash flow projections was up to 37% for the years 2007 to 2011.
- Cash flows for a further five years were extrapolated assuming no further growth in production, and revenue and expenses increasing in line with inflation.
- Discount rates from 12.0% to 19.8% were applied in determining the recoverable amount of the entities. The discount rates were estimated based on an industry average weighted average cost of capital, which was based on a possible range of debt leveraging of 4.0% at a market interest rates from 5.8% to 14.0%.

The values assigned to the key assumptions represent management's assessment of future trends in the construction and production of materials industry and are based on both external sources and internal sources.

Although no impairment loss was recognised in respect of goodwill allocated to the plants, the determination of recoverable amount is sensitive to the rate at which the plant achieves its planned growth in production. If actual production were to be below estimated production by 28% for Zavod Zhelezobetonich Izdeliy-6, by 25% for Aeroc International AS, by 51% for LSR Europe GmbH and by 89% for OAO Construction corporation Revival of Saint-Petersburg in 2007 and subsequent years, the value in use would approximate the carrying amount of the entities.

15 Investment property under development

'000 RUR	**2006**	**2005**
Cost		
At 1 January	178,040	34,009
Acquisitions through business combinations	100,444	-
Costs capitalised	218,368	144,031
At 31 December	496,852	178,040

'000 USD	**2006**	**2005**
Cost		
At 1 January	6,186	1,182
Acquisitions through business combinations	3,695	-
Costs capitalised	8,033	5,092
Effect of movements in exchange rates	955	(88)
At 31 December	18,869	6,186

16 Investment property

'000 RUR	**2006**	**2005**
Cost		
At 1 January	-	-
Acquisitions through business combinations	916,560	-
Change in fair value	130,106	
At 31 December	1,046,666	-

’000 USD	**2006**	**2005**
Cost		
At 1 January	-	-
Acquisitions through business combinations	33,715	-
Change in fair value	4,786	-
Effect of movements in exchange rates	1,249	-
At 31 December	39,750	-

Investment property comprises a number of commercial properties that are leased to third parties and a plot of land owned by the Group which is used for construction of commercial properties to be used for lease to third parties when construction is completed.

External, independent valuation companies, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, value the Group’s investment property portfolio on a regular basis. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each knowledgeably, prudently and without compulsion.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows is applied to the net annual cash flows to arrive at the property valuation.

17 Other investments

	2006	**2005**	**2006**	**2005**
	’000 RUR	**’000 RUR**	**’000 USD**	**’000 USD**
Non-current				
Available-for-sale investments:				
Stated at cost	166,481	30,308	6,322	1,053
Originated loans	160,607	6,892	6,100	239
	327,088	37,200	12,422	1,292
Current				
Available-for-sale investments:				
Stated at fair value	47,259	14,636	1,795	509
Originated loans	753,180	560,032	28,604	19,457
	800,439	574,668	30,399	19,966

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

18 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

'000 RUR	**Assets**		**Liabilities**	
	2006	**2005**	**2006**	**2005**
Property, plant and equipment	(63,093)	(12,578)	1,138,508	1,050,516
Investment property under development	-	-	(79)	-
Investment property	-	-	251,120	-
Investments	(22,203)	(403)	-	6,649
Inventories	(291,301)	(220,560)	30,386	15,658
Trade and other receivables	(122,914)	(74,754)	13,008	22,940
Loans and borrowings	(237,823)	(223,410)	553	-
Provisions	(2,738)	(36,237)	-	-
Trade and other payables	(60,535)	(111,331)	19,669	22,593
Tax loss carry-forwards	(49,985)	-	-	-
Tax (assets)/liabilities	(850,592)	(679,273)	1,453,165	1,118,356
Set off of tax	513,430	374,892	(513,430)	(374,892)
Net tax (assets)/liabilities	(337,162)	(304,381)	939,735	743,464

’000 USD	**Assets**		**Liabilities**	
	2006	**2005**	**2006**	**2005**
Property, plant and equipment	(2,396)	(437)	43,238	36,498
Investment property under development			(3)	
Investment property	-	-	9,537	-
Investments	(843)	(14)	-	231
Inventories	(11,063)	(7,663)	1,154	544
Trade and other receivables	(4,668)	(2,597)	494	797
Loans and borrowings	(9,033)	(7,762)	21	-
Provisions	(104)	(1,259)	-	-
Trade and other payables	(2,299)	(3,868)	747	785
Tax loss carry-forwards	(1,898)	-	-	-
Tax (assets)/liabilities	(32,304)	(23,600)	55,188	38,855
Set off of tax	19,499	13,025	(19,499)	(13,025)
Net tax (assets)/liabilities	(12,805)	(10,575)	35,689	25,830

(b) Movement in temporary differences during the year

’000 RUR	**1 January 2006**	**Recognised in income**	**Acquired**	**Disposed of**	**31 December 2006**
Property, plant and equipment	1,037,938	190,565	(26,041)	(127,047)	1,075,415
Intangible assets	-	(31)	-	31	-
Investment property under development	-	(26)	(53)	-	(79)
Investement property		(26)	251,146	-	251,120
Investments	6,246	(76,226)	(606)	48,383	(22,203)
Inventories	(204,902)	(20,686)	(44,231)	8,904	(260,915)
Trade and other receivables	(51,814)	(160,336)	(3,186)	105,430	(109,906)
Trade and other payables	(88,738)	8,524	(263)	39,611	(40,866)
Loans and borrowings	(223,410)	(65,581)	(632)	52,353	(237,270)
Provisions	(36,237)	36,237	(2,738)	-	(2,738)
Tax loss carry-forwards	-	(45,403)	(4,582)	-	(49,985)

439,083	(132,989)	168,814	127,665	602,573

'000 USD	1 January 2006	Recognised in income	Acquired	Disposed of	Effect of movements in exchange rate	31 December 2006
Property, plant and equipment	36,061	7,010	(989)	(4,413)	3,173	40,842
Intangible assets	-	(1)	-	1	-	-
Investment property under development	-	(1)	(2)	-	-	(3)
Investement property	-	(1)	9,538	-	-	9,537
Investments	217	(2,804)	(23)	1,681	86	(843)
Inventories	(7,119)	(761)	(1,680)	309	(658)	(9,909)
Trade and other receivables	(1,800)	(5,898)	(121)	3,663	(18)	(4,174)
Trade and other payables	(3,083)	314	(10)	1,376	(149)	(1,552)
Loans and borrowings	(7,762)	(2,413)	(24)	1,819	(632)	(9,012)
Provisions	(1,259)	1,333	(104)	-	(74)	(104)
Tax loss carry-forwards	-	(1,670)	(174)	-	(54)	(1,898)
	15,255	(4,892)	6,411	4,436	1,674	22,884

During year ended 31 December 2005 RUR 304,833 thousand/USD 10,777 thousand of the movement in the deferred tax asset and liability was recognised in the income statement.

(c) Unrecognised deferred tax liability

A temporary difference of RUR 323,630 thousand/USD 12,291 thousand relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

19 Inventories

	2006 '000 RUR	2005 '000 RUR	2006 '000 USD	2005 '000 USD
Work in progress, construction of buildings	9,623,210	4,855,737	365,469	168,704
Finished goods, construction of buildings	2,482,720	1,772,344	94,289	61,577
Raw materials and consumables	971,205	1,123,408	36,884	39,031
Finished goods and goods for resale	541,644	452,813	20,571	15,732
Work in progress	331,509	117,440	12,590	4,081
	13,950,288	8,321,742	529,803	289,125

Inventories with a carrying amount of RUR 14,589 thousand /USD 554 thousand are subject to a registered debenture to secure bank loans (2005: RUR 81,437 thousand/USD 2,829 thousand) (see note 24). There were no write-down of inventories during year ended 31 December 2006 and 31 December 2005.

20 Trade and other receivables

	2006 '000 RUR	2005 '000 RUR	2006 '000 USD	2005 '000 USD
Prepayments for flats	1,432,103	391,586	54,388	13,605
Accounts receivable – trade	1,196,759	989,959	45,450	34,394
Prepayments	1,899,955	920,229	72,156	31,972
Lease incentives	2,404,477	-	91,317	-
VAT receivable	349,778	546,692	13,284	18,994
Deferred expenses	172,015	117,246	6,533	4,074
Notes receivable	325,630	102,929	12,367	3,576
Accounts due from customers for contract work	89,791	78,800	3,410	2,738
Employee receivables	69,269	40,043	2,631	1,391
Finance lease receivable	204,392	-	7,762	-
Other receivables	838,558	618,333	31,847	21,483
	8,982,727	3,805,817	341,145	132,227
Provision for doubtful debtors	(146,187)	(144,436)	(5,552)	(5,018)
	8,836,540	3,661,381	335,593	127,209

21 Cash and cash equivalents

	2006 ’000 RUR	2005 ’000 RUR	2006 ’000 USD	2005 ’000 USD
Petty cash	19,659	42,104	747	1,463
Current accounts	1,587,580	658,671	60,293	22,884
Bank promissory notes	983	75,270	37	2,615
Cash and cash equivalents in the balance sheet	1,608,222	776,045	61,077	26,962
Bank overdrafts	(25,944)	(9,467)	(985)	(329)
Cash and cash equivalents in the statement of cash flows	1,582,278	766,578	60,092	26,633

22 Equity

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares 2006
Authorised shares	
Par value	RUR 0.25
On issue at beginning of year	-
Converted into ordinary shares	85,148,936
On issue at end of year, fully paid	85,148,936

Before July 2006, the Company’s legal form was a limited liability company. According to Article 26 of Federal Law of Russian Federation on limited companies, a shareholder in a limited liability company may unilaterally withdraw from the company. In such circumstances, the company is obliged to pay the withdrawing shareholder its share of the net assets of the company in cash or, subject to the consent of the shareholder, by an in-kind transfer of assets. The payment should be made no later than six months after the end of the year of the withdrawal.

Accordingly, the share capital of the Company and retained earning were grouped together and shown as net assets attributable to shareholders, which were liabilities of the Company. In July 2006 the Company changed its legal form from limited liability company to open joint stock company as defined in the Civil Code of the Russian Federation. As a result, the share capital has been converted into 85,148,936 ordinary shares with a nominal value 0.25 roubles each. The nominal value of registered share capital equalled RUR 21,287 thousand.

As a result the share capital, retained earnings and additional paid in capital were reclassified into equity.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

(b) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2006 the Company had retained earnings, including the profit for the current year, of RUR 85,763 thousand/ USD 3,257 thousand (2005: RUR 80,643/ USD 2,801 thousand).

23 Earnings per share

The calculation of earnings per share is based on profit attributable to the shareholders of the Company divided by the number of ordinary shares issued in July 2006 when the Company re-registered as an OAO company (see note 22(a)).

24 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 27.

	2006	**2005**	**2006**	**2005**
	'000 RUR	**'000 RUR**	**'000 USD**	**'000 USD**
Non-current				
Secured bank loans	4,314,320	1,068,950	163,848	37,139
Unsecured other loans	1,628,146	6,626	61,834	230
Unsecured bond issues	2,000,000	-	75,956	-
Finance lease liability	778,749	424,983	29,575	14,765
	8,721,215	1,500,559	331,213	52,134
Current				
Secured bank loans	736,330	3,195,932	27,964	111,037
Current portion of secured bank loans	199,099	761,930	7,561	26,472
Current portion of unsecured other loans	-	15,065	-	524
Unsecured other loans	3,500,936	160,436	132,959	5,574
Unsecured bond issue	836,638	1,000,000	31,774	34,743
Current portion of finance lease liability	457,718	505,675	17,383	17,569
	5,730,721	5,639,038	217,641	195,919

Finance lease liabilities are payable as follows:

	2006 – '000 RUR			**2005 – '000 RUR**		
	Payments	**Interest**	**Principal**	**Payments**	**Interest**	**Principal**
Less than one year	586,159	128,441	457,718	592,255	86,580	505,675
Between one and five years	913,388	134,639	778,749	471,748	46,765	424,983
	1,499,546	263,079	1,236,467	1,064,003	133,345	930,658

	2006 – '000 USD			**2005 – '000 USD**		
	Payments	**Interest**	**Principal**	**Payments**	**Interest**	**Principal**
Less than one year	22,261	4,878	17,383	20,577	3,008	17,569
Between one and five years	34,688	5,113	29,575	16,390	1,625	14,765
	56,949	9,991	46,958	36,967	4,633	32,334

Bank loans are secured by the following:

- property, plant and equipment with a carrying amount of RUR 3,619,920 thousand / USDUSD* 137,476 thousand (2005: RUR 2,384,823 thousand/USD 82,856 thousand). – see note 13(b).
- inventories with a carrying amount of RUR 14,589 thousand /USD 554 thousand (2005: RUR 81,437 thousand /USD 2,829 thousand) – see note 19.

The finance lease liabilities are secured by the leased assets (see note 13(c)).

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

- 61% of ZAO Gatchinsky DSK;
- 100% of OAO Leningrad River Port;
- 90% of OAO Granit-Kuznechnoe;
- 87.87% of OAO GATP-1;
- 81% of OAO Pobeda LSR;
- 90 % of OAO MTO Arkhproekt;
- 26% of OOO Osobnyak.

25 Provisions

’000 RUR	**Site restoration**	**Environment restoration**	**Loss-making contracts**	**Provision for litigation**	**Total**
Balance at 1 January 2006	76,627	-	212,080	31,039	319,746
Discontinued operations disposed of	-	-	(212,080)	-	(212,080)
Acquired in a business combination	-	23,683	-	-	23,683
Provided during the period	108,702	4,028	-	-	112,730
Disposed of with sold subsidiaries	-	-	-	(31,039)	(31,039)
Balance at 31 December 2006	185,329	27,711	-	-	213,040

’000 USD	**Site restoration**	**Environment restoration**	**Loss-making contracts**	**Provision for litigation**	**Total**
Balance at 1 January 2006	2,662	-	7,369	1,078	11,109
Discontinued operations disposed of	-	-	(7,801)	-	(7,801)
Acquired in a business combination	-	871	-	-	871
Provided during period	3,999	148	-	-	4,147
Disposed of with sold subsidiaries	-	-	-	(1,142)	(1,142)
Effect of movements in exchange rates	378	33	432	64	907
Balance at 31 December 2006	7,039	1,052	-	-	8,091

(a) Loss-making contracts

The provision for loss-making contracts relates mainly to a number of contracts for the construction of roads.

(b) Site restoration

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

(c) Environment restoration

The Group records provisions in respect of the Group's obligation to clean up the surrounding area after quarrying sand in forested areas. The damage caused during quarrying is cleaned up after quarrying is completed.

(d) Provison for litigation

The Group has recognized a provision for litigation with one of the suppliers of the Group (see note 29(b)).

26 Trade and other payables

	2006 '000 RUR	2005 '000 RUR	2006 '000 USD	2005 '000 USD
Prepayments received for flats	13,518,896	7,142,552	513,420	248,156
Accounts payable – trade	1,690,383	1,364,072	64,197	47,392
Advances from customers	1,113,356	524,164	42,283	18,211
Notes payable	316,780	345,779	12,031	12,014
Employee-related liabilities	275,196	213,030	10,451	7,401
Other taxes payable	306,763	245,418	11,650	8,527
Minority interest in limited liability subsidiaries	90,095	38,341	3,422	1,332
Accounts due to customers for contract work	175,344	412,411	6,659	14,329
Interest payable	60,740	55,144	2,307	1,916
Deferred income	3,373	10,157	128	353
Dividends payable	93	101	4	4
Other payables	297,352	352,731	11,292	12,254
	17,848,371	10,703,900	677,844	371,889

27 Financial instruments

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

(a) Credit risk

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

At the balance sheet date there were no significant consentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Interest rate risk

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

2006	**Average interest rate**					
'000 RUR	**Contractual**	**Effective**	**Less than 1 year**	**1-5 years**	**Over 5 yrs**	**Total**
Assets						
Originated loans – RUR*	4,07%	4,07%	752,254	100,024	61,509	913,787
Liabilities						
Secured bank loans:						
RUR*	10.0%-12.5%	10.54%	(460,493)	(1,005,475)	-	(1,465,968)
USD*	9.48%	9.48%	-	(789,932)	-	(789,932)
USD	Libor +4.0%-Libor+4.1%	9.46%	(842,596)	-	-	(842,596)
EUR*	5.45%-10.33%	8.41%	(275,837)	(1,054,013)	-	(1,329,850)
EUR	Libor+1.5%	5.70%	(617,869)	-	-	(617,869)
EEK*	3.80%-6.00%	4.90%	-	-	(4,435)	(4,435)
Current portion of secured bank loans:						
EUR	Eurolibor+1.6%-Eurolibor+5.1%	7.95%	(176,088)	-	-	(176,088)
RUR*	10.25%-12.5%	10.33%	(23,011)	-	-	(23,011)
Unsecured other loans:						
RUR*	8%-12.5%	9.26%	(3,418,946)	(140)	(17,320)	(3,436,406)
USD*	9.49%	9.49%	(81,990)	(789,933)	-	(871,923)
EUR	Libor+1.5%-Libor+7.5%	10.33%	(820,753)	-	-	(820,753)
Unsecured bond issues:						
RUR*	10.7%-11.0%	10.79%	(836,638)	(2,000,000)	-	(2,836,638)
Finance lease liabilities – RUR*	11%-35%	14.8%	(457,718)	(764,646)	(14,103)	(1,236,467)
			(7,259,685)	(6,304,115)	25,651	(13,538,149)

* Fixed rate

2005	Average interest rate				
'000 RUR	**Contractual**	**Effective**	**Less than 1 year**	**1-5 years**	**Total**
Assets					
Originated loans – RUR*	-	-	560,032	6,289	566,321
Liabilities					
Secured bank loans:					
RUR*	10.5%-14%	11.24%	(1,969,242)	(100,598)	(2,069,840)
USD*	11%-14.03%	10.3%	(1,226,690)	(332,234)	(1,558,924)
EUR*	7.5%-8.8%	8.86%	-	(636,118)	(636,118)
Current portion of secured long term loans:					
EUR*	7.5%-8.8%	8.86%	(239,533)	-	(239,533)
USD*	12%-12.5%	10.3%	(252,397)	-	(252,397)
RUR*	15.75%	11.24%	(270,000)	-	(270,000)
Current portion of unsecured other loans:					
RUR*	-	-	(15,065)	-	(15,065)
Unsecured other loans:					
RUR*	13%	13%	(160,436)	(6,626)	(167,062)
Unsecured bond issues:					
RUR*	14%	14%	(1,000,000)	-	(1,000,000)
Finance lease liabilities – RUR*	11%-35%	14.8%	(505,675)	(424,983)	(930,658)
			(5,079,006)	(1,494,270)	(6,573,276)

* Fixed rate

2006	**Average interest rate**					
’000 USD	**Contractual**	**Effective**	**Less than 1 year**	**1-5 years**	**Over 5 yrs**	**Total**
Assets						
Originated loans – RUR*	4,07%	4,07%	28,569	3,798	2,336	34,703
Liabilities						
Secured bank loans:						
RUR*	10.0%-12.5%	10.54%	(17,489)	(38,185)	-	(55,674)
USD*	9.48%	9.48%	-	(30,000)	-	(30,000)
USD	Libor +4.0%-Libor+4.1%	9.46%	(32,000)			(32,000)
EUR*	5.45%-10.33%	8.41%	(10,475)	(40,029)	-	(50,504)
EUR	Libor+1.5%	5.70%	(23,466)	-	-	(23,466)
EEK*	3.80%-6.00%	4.90%	-	-	(168)	(168)
Current portion of secured bank loans:						
EUR	Eurolibor+1.6%-Eurolibor+5.1%	7.95%	(6,688)	-	-	(6,688)
RUR*	10.25%-12.5%	10.33%	(873)		-	(873)
Unsecured other loans:						
RUR*	8%-12.5%	9.26%	(129,845)	(5)	(658)	(130,508)
USD*	9.49%	9.49%	(3,114)	(30,001)	-	(33,115)
EUR	Libor+1.5%-Libor+7.5%	10.33%	(31,170)	-	-	(31,170)
Unsecured bond issues:						
RUR*	10.7%-11.0%	10.79%	(31,774)	(75,956)	-	(107,730)
Finance lease liabilities – RUR*	11%-35%	14.8%	(17,383)	(29,039)	(536)	(46,958)
			(275,708)	(239,417)	974	(514,151)

* Fixed rate

2005	**Average interest rate**				
’000 USD	**Contractual**	**Effective**	**Less than 1 year**	**1-5 years**	**Total**
Assets					
Originated loans – RUR*	-	-	19,457	219	19,676
Liabilities					
Secured bank loans:					
RUR*	10.5%-14%	11.24%	(68,418)	(3,495)	(71,913)
USD*	11%-14.03%	10.3%	(42,619)	(11,543)	(54,162)
EUR*	7.5%-8.8%	8.86%	-	(22,101)	(22,101)
Current portion of secured long term loans:					
EUR*	7.5%-8.8%	8.86%	(8,322)	-	(8,322)
USD*	12%-12.5%	10.3%	(8,769)	-	(8,769)
RUR*	15.75%	11.24%	(9,381)	-	(9,381)
Current portion of unsecured other loans:					
RUR*	-	-	(524)	-	(524)
Unsecured other loans:					
RUR*	13%	13%	(5,574)	(230)	(5,804)
Unsecured bond issues:					
RUR*	14%	14%	(34,743)	-	(34,743)
Finance lease liabilities – RUR*	11%-35%	14.8%	(17,569)	(14,765)	(32,334)
			(176,462)	(51,915)	(228,377)

*Fixed rate

The following table shows the contractual maturities of variable rate interest-bearing financial assets and liabilities. For fixed rate interest-bearing financial assets and liabilities the contractual maturities are consistent with the repricing shown in the above table.

2006

’000 RUR	**Less than 1 year**	**1-5 years**	**Over 5 yrs**	**Total**
Liabilities				
Secured bank loans:				
USD	-	(842,596)	-	(842,596)
EUR	-	(144,042)	(473,827)	(617,869)
Current portion of secured bank loans:				
EUR	(176,088)	-	-	(176,088)
Unsecured other loans:				
EUR	-	(820,753)	-	(820,753)
	(176,088)	(1,807,391)	(473,827)	(2,457,306)

2006

’000 USD	**Less than 1 year**	**1-5 years**	**Over 5 yrs**	**Total**
Liabilities				
Secured bank loans:				
USD	-	(32,000)	-	(32,000)
EUR	-	(5,471)	(17,995)	(23,466)
Current portion of secured bank loans:				
EUR	(6,688)	-	-	(6,688)
Unsecured other loans:				
EUR	-	(31,170)	-	(31,170)
	(6,688)	(68,641)	(17,995)	(93,324)

(c) Foreign currency risk

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

The following exchange rates applied:

	USD 2006	Euro 2006	USD 2005	Euro 2005
RUR 1 equals	26.3311	34.6965	28.7825	34.1850

(d) Fair values

The fair value of unquoted equity investments is discussed in note 16. In other cases management believes that the fair value of its financial assets and liabilities approximates their carrying amounts:

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

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

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

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

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

28 Commitments

At 31 December 2006, the Group was committed to purchase property, plant and equipment for approximately RUR 325,541 thousand /USD 12,363 thousand (31 December 2005: RUR 72,531 thousand /USD 2,520 thousand)

29 Contingencies

(a) Insurance

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

(b) Litigation

As at 31 December 2005 the Group was involved in a dispute relating to a promissory note of an insolvent third party which was endorsed by the Group in 2003. The holder of the promissory note successfully sued the Group on the endorsement. The Group recognised a provision for the amount of the claim of USD 1,080 thousand. During 2006, the Group sold its controlling stake in this company and released the provision accordingly.

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

(c) Taxation contingencies

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

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

(d) Environmental liabilities

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

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

30 Related party transactions

(a) Control relationships

The Company is controlled by Andrey Molchanov.

(b) Transactions with management and close family members

The Directors, and their close family members control 15.6% of the voting shares of the Company.

(i) Management remuneration

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

	2006 ’000 RUR	2005 ’000 RUR	2006 ’000 USD	2005 ’000 USD
Salaries and bonuses	271,745	38,162	9,996	1,349

(ii) Other transactions

Loans to executive directors amounting to RUR 4,876 thousand /USD 185 thousand are included in “employee receivables”(31 December 2005: RUR 9,030 thousand /USD 314 thousand) (see note 20). No interest is payable on these loans. The loans are expected to be repaid within 4 years.

(c) Transactions with other related parties

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

(i) Revenue

	Transaction value		Outstanding balance		Transaction value		Outstanding balance	
	2006	2005	2006	2005	2006	2005	2006	2005
	’000 RUR	’000 RUR	’000 RUR	’000 RUR	’000 USD	’000 USD	’000 USD	’000 USD
Sale of goods and services provided:								
Other	153,339	589,132	2,168	27,778	5,641	20,827	5,823	965
Fellow subsidiaries	249,389	3,158	21,806	8,112	9,174	112	9,471	282
	402,728	592,290	23,974	35,890	14,815	20,939	15,294	1,247

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

(ii) Expenses

	Transaction value		Outstanding balance		Transaction value		Outstanding balance	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
	’000 RUR	**’000 RUR**	**’000 RUR**	**’000 RUR**	**’000 USD**	**’000 USD**	**’000 USD**	**’000 USD**
Purchase of goods and services:								
Other	76,896	987,102	7,136	45,415	2,829	34,897	2,920	1,578
Fellow subsidiaries	1,049,509	-	66,256	-	38,606		39,858	-
	1,126,405	987,102	73,392	45,415	41,435	34,897	42,778	1,578

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

(iii) Loans

	Transaction value		Outstanding balance		Transaction value		Outstanding balance	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
	’000 RUR	**’000 RUR**	**’000 RUR**	**’000 RUR**	**’000 USD**	**’000 USD**	**’000 USD**	**’000 USD**
Loans received:								
Fellow subsidiaries	378,958	37,538	320,462	49,225	13,940	1,327	14,392	1,710
Other	276,787	98,550	176,922	76,698	10,182	3,484	10,512	2,665
Loans given:								
Fellow subsidiaries	340,065	546,416	158,115	445,130	12,509	19,317	12,915	15,465
Other	-	1,294	-	15,476	-	46	-	538
	995,810	683,798	655,499	586,529	36,631	24,174	37,819	20,378

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

The loans to fellow subsidiaries and entities under significant influence bear no interest and are repayable based on contractual terms. No discounting of the loans has been performed at the balance sheet date due to the short maturity of loans received and given.

31 Significant subsidiaries

	Country of incorporation	Ownership/voting 2006	Ownership/voting 2005
ZAO Gatchinsky DSK	Russia	98.23%	98.23%
OAO Construction corporation Revival of Saint-Petersburg (formerly OAO SKV SPb)	Russia	95.53%	71.98%
OOO Gatchinsky DSK	Russia	100.00%	100.00%
OAO Lenstroirekonstruktsiya	Russia	99.99%	99.99%
ZAO NPO Keramika	Russia	-	75.83%
OAO Lenstroikeramika	Russia	-	87.28%
OAO Granit-Kuznechnoye	Russia	95.09%	83.98%
OAO Rudas	Russia	86.55%	86.55%
OAO Leningrad River Port	Russia	100.00%	100.00%
ZAO Skanex (formerly ZAO Skanmix SPb)	Russia	100.00%	100.00%
ZAO Vertikal	Russia	100.00%	100.00%
OAO PO Barrikada (formerly ZAO PO Barrkkada)	Russia	95.35%	88.87%
ZAO DSK Blok	Russia	100.00%	100.00%
OAO UM-260 (formerly ZAO UM-260)	Russia	97.11%	94.11%
OAO St. Petersburg River Port	Russia	100.00%	100.00%
OAO Obyedineniye 45	Russia	93.83%	92.07%
ZAO Mosstroyrekonstruktsia	Russia	100.00%	100.00%
OAO GATP-1	Russia	74.63%	74.62%
OAO Pobeda LSR (formerly ZAO Pobeda LSR)	Russia	99.87%	99.86%
OOO Dorstroiproekt	Russia	-	100.00%
OOO Aerok SPb	Russia	100.00%	100.00%
OOO Osobnyak	Russia	100.00%	100.00%
OOO Kvartira LuxServis	Russia	100.00%	100.00%
ZAO Stroitrest 28	Russia	89.63%	89.63%
OOO Stroitrest 28	Russia	50.00%	50.00%

Branch Petrostroyinvest (formerly ZAO GSK Petrostroyinvest)	Russia	100.00%	100.00%
OOO TD Granit-Kuznechnoye	Russia	100.00%	100.00%
ZAO GATP Blok	Russia	-	100.00%
ZAO Paradny kvartal (Naberezhnaya Evropy)	Russia	100.00%	100.00%
OOO Upravlyayushchaya kompaniya	Russia	-	100.00%
OOO Paradny kvartal	Russia	-	100.00%
OOO Nevsky portal	Russia	100.00%	100.00%
OOO Novy kvartal	Russia	100.00%	100.00%
OOO Nisk	Russia	74.00%	74.00%
OOO LSK-ecologiya	Russia	50.00%	100.00%
OOO OP Agis	Russia	-	100.00%
OOO Promichlenno Stroitelnaya Gruppa LSR	Russia	100.00%	90.00%
ZAO Promyshlenny leasing (formerly OOO Promyshlenny leasing)	Russia	100.00%	100.00%
PT Aerok	Russia	-	100.00%
OOO Martynovka	Russia	100.00%	50.00%
ZAO Chekalovskoye	Russia	-	90.83%
OAO Stroydetal	Russia	-	94.79%
OOO Sevzapmostostroy	Russia	-	100.00%
OAO NKSM	Russia	97.00%	98.67%
ZAO Vyborgstroyrekonsruktsiya	Russia	80.00%	-
OOO Yuna	Russia	100.00%	-
DNP Alakul*	Russia	-	-
DNP Penaty 2*	Russia	-	-
DNP Severnoye pomestye*	Russia	-	-
GDSK Invest companies*	Russia	-	-
MSR companies*	Russia	24.00%	-
OAO Zavod Zhelezobetonnich Izdeliy-6	Russia	57.70%	-
ZAO Galernaya (formerly OOO Galernaya)	Russia	100.00%	-

OOO GDSK Yugo-Zapad (formerly OOO GDSK-invest-35	Russia	100.00%	-
OOO GDSK-invest Primorsky (formerly OOO GDSK-invest-49)	Russia	100.00%	-
OOO Zarechye	Russia	100.00%	-
OOO LSSMO Promstroymontazh	Russia	100.00%	-
OOO Smolny kvartal	Russia	100.00%	-
ZAO Severnaya Venecia	Russia	100.00%	-
ZAO Vsevolozhskoye SMP	Russia	100.00%	-
OOO Yakornaya	Russia	100.00%	-
OOO BaltStroyKomplekt	Russia	100.00%	-
Aerok International AS	Estonia	90.00%	-
Obyedineniye 45M	Russia	100.00%	-
SKV-invests*	Russia	-	-
OOO LSR-invest	Russia	100.00%	-
ZAO Chifko Plus	Russia	100.00%	-
LSR Europe GmbH	Germany	100.00%	-
ZAO A Plus Estate	Russia	100.00%	-
ZAO Ingeokom	Russia	100.00%	-
ZAO Electron	Russia	100.00%	-
ZAO Stroitel	Russia	100.00%	-
OAO Stroicorporatciya	Russia	84.44%	-
ZAO Petropolis	Russia	100.00%	-
ZAO Baltiyskaya panorama	Russia	100.00%	-
OOO Gidrotehnik	Russia	100.00%	-
OOO Zolotaya Kazanskaya	Russia	100.00%	-
OAO MTO Arhproekt	Russia	89.92%	-
OOO LSR Ukraina	Ukrain	100.00%	-
ZAO Gvardeiskoe	Russia	100.00%	-
ZAO Parnas	Russia	100.00%	-

OOO Velikan XXI	Russia	100.00%	-
OAO Zavod Elektrik*	Russia	30.0%	-
ZAO Kikerino Elektrik*	Russia	30.0%	-
ZAO Zavod Stroifarfor*	Russia	20.0%	
OOO BSK Invest*	Russia	20.00%	-

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